

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Al Baraka Islamic Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 2023 (UNAUDITED AND REVIEWED)



Review report on the interim condensed consolidated financial statements to the Board of Directors of Al Baraka Islamic Bank B.S.C. (c)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Al Baraka Islamic Bank B.S.C. (c) (the "Bank") and its subsidiary (together the "Group") as at 30 June 2023 and the related interim consolidated statement of income for the three-month and six-month periods then ended, and the related interim consolidated statements of changes in owners' equity, cash flows and changes in off-balance sheet equity of investment account holders for the six-month period then ended and other explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with FAS 41, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

A blue, handwritten-style signature of 'PricewaterhouseCoopers' in a cursive script.

Elias Abi Nakhoul

PricewaterhouseCoopers M.E Limited

Partner's registration number: 196

Manama, Kingdom of Bahrain




10 August 2023

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 (Reviewed)

| | Notes | Reviewed 30 June 2023 BHD '000 | Audited 31 December 2022 BHD '000 |
|---|-------|---|--|
| ASSETS | | | |
| Cash and balances with banks and financial institutions | | 106,758 | 61,239 |
| Receivables | 3 | 205,825 | 169,216 |
| Ijara Muntahia Bittamleek and ijara receivables | 4 | 244,753 | 211,856 |
| Musharakat | 5 | 65,525 | 90,270 |
| Investments | 6 | 385,363 | 423,044 |
| Investments in real estate | | 3,331 | 3,331 |
| Investment in joint venture | | 7,180 | 6,948 |
| Premises and equipment | | 34,506 | 37,065 |
| Goodwill | | 2,960 | 3,739 |
| Other assets | 7 | 20,294 | 19,708 |
| TOTAL ASSETS | | 1,076,495 | 1,026,416 |
| LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY | | | |
| Liabilities | | | |
| Current accounts | | 119,715 | 91,631 |
| Murabaha and other payables | | 171,354 | 64,767 |
| Other liabilities | 8 | 40,385 | 42,671 |
| Total liabilities | | 331,454 | 199,069 |
| Equity of investment accountholders (IAH) | | 648,086 | 721,190 |
| Subordinated mudaraba | | 4,601 | 5,881 |
| Equity | | | |
| Share capital | | 57,100 | 57,100 |
| Additional tier-1 capital | | 36,192 | 36,192 |
| Reserves | | (10,571) | (6,595) |
| Retained earnings | | 3,507 | 6,093 |
| Equity attributable to parent's shareholders | | 86,228 | 92,790 |
| Non-controlling interest | | 6,126 | 7,486 |
| Total equity | | 92,354 | 100,276 |
| TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND EQUITY | | 1,076,495 | 1,026,416 |
| OFF-BALANCE SHEET ITEMS: | | | |
| EQUITY OF INVESTMENT ACCOUNTHOLDERS | | 233,524 | 313,171 |
| CONTINGENCIES AND COMMITMENTS | 9 | 93,692 | 128,475 |

| | | |
|---|---|---|
|  |  |  |
| Sabah Khalil Al Moayyed Chairperson | Akram Yassin Vice Chairman | Khalid Mahmood AlAli Acting Chief Executive Officer |

The attached explanatory notes 1 to 18 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six month period ended 30 June 2023 (Reviewed)

| | | Three months ended 30 June | | Six months ended 30 June | | |
|--|--|-------------------------------|-----------------|-----------------------------|-----------------|-----------------|
| | | 2023 | 2022 | 2023 | 2022 | |
| Notes | | BHD '000 | BHD '000 | BHD '000 | BHD '000 | |
| INCOME FROM JOINTLY FINANCED ASSETS | | | | | | |
| | Financings | 10 | 9,912 | 8,762 | 18,835 | 16,780 |
| | Investments | 11 | 4,418 | 2,980 | 7,815 | 5,640 |
| Income from jointly financed assets | | | 14,330 | 11,742 | 26,650 | 22,420 |
| Return on equity of investment accountholders before Group's share as a Mudarib | | | (13,115) | (9,983) | (24,993) | (18,799) |
| Group's share as a Mudarib | | | 1,236 | 1,039 | 2,280 | 2,993 |
| Return on equity of investment accountholders | | | (11,879) | (8,944) | (22,713) | (15,806) |
| Group's share as a Mudarib and Rabalmal | | | 2,451 | 2,798 | 3,937 | 6,614 |
| INCOME FROM SELF FINANCED ASSETS | | | | | | |
| | Financings | 10 | 605 | 543 | 1,194 | 1,347 |
| | Share of income from investment in joint venture | | 119 | 484 | 232 | 713 |
| | Investments | 11 | 4,628 | 4,714 | 9,201 | 8,000 |
| Income from self financed assets | | | 5,352 | 5,741 | 10,627 | 10,060 |
| INCOME FROM BANKING SERVICES AND OTHERS | | | | | | |
| | Revenue from banking services | 12 | 813 | 963 | 1,707 | 2,124 |
| | Other income | 13 | 453 | 498 | 1,323 | 960 |
| Group's Mudarib / Agency fee from off-balance sheet equity of investment accountholders | | | 22 | 15 | 34 | 15 |
| TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST | | | 9,091 | 10,015 | 17,628 | 19,773 |
| Other financing costs | | | (1,692) | (275) | (2,348) | (634) |
| TOTAL OPERATING INCOME | | | 7,399 | 9,740 | 15,280 | 19,139 |
| OPERATING EXPENSES | | | | | | |
| Staff expenses | | | (2,840) | (2,997) | (5,892) | (6,175) |
| Depreciation | | | (1,062) | (776) | (1,961) | (1,692) |
| Other operating expenses | | | (2,879) | (2,866) | (5,322) | (5,623) |
| TOTAL OPERATING EXPENSES | | | (6,781) | (6,639) | (13,175) | (13,490) |
| NET OPERATING INCOME | | | 618 | 3,101 | 2,105 | 5,649 |
| Allowances for impairment - net | | 14 | (1,897) | (1,481) | (2,434) | (1,145) |
| NET (LOSS) / INCOME BEFORE TAXATION | | | (1,279) | 1,620 | (329) | 4,504 |
| Taxation | | | (411) | 113 | (1,126) | (592) |
| (LOSS) / INCOME FOR THE PERIOD | | | (1,690) | 1,733 | (1,455) | 3,912 |
| Attributable to: | | | | | | |
| Equity of the parent's shareholders | | | (2,176) | 1,440 | (2,390) | 3,207 |
| Non-controlling interest | | | 486 | 293 | 935 | 705 |
| | | | (1,690) | 1,733 | (1,455) | 3,912 |


