

BANK OF BAHRAIN AND KUWAIT B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2024

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2024. 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 matters below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Expected credit loss on loans and advances	
Key audit matter	How the key audit matter was addressed in the audit
<p>The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 - Financial Instruments ("IFRS 9") is a significant and complex area.</p> <p>IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. The key areas of judgement applied by the management in the determination of the ECL include:</p> <ul style="list-style-type: none"> • Determining whether the risk of default on a customer has increased significantly; and • Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables. <p>Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations and the Group's exposure to loans and advances, which account for 43% of the Group's total assets, the audit of ECL on loans and advances is a key area of focus.</p> <p>As at 31 December 2024, the Group's gross loans and advances amounted to BD 1,869.6 million and the related ECL amounted to BD 75.5 million, comprising BD 24.8 million of ECL against Stage 1 and 2 exposures and BD 50.7 million against exposures classified under Stage 3.</p> <p>Refer to the material accounting policy information, estimates and judgments applied in the measurement of the ECL, disclosures of loans and advances and credit quality in notes 3, 7 and 33 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates.</p> <p>With the involvement of our internal specialists, our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model. • We assessed and evaluated: <ul style="list-style-type: none"> ◦ the Group's ECL policy including determination of the significant increase in credit risk and its impact on the staging criteria with the requirements of IFRS 9 and regulatory guidelines; ◦ the key management assumptions related to the determination of the future macroeconomic scenarios including forward-looking information and assigning probability weights; and ◦ the basis of determination of the management overlays. • We reviewed a sample of credit files and performed procedures to assess: <ul style="list-style-type: none"> ◦ timely identification of exposures with a significant increase in credit risk; ◦ appropriateness of the staging; and ◦ the process of collateral valuation. • We tested the completeness and accuracy of the data used in the measurement of the ECL and performed ECL recalculation on a sample basis.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Expected credit loss on loans and advances (continued)	
Key audit matter	How the key audit matter was addressed in the audit
	<ul style="list-style-type: none"> We considered the adequacy of the disclosures in the accompanying consolidated financial statements in relation to ECL on loans and advances under IFRS Accounting Standards.

Other information included in the Group's 2024 Annual Report

Other information consists of the information included in the Group's 2024 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not 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 when it becomes available 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 obtained prior to the date of the 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.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT 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 ISAs 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 ISA, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT 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 (continued)

- Plan and perform the Group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Compliance Committee 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the report of the Board of Directors' is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the Central Bank of Bahrain (CBB) Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2024 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)**

Report on Other Legal and Regulatory Requirements (continued)

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

The partner in charge of the audit resulting in this independent auditor's report is Mr. Nader Rahimi.

A stylized, handwritten signature of 'Ernst & Young' in black ink, located below the text of the partner in charge.

Partner's registration no. 115
24 February 2025
Manama, Kingdom of Bahrain

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

		All figures in BD millions	
	Notes	2024	2023
ASSETS			
Cash and balances with central banks	4	687.7	549.9
Treasury bills	5	399.2	443.2
Deposits and amounts due from banks and other financial institutions	6	167.9	245.8
Loans and advances to customers	7	1,794.1	1,588.3
Investment securities	8	939.4	856.1
Interest receivable, derivative and other assets	9	121.0	129.6
Investments in associates and joint ventures	10	45.2	51.2
Premises and equipment	11	38.1	37.8
TOTAL ASSETS		4,192.6	3,901.9
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		375.5	406.2
Borrowings under repurchase agreement		351.6	326.9
Term borrowings	12	306.5	301.6
Customers' deposits	13	2,411.3	2,130.0
Interest payable, derivative and other liabilities	14	124.0	123.3
Total liabilities		3,568.9	3,288.0
Equity			
Share capital	15	181.7	173.0
Treasury stock	15	(5.0)	(4.1)
Share premium	15	105.6	105.6
Statutory reserve	15	90.8	86.0
General reserve	15	64.2	64.2
Cumulative changes in fair values	16	25.0	24.7
Foreign currency translation reserve		(16.6)	(15.5)
Retained earnings		132.3	131.9
Proposed appropriations	17	42.8	45.3
Attributable to the owners of the Bank		620.8	611.1
Non-controlling interests		2.9	2.8
Total equity		623.7	613.9
TOTAL LIABILITIES AND EQUITY		4,192.6	3,901.9

Tariq Jaleel AlSaffar
Chairperson

Khalid Hussain Taqi
Deputy Chairperson

Yaser Alsharifi
Group Chief Executive

The attached notes 1 to 51 form part of these consolidated financial statements

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	Notes	<i>All figures in BD millions</i>	
		2024	2023
Interest and similar income	18a	251.9	237.0
Interest and similar expense	18b	(127.3)	(103.6)
Net interest and similar income		124.6	133.4
Fee and commission income - net	19	19.5	14.4
Investment and other income	20	19.8	16.3
TOTAL OPERATING INCOME		163.9	164.1
Staff costs		(39.6)	(39.6)
Other operating expenses		(31.7)	(29.1)
TOTAL OPERATING EXPENSES		(71.3)	(68.7)
Net provisions and credit losses	21	(17.3)	(9.9)
NET OPERATING INCOME		75.3	85.5
Share of loss from associates and joint ventures	10	(2.7)	(10.2)
PROFIT FOR THE YEAR BEFORE TAX		72.6	75.3
Income tax credit / (expense)	22	0.1	(0.2)
NET PROFIT FOR THE YEAR		72.7	75.1
Attributable to:			
Owners of the Bank		72.0	74.5
Non-controlling interests		0.7	0.6
		72.7	75.1
Basic and diluted earnings per share (BD)	23	0.040	0.041

Tariq Jaleel AlSaffar
Chairperson

Khalid Hussain Taqi
Deputy Chairperson

Yaser Alsharifi
Group Chief Executive

The attached notes 1 to 51 form part of these consolidated financial statements

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Note	<i>All figures in BD millions</i>	
		2024	2023
NET PROFIT FOR THE YEAR		72.7	75.1
Other Comprehensive Income (OCI):			
<i>Items that will not be reclassified (or recycled) subsequently to profit or loss</i>			
Net change in fair value of equity investments measured at fair value through other comprehensive income		(0.6)	3.1
<i>Items that are or may be reclassified (or recycled) subsequently to profit or loss</i>			
<i>Movement in foreign currency translation reserve:</i>			
Exchange differences on translation of foreign operations		(1.1)	(0.2)
<i>Movement in hedging reserve:</i>			
Effective portion of changes in fair value cash flow hedges	16	(0.4)	-
<i>Movement in fair value reserve:</i>			
Net change in fair value of debt instruments measured at fair value through other comprehensive income	16	6.5	9.9
Net amount transferred to profit or loss	16	(6.9)	(2.9)
Other comprehensive (loss) / income for the year		(2.5)	9.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		70.2	85.0
Attributable to:			
Owners of the Bank		69.5	84.4
Non-controlling interests		0.7	0.6
		70.2	85.0

The attached notes 1 to 51 form part of these consolidated financial statements

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

All figures in BD millions

Attributable to the owners of the Bank												
Notes	Share capital	Treasury stock	Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Foreign currency translation reserve	Retained earnings	Proposed appropriations	Total	Non-controlling interests	Total equity
Balance at 1 January 2023	164.8	(4.7)	105.6	78.5	64.2	14.8	(15.3)	128.9	59.5	596.3	2.7	599.0
Profit for the year	-	-	-	-	-	-	-	74.5	-	74.5	0.6	75.1
Other comprehensive income / (loss)	-	-	-	-	-	10.1	(0.2)	-	-	9.9	-	9.9
Total comprehensive income / (loss)	-	-	-	-	-	10.1	(0.2)	74.5	-	84.4	0.6	85.0
Share-based payments 42	-	-	-	-	-	-	-	(1.7)	-	(1.7)	-	(1.7)
Sale / write-off of equity securities held at fair value through OCI 16	-	-	-	-	-	(0.2)	-	0.2	-	-	-	-
Dividends paid 17	-	-	-	-	-	-	-	(17.2)	(49.1)	(66.3)	(0.5)	(66.8)
Stock dividend 17	8.2	-	-	-	-	-	-	-	(8.2)	-	-	-
Donations 17	-	-	-	-	-	-	-	-	(2.2)	(2.2)	-	(2.2)
Movement in treasury stock 15	-	0.6	-	-	-	-	-	-	-	0.6	-	0.6
Transfer to statutory reserve 15	-	-	-	7.5	-	-	-	(7.5)	-	-	-	-
Proposed appropriations 17	-	-	-	-	-	-	-	(45.3)	45.3	-	-	-
Balance at 31 December 2023	173.0	(4.1)	105.6	86.0	64.2	24.7	(15.5)	131.9	45.3	611.1	2.8	613.9
Profit for the year	-	-	-	-	-	-	-	72.0	-	72.0	0.7	72.7
Other comprehensive loss	-	-	-	-	-	(1.4)	(1.1)	-	-	(2.5)	-	(2.5)
Total comprehensive (loss) / income	-	-	-	-	-	(1.4)	(1.1)	72.0	-	69.5	0.7	70.2
Share-based payments 42	-	-	-	-	-	-	-	0.3	-	0.3	-	0.3
Sale / write-off of equity securities held at fair value through OCI 16	-	-	-	-	-	1.7	-	(1.7)	-	-	-	-
Dividends paid 17	-	-	-	-	-	-	-	(22.6)	(34.4)	(57.0)	(0.6)	(57.6)
Stock dividend 17	8.7	-	-	-	-	-	-	-	(8.7)	-	-	-
Donations 17	-	-	-	-	-	-	-	-	(2.2)	(2.2)	-	(2.2)
Movement in treasury stock 15	-	(0.9)	-	-	-	-	-	-	-	(0.9)	-	(0.9)
Transfer to statutory reserve 15	-	-	-	4.8	-	-	-	(4.8)	-	-	-	-
Proposed appropriations 17	-	-	-	-	-	-	-	(42.8)	42.8	-	-	-
Balance at 31 December 2024	181.7	(5.0)	105.6	90.8	64.2	25.0	(16.6)	132.3	42.8	620.8	2.9	623.7