Sabah Khalil Al Moayyed
Chairperson


Akram Yassin
Vice Chairman


Khalid Mahmood AlAli
Acting Chief Executive Officer

The attached explanatory notes 1 to 18 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six month period ended 30 June 2023 (Reviewed)

| | <i>Equity attributable to shareholders of the Parent</i> | | | | | | | | | | | |
|---|--|-----------------------------------|------------------|-----------------|--------------------------------------|---|--|-------------------------|--------------------------|---|---------------------------------|---------------------|
| | <i>Share capital</i> | <i>Additional tier -1 capital</i> | <i>Reserves</i> | | | | | | <i>Retained earnings</i> | <i>Equity attributable to parent's shareholders</i> | <i>Non-controlling interest</i> | <i>Total equity</i> |
| | | | <i>Statutory</i> | <i>General</i> | <i>Employee defined benefit plan</i> | <i>Cumulative changes in fair value</i> | <i>Revaluation of premises and equipment</i> | <i>Foreign exchange</i> | | | | |
| | | | | | | | | | | | | |
| <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | |
| Balance at 1 January 2023 | 57,100 | 36,192 | 9,847 | 3,275 | (53) | 1,494 | 129 | (21,278) | 6,090 | 92,796 | 7,485 | 100,281 |
| Cumulative changes in fair value of investments | - | - | - | - | - | (155) | - | - | - | (155) | (94) | (249) |
| Foreign currency translation reserve | - | - | - | - | - | - | - | (3,825) | - | (3,825) | (2,197) | (6,022) |
| Movement in actuarial losses | - | - | - | - | (5) | - | - | - | - | (5) | (3) | (8) |
| (Loss) / Income for the period | - | - | - | - | - | - | - | - | (2,390) | (2,390) | 935 | (1,455) |
| Distribution of Zakat | - | - | - | - | - | - | - | - | (193) | (193) | - | (193) |
| Balance at 30 June 2023 | 57,100 | 36,192 | 9,847 | 3,275 | (58) | 1,339 | 129 | (25,103) | 3,507 | 86,228 | 6,126 | 92,354 |
| Balance at 1 January 2022 | 51,445 | 41,847 | 9,363 | 3,275 | (38) | 1,637 | 178 | (16,206) | 1,929 | 93,430 | 9,210 | 102,640 |
| Cumulative changes in fair value of investments | - | - | - | - | - | (64) | - | - | - | (64) | (7) | (71) |
| Foreign currency translation reserve | - | - | - | - | - | - | - | (3,084) | - | (3,084) | (1,755) | (4,839) |
| Movement in actuarial gain | - | - | - | - | 5 | - | - | - | - | 5 | 3 | 8 |
| Income for the period | - | - | - | - | - | - | - | - | 3,207 | 3,207 | 705 | 3,912 |
| Revaluation of land | - | - | - | - | - | - | (35) | - | - | (35) | (24) | (59) |
| Distribution of Zakat | - | - | - | - | - | - | - | - | (179) | (179) | 0 | (179) |
| Balance at 30 June 2022 | 51,445 | 41,847 | 9,363 | 3,275 | (33) | 1,573 | 143 | (19,290) | 4,957 | 93,280 | 8,132 | 101,412 |

The attached explanatory notes 1 to 18 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2023 (Reviewed)