The attached notes 1 to 51 form part of these consolidated financial statements

Bank of Bahrain and Kuwait B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

		<i>All figures in BD millions</i>	
	Notes	2024	2023
Profit before tax		72.6	75.3
Adjustment for:			
Depreciation	11	8.8	7.8
Net provisions and credit losses	21	19.5	11.3
Share of loss from associates and joint ventures	10	2.7	10.2
Investment (income) / expense		(0.1)	0.3
Realised gain on sale of investment securities	20	(7.7)	(4.6)
Interest expense accrual on term borrowings		24.5	16.0
Operating profit before changes in operating assets and liabilities		120.3	116.3
(Increase) / decrease in operating assets			
Mandatory reserve deposits with central banks		(13.5)	(2.9)
Treasury bills having original maturity of ninety days or more		(9.9)	(111.3)
Deposits and amounts due from banks and other financial institutions		(23.8)	1.1
Loans and advances to customers		(224.0)	16.8
Interest receivable, derivative and other assets		8.1	24.7
Increase / (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		(30.7)	116.8
Borrowings under repurchase agreement		24.8	(50.5)
Customers' deposits		281.3	13.4
Interest payable, derivative and other liabilities		(26.4)	-
Income tax paid	22	0.1	(0.2)
Net cash flows from operating activities		106.3	124.2
INVESTING ACTIVITIES			
Purchase of investment securities		(369.5)	(293.9)
Proceeds from redemption / sale of investment securities		345.9	310.1
Net movement of investment in associates and joint ventures	10	2.5	(0.1)
Dividends received from associates and joint ventures	10	0.1	1.6
Purchase of premises and equipment		(9.1)	(8.1)
Net cash flows (used in) / from investing activities		(30.1)	9.6
FINANCING ACTIVITIES			
Payment of dividends and other appropriations	17	(59.2)	(68.5)
Payment of dividends to non-controlling interests		(0.6)	(0.5)
Repayment of term borrowings		(207.3)	-
Additional term borrowings		214.9	37.7
Movement in treasury stock	15	(0.9)	0.6
Movement in share-based payments	42	0.3	(1.7)
Net cash flows used in financing activities		(52.8)	(32.4)
NET CHANGE IN CASH AND CASH EQUIVALENTS		23.4	101.4
Foreign currency translation adjustments - net		(0.8)	(0.9)
Cash and cash equivalents at beginning of the year		699.6	599.1
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	722.2	699.6
Additional cash flow information:			
Interest received		249.6	235.4
Interest paid		125.0	92.8

The attached notes 1 to 51 form part of these consolidated financial statements

1 CORPORATE INFORMATION

Bank of Bahrain and Kuwait B.S.C. ("BBK" or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration ("CR") number 1234 dated 16 March 1971. The Bank operates in the Kingdom of Bahrain under a conventional retail banking license of Volume 1 issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India. It also engages in credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2024 were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 24 February 2025.

2 BASIS OF PREPARATION**2.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS Accounting Standards") and in conformity with the Bahrain Commercial Companies Law ("BCCL") and the CBB and Financial Institutions Law, the CBB Rule Book and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

2.2 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at Fair Value Through Other Comprehensive Income (FVTOCI), trading investments and financial assets designated at Fair Value Through Profit and Loss (FVTPL), that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars (BD), which is also the functional currency of the Bank. Furthermore, all values are rounded-off to the nearest millions, unless otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"). All intra-group transactions and balances including unrealised gains and losses on transactions between the Group companies have been eliminated on consolidation. The year end of the Bank and all of its subsidiaries is 31 December. The Bank has following principal subsidiaries:

<i>Held directly by the Bank</i>	<i>Ownership</i>		<i>Country of incorporation</i>	<i>Activity</i>
	<i>2024</i>	<i>2023</i>		
CrediMax B.S.C. (c)	100%	100%	Kingdom of Bahrain	Credit card operations
Invita Company W.L.L.	100%	100%	Kingdom of Bahrain	Business process outsourcing services

2 BASIS OF PREPARATION (continued)**2.3 Basis of consolidation (continued)**

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

<i>Held indirectly by the Bank</i>	<i>Effective ownership</i>		<i>Subsidiary held through</i>	<i>Country of incorporation</i>	<i>Activity</i>
	<i>2024</i>	<i>2023</i>			
Global Payment Services W.L.L.	70%	70%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Cards processing and backup services
973LABS W.L.L. *	100%	100%	CrediMax B.S.C. (c)	Kingdom of Bahrain	Computer consultancy and computer facilities management activities

* CrediMax B.S.C. (c) and Invita Company W.L.L. hold 60% and 40% ownership in 973Labs W.L.L., respectively.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed-off during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 ACCOUNTING POLICIES

3.1 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of new standards or amendments to existing standards that have become applicable effective from 1 January 2024, which are disclosed below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(a) *Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7:*

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments had no impact on the Group's consolidated financial statements.

(b) *Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback*

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments had no impact on the Group's consolidated financial statements.

(c) *Amendments to IAS 1 - Classification of Liabilities as Current or Non-current*

The amendments to IAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments have not had an impact on the classification of the Group's liabilities.

3 ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, on their respective effective date(s).

(a) *Lack of exchangeability – Amendments to IAS 21*

In August 2023, the IASB issued amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(b) *IFRS 18 - Presentation and Disclosure in Financial Statements*

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new.

It also requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the Primary Financial Statements (PFS) and the notes.

In addition, narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

IFRS 18, and the amendments to the other standards, is effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively.

The Group is currently working to identify impacts of the above on the PFS and the notes.

(c) *IFRS 19 - Subsidiaries without Public Accountability: Disclosures*

In May 2024, the IASB issued IFRS 19, which allows eligible entities to elect to apply its reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in IFRS 10, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements, available for public use, which comply with IFRS Accounting Standards.

IFRS 19 will become effective for reporting periods beginning on or after 1 January 2027, with early application permitted.

As the Group's equity instruments are publicly traded, it is not eligible to elect to apply IFRS 19.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies

(a) Financial assets and financial liabilities

i. Recognition and initial measurement

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as at amortised cost, FVTOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(a) Financial assets and financial liabilities (continued)

ii. Classification (continued)

Business model assessment (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

iii. Derecognition

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(a) Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- 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 ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Derecognition of financial instruments in the context of IBOR reform

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will need amendment as they transition from Interbank Offered Rates (IBORs) to Risk-Free Benchmark Reference Rates (RFRs). In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised Effective Interest Rate (EIR).

(b) Deposits and amounts due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges (if any), less any amounts written-off and related expected credit losses.

(c) Loans and advances to customers

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method, and adjusted for effective fair value hedges (if any) and net of interest suspended, expected credit losses and any amounts written-off.

(d) Investment securities

The investment securities includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are carried at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVTOCI; and
- Equity investment securities designated as at FVTOCI.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(d) Investment securities (continued)

For debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest rate method;
- Expected Credit Loss (ECL) allowances and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVTOCI is impaired or derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of the investment.

(e) Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date.

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, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(e) Fair value measurement (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained above.

(f) Impairment of financial assets

The Group recognises allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Loans and advances at amortised cost;
- Financial guarantee contracts issued; and
- Loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

(g) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- i) Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- ii) Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- iii) Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the IFRS 9 provision results from a two-step approach:

As step 1, the facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

As step 2, the expected credit loss is calculated i.e., 12-month expected loss for all facilities in Stage 1 and lifetime expected credit loss for all facilities in Stage 2. The facilities in Stage 3 are covered by specific provisions.

Refer to note 33 for further details.

(h) Credit-impaired financial assets

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

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(h) Credit-impaired financial assets (continued)

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;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Kingdom of Bahrain), is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields; or
- The rating agencies' assessments of creditworthiness.

(i) Presentation of allowances for ECL in the consolidated statement of financial position

Allowances for ECL 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 such assets;
- Loan commitments and financial guarantee contracts as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified the ECL on the loan commitment / off-balance sheet component separately from those on the drawn component, the Group presents a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- For debt instruments measured at FVTOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of such assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve as a provision.

(j) Write-offs

Loans and debt securities 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.