| | <i>Six months ended</i> | |
|---|-------------------------|----------------------|
| | <i>30 June</i> | |
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| OPERATING ACTIVITIES | | |
| Net (loss) / income before taxation | (329) | 4,504 |
| Adjustments for : | | |
| Depreciation | 1,961 | 1,692 |
| Allowance for impairment - net | 2,434 | 1,145 |
| Loss / (gain) on sale of investments | 452 | (382) |
| Share of income from investment in joint venture | (232) | (713) |
| Operating profit before changes in operating assets and liabilities | <u>4,287</u> | <u>6,246</u> |
| Net changes in operating assets and liabilities: | | |
| Balances with central banks in mandatory reserves | (1,628) | 3,340 |
| Receivables | 1,923 | (2,793) |
| Ijara Muntahia Bittamleek and ijara receivables | (33,312) | (16,777) |
| Musharakat | 23,592 | 17,981 |
| Other assets | 401 | 3,544 |
| Other liabilities | (2,500) | (3,628) |
| Murabaha and other payables | 106,587 | 11,131 |
| Current accounts | 28,084 | (19,743) |
| Equity of investment accountholders | (73,103) | 3,091 |
| Tax paid | (2,119) | (143) |
| Net cash generated from operating activities | <u>52,212</u> | <u>2,249</u> |
| INVESTING ACTIVITIES | | |
| Purchase of investments | (36,243) | (70,334) |
| Sale / redemption of investments | 73,217 | 23,659 |
| Net sale / (purchase) of premises and equipment | 600 | 127 |
| Net cash generated from / (used in) investing activities | <u>37,574</u> | <u>(46,548)</u> |
| FINANCING ACTIVITIES | | |
| Repayment of subordinated mudaraba | (1,281) | (1,065) |
| Cash used in financing activities | <u>(1,281)</u> | <u>(1,065)</u> |
| Foreign currency translation adjustments | (5,246) | (4,182) |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 83,260 | (49,546) |
| Cash and cash equivalents at 1 January | <u>45,440</u> | <u>111,586</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | <u>128,700</u> | <u>62,040</u> |

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:

| | | |
|--|----------------|---------------|
| Cash on hand | 10,201 | 11,135 |
| Balances with central banks in unrestricted account | 21,296 | 5,251 |
| Balances with other banks and financial institutions (with original maturity of 3 months or less) | 41,309 | 41,653 |
| Receivables - Commodities and Wakala placement with FIs (with original maturity of 3 months or less) | 55,893 | 4,001 |
| | <u>128,699</u> | <u>62,040</u> |

The attached explanatory notes 1 to 18 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS
For the six month period ended 30 June 2023 (Reviewed)

| | Balance at 1 January 2023 BHD '000 | Net deposits/ withdrawals BHD '000 | Gross income BHD '000 | Mudarib's/ agency fee BHD '000 | Balance at 30 June 2023 BHD '000 |
|---|--|---|-----------------------------|---|---|
| Wakala Bi Al-Istithmar | | | | | |
| On balance sheet jointly financed assets | 241,600 | (70,337) | 5,816 | (1,392) | 175,687 |
| | 241,600 | (70,337) | 5,816 | (1,392) | 175,687 |
| Others | | | | | |
| Receivables | 61,305 | (14,345) | 2,171 | (34) | 49,097 |
| Investments | 10,266 | (1,526) | - | - | 8,740 |
| | 71,571 | (15,871) | 2,171 | (34) | 57,837 |
| | 313,171 | (86,208) | 7,987 | (1,426) | 233,524 |
| Wakala Bi Al-Istithmar | | | | | |
| On balance sheet jointly financed assets | 194,036 | 21,943 | 3,729 | (2,334) | 217,374 |
| | 194,036 | 21,943 | 3,729 | (2,334) | 217,374 |
| Others | | | | | |
| Receivables | 44,161 | (271) | 1,289 | (15) | 45,164 |
| Investments | 15,604 | (7,801) | - | - | 7,803 |
| | 59,765 | (8,072) | 1,289 | (15) | 52,967 |
| | 253,801 | 13,871 | 5,018 | (2,349) | 270,341 |

The attached explanatory notes 1 to 18 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Banking license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain. The Bank is 92.81% (2022: 92.81%) owned by Al Baraka Group B.S.C. (the "Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

Tier 1 Capital amounting to US \$ 15m was redeemed on 3 August 2022. The extraordinary general assembly (EGA) of the Ultimate Parent has approved increasing the share capital of Bank by 150,000 shares for the par value of US \$ 100 and to amend the memorandum and the articles of association. The CBB has approved the request through their letter dated 6 July 2022 where the issued and paid-up capital is increased from US \$ 136,457,800 to US \$ 151,457,800 with the full amount of US \$ 15,000,000 allocated to the Ultimate Parent. The Ultimate Parent injected the cash relating to the share capital increase on 4 August 2022. The formalities relating to the Ministry of Industry and Commerce around updating of the Commercial Registration are pending finalization.

These interim condensed consolidated financial statements were approved by the Board of Directors on 10 August 2023.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed 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 International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI". Accordingly, the interim condensed consolidated financial statements of the Group has been presented in condensed form in accordance with the guidance provided by Financial Accounting Standard 41 - Interim Financial Reporting, which came into effect for financial periods beginning on or after 1 January 2023.

There are no major differences between FAS 41 "Interim Financial Reporting" and IAS 34 - Interim Financial Reporting, which was the basis of preparation used for the interim condensed consolidated financial statements for the six-month period ended 30 June 2022.

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2022. In addition, results for the six month period ended 30 June 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

Regulatory non-compliance - CBB rule book volume 2 - High level standards

Rule LR-2.5.2A requires all Bahraini Islamic retail bank licensees to maintain a minimum total equity of BD 100 million (equivalent to US \$ 265.3 million). The Bank is in breach of this rule as at 30 June 2023 as the equity stood at BD 92.4 million (US \$ 245.0 million) as of that date. The management believes that this resulted from the fact that the Pakistani Rupee has significantly deteriorated against the US Dollar, which resulted in decrease in the equity position of the Bank below the minimum capital requirements. The Bank continues to focus on its capital structure in order to resolve this breach of the CBB requirements. The Bank has prepared a capitalization plan and submitted to CBB on 30 November 2021 to improve the core capital and overall equity level in the Bank. In this regards, the Bank has implemented two core initiatives (conversion of CET 1 and swap of Itqan Capital Company) and working on initiatives to boost the core equity level.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2022 except for the changes due to adoption of new and amended standards as set out in note 2.5.