(k) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any ECL is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Refer to note 33.3 (e) and note 34 for further details.

(l) Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(m) Investments in associates and joint ventures

The Group's investments in its associate and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

Subsequently, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. It is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the consolidated statement of profit or loss.

(n) Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life. The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Properties and buildings	4 to 35 years
- Furniture, equipment and software	3 to 5 years
- Motor vehicles	4 years

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(o) Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

(p) Deposits

These are carried at amortised cost, less amounts repaid.

(q) Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded as interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest and similar income'.

(r) 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 Group operates.

In India, the Bank makes provision for income tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through Deferred Tax Asset (DTA) / Deferred Tax Liability (DTL). Current tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under after considering the contested past adjustments on a prudent basis based on management estimates.

(s) Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each jurisdiction where the Group operates.

(t) Share-based payment transactions

For equity-settled share-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(u) Provisions

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

(v) Treasury stock

Treasury stock is deducted from equity and is stated at consideration paid. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

(w) Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(x) Proposed appropriations

Proposed appropriations are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

(y) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'interest payable, derivative and other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss in on a straight line basis over the life of the guarantee.

(z) Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'interest receivable, derivative and other assets' and derivatives with negative market values are included in 'interest payable, derivative and other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

(aa) Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(aa) Hedge accounting (continued)

At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

Classification of hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

i) Fair value hedges

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

ii) Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of any gain or loss on the hedging instrument, that is determined to be an effective hedge is recognised initially in the consolidated statement of changes in equity and the ineffective portion is recognised in the consolidated statement of profit or loss.

The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(aa) Hedge accounting (continued)

Discontinuation of hedges

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation, any subsequent changes in fair value of the hedging instrument are recognized in the consolidated statement of profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in the consolidated statement of changes in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

(ab) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

(ac) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

(ad) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by ninety days or more). Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees and commissions that are linked to certain performance obligations are recognised after fulfilling those obligations.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(ad) Recognition of income and expenses (continued)

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The fee and commission linked to performance obligation include fees earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

The Group recognises dividend income when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa), the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

(ae) Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are recorded in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign operation. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of profit or loss are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of material accounting policies (continued)

(af) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less. These cash and cash equivalent are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

(ag) Leases - Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

3.4 Material accounting judgment and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most material uses of judgment and estimates were as follows:

i) 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 consolidated financial statements continue to be prepared on a going concern basis.

ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values.

These judgment include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

3 ACCOUNTING POLICIES (continued)

3.4 Material accounting judgment and estimates (continued)

iii) Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

iv) Measurement of ECL

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- The Group calculates PiT PD estimates under three scenarios, a best case, base case and worst case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

In preparing the consolidated financial statements, significant judgments were made by management in applying the Group's accounting policies and these are considered to represent management's best assessment based on available or observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

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

3 ACCOUNTING POLICIES (continued)**3.4 Material accounting judgment and estimates (continued)****iv) Measurement of ECL (continued)**

In determining whether credit risk has increased since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a Significant Increase in Credit Risk ("SICR") based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Refer to note 33.3 for further details.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2024	2023
Cash in hand and vaults	21.2	24.6
Current accounts and placements with central banks	558.2	430.6
Mandatory reserve deposits with central banks	108.3	94.7
	687.7	549.9

Mandatory reserve deposits with central banks are not available for use in the Group's day-to-day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of Bahrain and the Government of Kuwait, which are carried at amortised cost amounting to BD 375.5 million and BD 23.7 million (31 December 2023: BD 389.2 million and BD 54.0 million), respectively. At 31 December 2024, treasury bills issued by Government of Bahrain includes short-term Islamic Sukuk amounting to BD 4.0 million (31 December 2023: BD 11.5 million).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2024	2023
Deposits with banks and other financial institutions	75.5	125.3
Nostro and other amounts due from banks	92.4	120.5
	167.9	245.8

7 LOANS AND ADVANCES TO CUSTOMERS

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit- impaired	Total
<u>At 31 December 2024</u>				
<i>At amortised cost:</i>				
Commercial loans and overdrafts	879.9	247.3	66.3	1,193.5
Consumer loans	641.6	22.9	11.6	676.1
	1,521.5	270.2	77.9	1,869.6
Less: Expected credit losses	(2.7)	(22.1)	(50.7)	(75.5)
	1,518.8	248.1	27.2	1,794.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

<u>At 31 December 2023</u>	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit- impaired	Total
<i>At amortised cost:</i>				
Commercial loans and overdrafts	733.6	234.8	38.3	1,006.7
Consumer loans	620.8	20.4	11.6	652.8
	1,354.4	255.2	49.9	1,659.5
Less: Expected credit losses	(5.4)	(31.5)	(34.3)	(71.2)
	1,349.0	223.7	15.6	1,588.3

Ageing analysis of past due but not impaired loans is as follows:

	2024			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
Commercial loans and overdrafts	135.5	11.4	34.5	181.4
Consumer loans	15.7	5.0	15.5	36.2
	151.2	16.4	50.0	217.6

	2023			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
Commercial loans and overdrafts	152.3	1.8	5.5	159.6
Consumer loans	16.3	4.9	15.5	36.7
	168.6	6.7	21.0	196.3

None of the above past due loans are considered to be credit impaired.