2.3 Accounting convention

The interim condensed consolidated financial statements are prepared on a historical cost basis, except for investment in real estate, equity-type instruments through equity and debt type instruments through income statement and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The interim condensed consolidated financial statements are presented in Bahraini Dinars (BHD), being the reporting currency of the Bank. All values are rounded to nearest Bahraini Dinars (BHD) thousand unless otherwise indicated. The functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

2.4 Basis of consolidation

These interim condensed consolidated financial statements include the interim condensed financial statements of the Bank and its subsidiary.

The following is the subsidiary of the Bank, which is consolidated in these interim condensed consolidated financial statements:

| | <i>Ownership for 2023 / 2022</i> | <i>Year of incorporation</i> | <i>Country of incorporation</i> | <i>No. of branches/ offices at 30 June 2023</i> |
|-----------------------------------|--------------------------------------|----------------------------------|-------------------------------------|---|
| Held directly by the Bank | | | | |
| Al Baraka Bank (Pakistan) Limited | 59.13% | 2004 | Pakistan | 170 |

2.5 New standards, interpretations and amendments adopted by the Group

During the period, the Group applied the following standards and amendments to standards in preparation of these interim condensed consolidated financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net income or equity of the Group, however, may result in additional disclosures at year end.

2.5.1 FAS 39 - Financial Reporting for Zakah

AAOIFI has issued FAS 39 in 2021. This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders, as relevant.

2.5.2 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 Group adopted this standard for the basis of preparation of its interim condensed consolidated financial statements. The adoption of this standard did not have any significant impact on the Group's interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

2.6.1 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 Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting;
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar FI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FASs; 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.

2.6.2 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 Group is currently evaluating the impact of this standard.

2.6.3 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 Group is currently evaluating the impact of this standard.

2.6.4 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 Group is currently evaluating the impact of this standard.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

3 RECEIVABLES

| | Reviewed 30 June 2023 | | | Audited 31 December 2022 | | |
|---|------------------------------|---------------------------------|-------------------|------------------------------|---------------------------------|-------------------|
| | Self financed BHD '000 | Jointly financed BHD '000 | Total BHD '000 | Self financed BHD '000 | Jointly financed BHD '000 | Total BHD '000 |
| Commodities and Wakala placement with financial institutions | - | 55,876 | 55,876 | - | 16,522 | 16,522 |
| Salam financing | - | 11,542 | 11,542 | - | 14,138 | 14,138 |
| Istisna'a financing | - | 37,807 | 37,807 | - | 40,672 | 40,672 |
| Murabaha financing | 424 | 131,803 | 132,227 | 424 | 130,318 | 130,742 |
| Bills receivables and other financing | - | 6,498 | 6,498 | - | 5,961 | 5,961 |
| Gross receivable | 424 | 243,526 | 243,950 | 424 | 207,611 | 208,035 |
| Deferred profits | - | (15,688) | (15,688) | - | (14,318) | (14,318) |
| | 424 | 227,838 | 228,262 | 424 | 193,293 | 193,717 |
| Less: Allowance for expected credit losses (3.1) | (295) | (22,142) | (22,437) | (250) | (24,251) | (24,501) |
| Net receivables | 129 | 205,696 | 205,825 | 174 | 169,042 | 169,216 |

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses ("ECL").

| | Reviewed 30 June 2023 | | | | Audited 31 December 2022 | | | |
|-----------------------|--------------------------|---------------------|---------------------|-------------------|-----------------------------|---------------------|---------------------|-------------------|
| | Stage 1 BHD '000 | Stage 2 BHD '000 | Stage 3 BHD '000 | Total BHD '000 | Stage 1 BHD '000 | Stage 2 BHD '000 | Stage 3 BHD '000 | Total BHD '000 |
| Good (1-4) | 103,141 | 8,919 | - | 112,060 | 88,897 | 8,526 | - | 97,423 |
| Satisfactory (5-7) | 71,110 | 21,426 | - | 92,536 | 51,491 | 20,398 | - | 71,889 |
| Default (8-10) | - | - | 23,666 | 23,666 | - | - | 24,405 | 24,405 |
| | 174,251 | 30,345 | 23,666 | 228,262 | 140,388 | 28,924 | 24,405 | 193,717 |

3.1 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

| | Reviewed 30 June 2023 | | | |
|---|---------------------------------------|--|---|-------------------|
| | Stage 1: 12- month ECL BHD '000 | Stage 2: Lifetime ECL not credit- impaired BHD '000 | Stage 3: Lifetime ECL credit- impaired BHD '000 | Total BHD '000 |
| Balance at 1 January | 613 | 3,427 | 20,461 | 24,501 |
| Changes during the period: | | | | |
| - transferred to Stage 1: 12 month ECL | 2 | (2) | - | - |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | (39) | 39 | - | - |
| - transferred to Stage 3: Lifetime ECL credit-impaired | - | (269) | 269 | - |
| Net remeasurement of loss allowance | 76 | 219 | 589 | 884 |
| Recoveries / write-backs | - | - | (48) | (48) |
| | 39 | (13) | 810 | 836 |
| FX translation | (4) | (34) | (2,862) | (2,900) |
| Balance at 30 June | 648 | 3,380 | 18,409 | 22,437 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

3 RECEIVABLES (continued)

3.1 Allowances for expected credit losses (continued)

| | <i>Audited</i> | | | <i>Total</i> |
|--|------------------------------|--|--|-----------------|
| | <i>31 December 2022</i> | | | |
| | <i>Stage 1: 12-month ECL</i> | <i>Stage 2: Lifetime ECL not credit-impaired</i> | <i>Stage 3: Lifetime ECL credit-impaired</i> | <i>BHD '000</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Balance at 1 January | 782 | 3,071 | 24,739 | 28,592 |
| Changes during the year: | | | | |
| - transferred to Stage 1: 12 month ECL | - | - | - | - |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | (35) | 86 | (51) | - |
| - transferred to Stage 3: Lifetime ECL credit-impaired | - | (11) | 11 | - |
| Net remeasurement of loss allowance | (120) | 323 | 2,247 | 2,450 |
| Recoveries / write-backs | - | - | (1,101) | (1,101) |
| | (155) | 398 | 1,106 | 1,349 |
| Amounts written off during the year | - | - | (1,660) | (1,660) |
| FX translation | (14) | (42) | (3,724) | (3,780) |
| Balance at 31 December | 613 | 3,427 | 20,461 | 24,501 |

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

| | <i>Reviewed</i> | | | <i>Audited</i> | | |
|--|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-----------------|
| | <i>30 June 2023</i> | | | <i>31 December 2022</i> | | |
| | <i>Self financed</i> | <i>Jointly financed</i> | <i>Total</i> | <i>Self financed</i> | <i>Jointly financed</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Ijara muntahia bittamleek | 3,660 | 226,491 | 230,151 | 4,087 | 195,268 | 199,355 |
| Ijara income receivables | 1,573 | 16,311 | 17,884 | 1,379 | 14,070 | 15,449 |
| | 5,233 | 242,802 | 248,035 | 5,466 | 209,338 | 214,804 |
| Less: Allowance for expected credit losses (4.1) | (56) | (3,226) | (3,282) | (67) | (2,881) | (2,948) |
| | 5,177 | 239,576 | 244,753 | 5,399 | 206,457 | 211,856 |

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

| | <i>Reviewed</i> | | | | <i>Audited</i> | | | |
|--------------------|---------------------|-----------------|-----------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
| | <i>30 June 2023</i> | | | | <i>31 December 2022</i> | | | |
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Good (1-4) | 227,134 | 83 | - | 227,217 | 204,256 | 1,238 | - | 205,494 |
| Satisfactory (5-7) | 13,397 | 1,920 | - | 15,317 | 1,052 | 2,491 | - | 3,543 |
| Default (8-10) | - | - | 5,501 | 5,501 | - | - | 5,767 | 5,767 |
| | 240,531 | 2,003 | 5,501 | 248,035 | 205,308 | 3,729 | 5,767 | 214,804 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

4.1 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

| | <i>Reviewed</i> | | | |
|--|------------------------------|--|--|-----------------|
| | <i>30 June 2023</i> | | | |
| | <i>Stage 1: 12-month ECL</i> | <i>Stage 2: Lifetime ECL not credit-impaired</i> | <i>Stage 3: Lifetime ECL credit-impaired</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Balance at 1 January | 240 | 43 | 2,665 | 2,948 |
| Changes during the period: | | | | |
| - transferred to Stage 1: 12 month ECL | 3 | (3) | - | - |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | (10) | 10 | - | - |
| - transferred to Stage 3: Lifetime ECL credit-impaired | - | (3) | 3 | - |
| Net remeasurement of loss allowance | 225 | 88 | 481 | 794 |
| Recoveries / write-backs | - | - | (378) | (378) |
| Allowances for expected credit losses | 218 | 92 | 106 | 416 |
| FX translation | - | - | (82) | (82) |
| Balance at 30 June | 458 | 135 | 2,689 | 3,282 |

| | <i>Audited</i> | | | |
|--|------------------------------|--|--|-----------------|
| | <i>31 December 2022</i> | | | |
| | <i>Stage 1: 12-month ECL</i> | <i>Stage 2: Lifetime ECL not credit-impaired</i> | <i>Stage 3: Lifetime ECL credit-impaired</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Balance at 1 January | 293 | 18 | 3,031 | 3,342 |
| Changes during the year: | | | | |
| - transferred to Stage 2: Lifetime ECL not credit-impaired | (31) | 31 | - | - |
| - transferred to Stage 3: Lifetime ECL credit-impaired | - | (2) | 2 | - |
| Net remeasurement of loss allowance | (22) | (4) | 326 | 300 |
| Recoveries / write-backs | - | - | (318) | (318) |
| | (53) | 25 | 10 | (18) |
| Amounts written off during the year | - | - | (187) | (187) |
| FX translation | - | - | (189) | (189) |
| Balance at 31 December | 240 | 43 | 2,665 | 2,948 |

5 MUSHARAKAT

| | <i>Reviewed</i> | | | <i>Audited</i> | | |
|--|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-----------------|
| | <i>30 June 2023</i> | | | <i>31 December 2022</i> | | |
| | <i>Self financed</i> | <i>Jointly financed</i> | <i>Total</i> | <i>Self financed</i> | <i>Jointly financed</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Musharaka | 9,081 | 60,830 | 69,912 | 12,071 | 82,282 | 94,353 |
| Less: Allowance for expected credit losses (5.1) | - | (4,386) | (4,386) | - | (4,083) | (4,083) |
| | 9,081 | 56,444 | 65,525 | 12,071 | 78,199 | 90,270 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