The distribution of loans and advances by geographic region and industry sector is as follows:

	2024	2023
<i>Geographic region:</i>		
Gulf Co-operation Council (GCC) countries	1,600.0	1,408.1
Asia	71.2	68.3
Europe	71.0	84.9
Others	51.9	27.0
	1,794.1	1,588.3
<i>Industry sector:</i>		
Individuals	574.5	568.7
Trading and manufacturing	404.5	417.8
Construction and real estate	375.8	283.6
Banks and other financial institutions	156.9	115.0
Government and public sector	137.7	123.7
Others	144.7	79.5
	1,794.1	1,588.3

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements in allowances for ECL on loans and advances are as follows:

i) Commercial loans and overdrafts

	2024			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Balance at 1 January	4.4	26.3	25.8	56.5
Transferred to 12-month ECL	1.0	(1.0)	-	-
Transferred to lifetime ECL not credit-impaired	(0.5)	0.5	-	-
Transferred to lifetime ECL credit-impaired	-	(12.5)	12.5	-
Net remeasurement of loss allowance	(2.6)	5.7	12.5	15.6
Amounts written-off during the year	-	-	(10.2)	(10.2)
Foreign exchange and other movements	(0.9)	(1.2)	1.9	(0.2)
Balance at 31 December	1.4	17.8	42.5	61.7

	2023			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Balance at 1 January	5.0	25.2	33.3	63.5
Transferred to 12-month ECL	2.1	(2.1)	-	-
Transferred to lifetime ECL not credit-impaired	(2.3)	2.3	-	-
Transferred to lifetime ECL credit-impaired	-	(2.3)	2.3	-
Net remeasurement of loss allowance	0.1	1.2	5.3	6.6
Amounts written-off during the year	-	-	(20.6)	(20.6)
Foreign exchange and other movements	(0.5)	2.0	5.5	7.0
Balance at 31 December	4.4	26.3	25.8	56.5

ii) Consumer loans

	2024			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Balance at 1 January	1.0	5.2	8.5	14.7
Transferred to 12-month ECL	0.5	(0.2)	(0.3)	-
Transferred to lifetime ECL not credit-impaired	-	0.5	(0.5)	-
Transferred to lifetime ECL credit-impaired	-	(1.2)	1.2	-
Net remeasurement of loss allowance	(0.2)	-	2.9	2.7
Amounts written-off during the year	-	-	(3.6)	(3.6)
Balance at 31 December	1.3	4.3	8.2	13.8

7 LOANS AND ADVANCES TO CUSTOMERS (continued)**ii) Consumer loans (continued)**

	2023			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Balance at 1 January	1.7	6.0	8.0	15.7
Transferred to 12-month ECL	0.7	(0.7)	-	-
Transferred to lifetime ECL credit-impaired	(0.1)	(0.8)	0.9	-
Net remeasurement of loss allowance	(1.3)	0.7	2.9	2.3
Amounts written-off during the year	-	-	(3.3)	(3.3)
Balance at 31 December	1.0	5.2	8.5	14.7

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be credit impaired at 31 December 2024 amounts to BD 30.0 million (31 December 2023: BD 20.4 million).

At 31 December 2024, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 46.9 million (31 December 2023: BD 35.8 million). These mainly consists of Murabaha and Ijarah financing facilities.

At 31 December 2024, interest in suspense for past due loans that were credit impaired was BD 27.9 million (31 December 2023: BD 22.8 million).

The contractual amount outstanding on financial assets that have been written-off by the Group during the reporting period and that were still subject to enforcement activity was BD 13.8 million (2023: BD 23.9 million).