6 INVESTMENTS

| | Reviewed 30 June 2023 | | | Audited 31 December 2022 | | |
|---|------------------------------|---------------------------------|-------------------|------------------------------|---------------------------------|-------------------|
| | Self financed BHD '000 | Jointly financed BHD '000 | Total BHD '000 | Self financed BHD '000 | Jointly financed BHD '000 | Total BHD '000 |
| i) Equity-type instruments at fair value through equity | | | | | | |
| Quoted | | | | | | |
| Listed equity shares | 10,894 | 72 | 10,966 | 11,072 | 91 | 11,163 |
| Unquoted | | | | | | |
| Unlisted equity shares | 3,362 | 153 | 3,515 | 3,362 | 193 | 3,555 |
| Managed funds | 377 | - | 377 | 377 | - | 377 |
| Real estate funds | 617 | 7,646 | 8,263 | 617 | 7,688 | 8,305 |
| | 15,250 | 7,872 | 23,122 | 15,428 | 7,972 | 23,400 |
| Less: Provision for impairment | (1,687) | (98) | (1,785) | (1,761) | (125) | (1,886) |
| Total equity investments | 13,563 | 7,773 | 21,337 | 13,667 | 7,847 | 21,514 |
| ii) Debt-type instruments at fair value through equity (6.1) | | | | | | |
| Quoted | | | | | | |
| Sukuk | 80,352 | 69,922 | 150,274 | 94,503 | 84,971 | 179,474 |
| Unquoted | | | | | | |
| Sukuk | - | 6,977 | 6,977 | 4,646 | 2,737 | 7,383 |
| | 80,352 | 76,899 | 157,251 | 99,149 | 87,708 | 186,857 |
| iii) Debt-type instruments at amortised cost (6.1) | | | | | | |
| Quoted | | | | | | |
| Sukuk | 108,225 | 74,302 | 182,527 | 126,298 | 62,978 | 189,276 |
| Unquoted | | | | | | |
| Sukuk | - | 24,374 | 24,374 | 1,024 | 24,492 | 25,516 |
| | 108,225 | 98,676 | 206,901 | 127,322 | 87,470 | 214,792 |
| Less: Allowance for expected credit losses (6.2) | (88) | (38) | (126) | (85) | (34) | (119) |
| Total debt-type investments | 188,489 | 175,537 | 364,026 | 226,386 | 175,144 | 401,530 |
| Total investments | 202,053 | 183,310 | 385,363 | 240,053 | 182,991 | 423,044 |

Within unquoted investments which are held at fair value through equity are investments amounting to BHD 10.7 million (2022: BHD 10.8 million) which are held at cost less allowance for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies and structured products. The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BHD 206.9 million (2022: BHD 214.8 million) have a fair value amounting to BHD 206.7 million (2022: BHD 207.1 million).

Investments stated at a carrying amount of BHD 174.4 million (2022: BHD 181.6 million) are placed in custody of a financial institution to secure a financing line.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

6 INVESTMENTS (continued)

6.1 Debt-type instruments

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses.

| | <i>Reviewed</i> | | | | <i>Audited</i> | | | |
|--------------------|---------------------|-----------------|-----------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
| | <i>30 June 2023</i> | | | | <i>31 December 2022</i> | | | |
| | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> | <i>Stage 1</i> | <i>Stage 2</i> | <i>Stage 3</i> | <i>Total</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Good (1-4) | 157,251 | - | - | 157,251 | 191,807 | - | - | 191,807 |
| Satisfactory (5-7) | 206,901 | - | - | 206,901 | 209,842 | - | - | 209,842 |
| | 364,152 | - | - | 364,152 | 401,649 | - | - | 401,649 |

6.2 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

| | <i>Reviewed</i> |
|-------------------------------------|------------------------------|
| | <i>30 June 2023</i> |
| | <i>Stage 1: 12-month ECL</i> |
| | <i>BHD '000</i> |
| Balance at 1 January | 119 |
| Changes during the period: | |
| Net remeasurement of loss allowance | 9 |
| FX translation | (2) |
| Balance at 30 June | 126 |
| | <i>Audited</i> |
| | <i>31 December 2022</i> |
| | <i>Stage 1: 12-month ECL</i> |
| | <i>BHD '000</i> |
| Balance at 1 January | 168 |
| Changes during the year: | |
| Net remeasurement of loss allowance | (48) |
| FX translation | (1) |
| Balance at 31 December | 119 |

7 OTHER ASSETS

| | <i>Reviewed</i> | <i>Audited</i> |
|-------------------------------------|---------------------|-------------------------|
| | <i>30 June 2023</i> | <i>31 December 2022</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> |
| Collaterals pending sale | 3,578 | 4,138 |
| Deferred tax (7.1) | 4,721 | 5,029 |
| Advance against capital expenditure | 1,394 | 1,638 |
| Accounts receivable | 7,984 | 7,547 |
| Income receivable | 15 | 1 |
| Prepayments | 2,318 | 1,235 |
| Others | 815 | 787 |
| | 20,825 | 20,375 |
| Less: Provision for impairment | (531) | (667) |
| | 20,294 | 19,708 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

7 OTHER ASSETS (continued)

7.1 The net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on recent financial projections prepared, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