A reconciliation of changes in gross carrying amount by stage is as follows:

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
1 January 2024	1,354.4	255.2	49.9	1,659.5
New assets originated	720.2	52.1	-	772.3
Payments and assets derecognised	(507.6)	(38.0)	(4.7)	(550.3)
Transfers between stages	(43.9)	0.5	43.4	-
Amounts written-off during the year	-	-	(13.8)	(13.8)
Foreign exchange and other adjustments	(1.6)	0.4	3.1	1.9
At 31 December 2024	1,521.5	270.2	77.9	1,869.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
1 January 2023	1,339.5	296.0	57.7	1,693.2
New assets originated	386.4	42.8	-	429.2
Payments and assets derecognised	(373.4)	(66.7)	(0.9)	(441.0)
Transfers between stages	7.0	(18.0)	11.0	-
Amounts written-off during the year	-	-	(23.9)	(23.9)
Foreign exchange and other adjustments	(5.1)	1.1	6.0	2.0
At 31 December 2023	1,354.4	255.2	49.9	1,659.5

8 INVESTMENT SECURITIES

31 December 2024	FVTPL	FVTOCI	Amortised cost	Total
Quoted investments:				
Government bonds	-	430.0	44.0	474.0
Other bonds	-	238.7	7.1	245.8
Equities	-	43.7	-	43.7
	-	712.4	51.1	763.5
Unquoted investments:				
Government bonds	-	-	137.7	137.7
Other bonds	-	9.6	-	9.6
Equities	-	30.0	-	30.0
Managed funds	1.0	-	-	1.0
	1.0	39.6	137.7	178.3
Gross investments	1.0	752.0	188.8	941.8
Expected credit losses	-	(2.4)	-	(2.4)
Net Investments	1.0	749.6	188.8	939.4
31 December 2023	FVTPL	FVTOCI	Amortised cost	Total
Quoted investments:				
Government bonds	-	383.0	36.6	419.6
Other bonds	-	228.1	7.2	235.3
Equities	-	37.7	-	37.7
	-	648.8	43.8	692.6
Unquoted investments:				
Government bonds	-	-	132.6	132.6
Other bonds	-	1.7	-	1.7
Equities	-	30.5	-	30.5
Managed funds	1.0	-	-	1.0
	1.0	32.2	132.6	165.8
Gross investments	1.0	681.0	176.4	858.4
Expected credit losses	-	(2.3)	-	(2.3)
Net investments	1.0	678.7	176.4	856.1

8 INVESTMENT SECURITIES (continued)

At 31 December 2024, investment securities include government and other bonds of BD 447.8 million (31 December 2023: BD 422.9 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2024, investment securities include long-term Islamic Sukuk amounting to BD 31.0 million (31 December 2023: BD 48.6 million).

Movements in allowances for ECL on investment securities (government and other bonds held at FVTOCI and amortised cost) are as follows:

	2024			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
Balance at 1 January	0.5	1.8	-	2.3
Net remeasurement of loss allowance	0.9	(0.1)	-	0.8
Financial assets that were derecognised	(0.2)	(0.5)	-	(0.7)
Balance at 31 December	1.2	1.2	-	2.4

	2023			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	
Balance at 1 January	0.3	0.4	-	0.7
Net remeasurement of loss allowance	0.2	1.5	-	1.7
Financial assets that were derecognised	-	(0.1)	-	(0.1)
Balance at 31 December	0.5	1.8	-	2.3

9 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2024	2023
Interest receivable	31.6	29.3
Accounts receivable	24.1	32.0
Collateral pending sale*	20.4	17.8
Positive fair value of derivatives (note 28)	40.4	44.1
Prepaid expenses	2.8	2.1
Deferred tax asset (note 22)	0.9	0.8
Other assets	0.8	3.5
	121.0	129.6

* During the year ended 31 December 2024, an impairment charge of BD 0.5 million (2023: BD 0.2 million) was recorded against collateral pending sale, which were acquired on settlement of loans and advances. Refer to note 21 for further details.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group has a 23.03% (2023: 23.03%) equity interest in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 22.00% (2023: 22.00%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40.00% (2023: 40.00%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 23.52% (2023: 23.54%) stake in Bahrain Liquidity Fund, an investment vehicle established in the Kingdom of Bahrain to enhance liquidity in the market and to close the valuation gap between securities listed on Bahrain Bourse and their regional peers.

The Group has a 49.96% (2023: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

The Group has a 24.99% (2023: 24.99%) stake in Evoque Holdings Jersey Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Germany.

The Group has a 45.00% (2023: 45.00%) stake in LSE Jersey Holdings Limited Partnership, a joint venture company registered in Jersey to facilitate the indirect real estate investment in the United Kingdom.

The Group has a 40.00% (2023: 40.00%) indirect stake in Invita Kuwait K.S.C.C. through Invita Company W.L.L., incorporated in Kuwait and engaged in business processing and outsourcing services.