8 OTHER LIABILITIES

| | <i>Reviewed</i> 30 June 2023 BHD '000 | <i>Audited</i> 31 December 2022 BHD '000 |
|--|---|--|
| Margins received | 8,522 | 8,711 |
| Accounts payable | 11,889 | 10,116 |
| Bills payable | 10,735 | 11,951 |
| Security deposit against Ijara muntahia bittamleek | 105 | 136 |
| Provision for employees benefits | 3,181 | 3,356 |
| Allowance for expected credit losses-unfunded facilities | 47 | 35 |
| Charity fund | 248 | 149 |
| Operating Ijarah liability | 2,500 | 3,078 |
| Others | 3,158 | 5,139 |
| | 40,385 | 42,671 |

9 CONTINGENCIES AND COMMITMENTS

| | <i>Reviewed</i> 30 June 2023 BHD '000 | <i>Audited</i> 31 December 2022 BHD '000 |
|----------------------------|---|--|
| Letters of credit | 19,861 | 23,666 |
| Guarantees | 33,286 | 40,447 |
| Foreign exchange contracts | 35,319 | 58,894 |
| Acceptances | 2,439 | 3,932 |
| Taxation | 2,775 | 1,528 |
| Others | 12 | 8 |
| | 93,692 | 128,475 |

10 INCOME FROM FINANCING

| | <i>Six months ended</i> 30 June | |
|---|---|--------------------------------|
| | 2023 BHD '000 | 2022 BHD '000 |
| Income from receivables | 7,215 | 6,285 |
| Income from musharaka | 6,636 | 6,960 |
| Income from Ijarah muntahia bittamleek | 6,178 | 4,882 |
| | 20,029 | 18,127 |
| Income from jointly financed financing assets | 18,835 | 16,780 |
| Income from self financed financing assets | 1,194 | 1,347 |
| | 20,029 | 18,127 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

11 INCOME FROM INVESTMENTS

| | <i>Six months ended 30 June</i> | |
|--|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| Yield, coupon or return on investments | 16,800 | 12,809 |
| (Loss) / gain on sale of investments | (452) | 382 |
| Dividend income | 635 | 387 |
| Income from properties | 33 | 62 |
| | 17,016 | 13,640 |
| Income from jointly financed investments | 7,815 | 5,640 |
| Income from self financed investments | 9,201 | 8,000 |
| | 17,016 | 13,640 |

12 REVENUE FROM BANKING SERVICES

| | <i>Six months ended 30 June</i> | |
|-----------------------------------|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| Fees and commissions | 1,509 | 1,401 |
| Letters of credit and acceptances | 107 | 426 |
| Guarantees | 91 | 297 |
| | 1,707 | 2,124 |

13 OTHER INCOME

| | <i>Six months ended 30 June</i> | |
|-----------------------------|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| Foreign exchange gain - net | 684 | 675 |
| Others | 639 | 285 |
| | 1,323 | 960 |

14 ALLOWANCES FOR IMPAIRMENT - NET

| | <i>Six months ended 30 June</i> | |
|---|-------------------------------------|-----------------|
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| (Charge) / reversal against: | | |
| Receivables | (836) | (682) |
| Ijara Muntahia Bittamleek and ijara receivables | (416) | 67 |
| Musharakat | (1,154) | (821) |
| Investments - debt type | (9) | 44 |
| Investments - equity type | - | 84 |
| Off balance sheet items | (15) | 163 |
| Other assets | (4) | - |
| | (2,434) | (1,145) |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

15 SEGMENTAL INFORMATION

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 management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries represent operations in Pakistan.

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 interim condensed consolidated financial statements. Transactions between segments are conducted at estimated market rates.

The segmental results of the Group were as follows:

| | <i>Middle East</i> | | <i>Other Asian Countries</i> | | <i>Total</i> | |
|---|---------------------------------|-------------------------|---------------------------------|-------------------------|---------------------------------|-------------------------|
| | 30 June 2023 | <i>31 December 2022</i> | 30 June 2023 | <i>31 December 2022</i> | 30 June 2023 | <i>31 December 2022</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Assets | 751,404 | 638,747 | 325,091 | 387,669 | 1,076,495 | 1,026,416 |
| Liabilities, equity of investment accountholders and subordinated debts | 684,156 | 567,688 | 299,985 | 358,450 | 984,141 | 926,139 |
| | <i>Middle East</i> | | <i>Other Asian Countries</i> | | <i>Total</i> | |
| | <i>Six months ended 30 June</i> | | <i>Six months ended 30 June</i> | | <i>Six months ended 30 June</i> | |
| | 2023 | <i>2022</i> | 2023 | <i>2022</i> | 2023 | <i>2022</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Total operating income | 5,382 | 9,963 | 9,898 | 9,176 | 15,280 | 19,139 |
| Total operating expenses | (7,958) | (7,255) | (5,217) | (6,235) | (13,175) | (13,490) |
| Allowance for impairment - net | (1,165) | (520) | (1,269) | (625) | (2,434) | (1,145) |
| Taxation | - | - | (1,126) | (592) | (1,126) | (592) |
| Net (loss) / income for the period | (3,741) | 2,188 | 2,286 | 1,724 | (1,455) | 3,912 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2023 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS

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

The significant balances with related parties were as follows:

| | <i>Parent and other</i> | | <i>Other related parties</i> | | <i>Total</i> | |
|---|-------------------------|-------------------------|------------------------------|-------------------------|---------------------|-------------------------|
| | 30 June 2023 | <i>31 December 2022</i> | 30 June 2023 | <i>31 December 2022</i> | 30 June 2023 | <i>31 December 2022</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Assets: | | | | | | |
| Cash and balances with banks and financial institutions | 1 | 1 | 17 | 17 | 18 | 18 |
| Receivables | - | - | 369 | 315 | 369 | 315 |
| Musharaka | - | - | 438 | 516 | 438 | 516 |
| Investments | 9,740 | 9,592 | 10,170 | 10,104 | 19,910 | 19,696 |
| Other assets | 2,912 | 2,360 | - | - | 2,912 | 2,360 |
| | 12,653 | 11,953 | 10,994 | 10,952 | 23,647 | 22,905 |
| Liabilities: | | | | | | |
| Current accounts | 1,858 | 2,432 | 3,026 | 729 | 4,884 | 3,161 |
| Other liabilities | 1,857 | 1,857 | 83 | 353 | 1,940 | 2,210 |
| | 3,715 | 4,289 | 3,109 | 1,082 | 6,824 | 5,371 |
| Equity of investment accountholders | 5,949 | 12,479 | 22,084 | 10,073 | 28,033 | 22,552 |
| OFF-BALANCE SHEET ITEMS: | | | | | | |
| Equity of investment accountholders | 8,642 | 10,266 | 49,195 | 61,306 | 57,837 | 71,572 |
| Contingencies and commitments | 754 | 754 | 36 | 395 | 790 | 1,149 |

The transactions with the related parties included in the interim consolidated statement of income are as follows:

| | <i>Parent and other</i> | | <i>Other related parties</i> | | <i>Total</i> | |
|---|-------------------------|-----------------|------------------------------|-----------------|-----------------|-----------------|
| | 2023 | <i>2022</i> | 2023 | <i>2022</i> | 2023 | <i>2022</i> |
| | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> | <i>BHD '000</i> |
| Income | | | | | | |
| Income from jointly financed sales | - | - | 16 | 14 | 16 | 14 |
| Income from jointly financed, other financings and investments | - | - | 8 | 11 | 8 | 11 |
| Other income | 423 | 60 | 1 | 9 | 424 | 69 |
| | 423 | 60 | 25 | 34 | 448 | 94 |
| Expenses | | | | | | |
| Return on equity of investment accountholders before Group's share as a Mudarib | 96 | 26 | 208 | 124 | 304 | 151 |
| Other expenses | - | 66 | 638 | 628 | 638 | 693 |
| | 96 | 92 | 846 | 752 | 941 | 844 |

16 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel is as follows:

| | <i>Six months ended 30 June</i> | |
|----------------|-------------------------------------|--------------|
| | 2023 | 2022 |
| | BHD '000 | BHD '000 |
| Salaries | 958 | 959 |
| Other benefits | 421 | 406 |
| | <u>1,379</u> | <u>1,365</u> |

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the

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 statement of financial position date.
- (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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 30 June 2023 is 247.38%.

The NSFR (as a percentage) must be calculated as follows:

| Item | Unweighted values (i.e. before applying relevant factors) | | | | Total weighted value BHD '000 |
|---|---|--------------------------------|---|---------------------------|----------------------------------|
| | No specified maturity BHD '000 | Less than 6 months BHD '000 | More than 6 months and less than one year BHD '000 | Over one year BHD '000 | |
| Available Stable Funding (ASF): | | | | | |
| Capital: | 86,491 | - | - | 4,620 | 91,112 |
| Regulatory capital | 86,491 | - | - | - | 86,491 |
| Other capital instruments | - | - | - | 4,620 | 4,620 |
| Retail deposits and deposits from small business customers: | - | 307,365 | 28,313 | 29,044 | 331,451 |
| Stable deposits | - | 5,198 | 20 | - | 4,994 |
| Less stable deposits | - | 302,166 | 28,293 | 29,044 | 326,458 |
| Wholesale funding: | - | 452,054 | 107,557 | 4,668 | 199,211 |
| Operational deposits | - | - | - | 516 | 516 |
| Other wholesale funding | - | 452,054 | 107,557 | 4,152 | 198,695 |
| Other liabilities: | - | - | - | 40,895 | 40,895 |
| NSFR Shari'a-compliant hedging contract liabilities | - | - | - | - | - |
| All other liabilities not included in the above categories | - | - | - | 40,895 | 40,895 |
| Total ASF | 86,491 | 759,418 | 135,870 | 79,228 | 662,670 |
| Required Stable Funding (RSF): | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | 318,921 | - | - | 11,880 | 28,169 |
| Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| Performing financing and sukuk/securities: | - | - | - | - | - |
| Performing financing to financial institutions secured by Level 1 HQLA | - | - | - | - | - |
| Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions | - | 120,781 | - | 10,763 | 28,881 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

| Item | Unweighted Values (i.e. before applying relevant factors) | | | | Total weighted value |
|---|---|--------------------|---|----------------|----------------------|
| | No specified maturity | Less than 6 months | More than 6 months and less than one year | Over one year | |
| Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which: | - | 70,919 | 20,574 | - | 45,746 |
| With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines | - | - | - | - | - |
| Performing residential mortgages, of which: | | | | | 0 |
| With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | 119,881 | 77,923 |
| Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | - | - | 10,740 | 10,740 |
| Other assets: | | | | | |
| Physical traded commodities, including gold | - | - | - | - | - |
| Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs | - | - | - | - | - |
| NSFR Shari'a-compliant hedging assets | 951 | - | - | - | 951 |
| NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted | - | - | - | - | - |
| All other assets not included in the above categories | 72,265 | - | - | - | 72,265 |
| OBS items | 63,996 | - | - | - | 3,200 |
| Total RSF | 456,133 | 191,700 | 20,574 | 153,264 | 267,874 |
| NSFR (%) | | | | | 247.38% |