	2024	2023
<i>Carrying amount of investment in associates and joint ventures</i>		
At 1 January	51.2	62.3
Additional contribution	-	0.5
Share of loss for the year	(2.7)	(10.2)
Dividends received	(0.1)	(1.6)
Change in unrealised fair values - associates (note 16)	(0.4)	-
Foreign currency translation adjustments	(0.3)	0.6
Capital distribution	(2.5)	(0.4)
At 31 December	<u>45.2</u>	<u>51.2</u>

The following table illustrates the summarised most recent available financial information of the Group's interest in its non-material associates and joint ventures:

	2024	2023
<i>Financial position related information</i>		
Total assets	61.2	69.1
Total liabilities	46.7	47.8
<i>Profit or loss related information</i>		
Revenue	7.4	7.3
Group's share of net loss for the year	(3.7)	(3.5)
Total comprehensive loss for the year	(3.7)	(3.5)

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investments in associates and joint ventures includes the Group's investment in BCFC, which is considered to be a material associate. The following table illustrates the summarised financial information of the Group's investment in BCFC, based on most recent available financial statements adjusted for estimated performance of the last quarter:

	2024	2023
Net interest income	7.7	10.5
Gross profit on automotive sales	6.1	6.6
Other operating income	3.7	5.8
Total operating income	17.5	22.9
Operating expenses	(14.1)	(17.9)
Other operating expenses and net loan allowance	1.1	(34.1)
Adjusted profit / (loss) for the year	4.5	(29.1)
Group's share of adjusted profit / (loss) for the year	1.0	(6.7)
Other comprehensive income	(0.5)	-
Total other comprehensive income / (loss) for the year	4.0	(29.1)
Group's share of other comprehensive income for the year	(0.1)	-
	2024	2023
Assets		
Cash and balances with banks	11.9	20.5
Loans and advances to customers	138.8	169.3
Inventories	19.0	20.2
Other assets	50.3	27.5
Total assets	220.0	237.5
Liabilities		
Trade and other payables	21.8	20.6
Term loans	91.5	113.8
Total liabilities	113.3	134.4
Donation reserve	-	-
Adjusted equity	106.7	103.1
Proportion of the Group's ownership	23.03%	23.03%
Group's share of adjusted equity	24.6	23.7

The market value of the Bank's investment in BCFC based on the price quoted in the Bahrain Bourse at 31 December 2024 was BD 14.3 million (31 December 2023: BD 9.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

11 PREMISES AND EQUIPMENT

	<i>Freehold land</i>	<i>Properties and buildings</i>	<i>Furniture, equipment and software</i>	<i>Right-of- use assets</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost	12.5	31.0	71.8	15.7	-	131.0
Less: Accumulated depreciation	-	(22.2)	(59.2)	(11.5)	-	(92.9)
Net book value at 31 December 2024	12.5	8.8	12.6	4.2	-	38.1
	<i>Freehold land</i>	<i>Properties and buildings</i>	<i>Furniture, equipment and software</i>	<i>Right-of- use assets</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost	12.5	30.3	66.9	13.9	0.1	123.7
Less: Accumulated depreciation	-	(21.2)	(55.6)	(9.1)	-	(85.9)
Net book value at 31 December 2023	12.5	9.1	11.3	4.8	0.1	37.8

The depreciation charge for the year amounted to BD 8.8 million (2023: BD 7.8 million).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprised:

<i>Rate of interest</i>	<i>Maturity</i>	<i>Carrying amount</i>	
		2024	2023
6.875% (fixed)	2029	185.9	-
5.500% (fixed)	2024	-	188.5
SOFR + Margin	2025 / 2026	120.6	113.1
		306.5	301.6

13 CUSTOMERS' DEPOSITS

	2024	2023
Term deposits	1,127.8	869.0
Savings accounts	674.7	679.7
Current accounts	515.1	490.7
Other deposit accounts	93.7	90.6
	2,411.3	2,130.0

14 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2024	2023
Interest payable	40.2	37.9
Accounts payable	30.5	35.5
Accrued expenses	38.8	35.3
Negative fair value of derivatives (note 28)	3.8	2.0
Lease liability	3.7	4.2
ECL on financial contracts and commitments (note 29)	3.2	3.3
Other liabilities	3.8	5.1
	124.0	123.3

15 EQUITY

	2024	2023
(i) Share capital		
<i>Authorised</i>		
2,500,000,000 shares (2023: 2,500,000,000 shares) of BD 0.100 each	250.0	250.0
<i>Issued and fully paid</i>		
1,816,590,310 shares (2023: 1,730,086,010 shares) of BD 0.100 each	181.7	173.0

Movement of ordinary share capital was as follows:

	<i>Number of shares</i>	
	2024	2023
Shares at 1 January	1,730,086,010	1,647,700,962
Add: Issuance of stock dividend	86,504,300	82,385,048
Shares at 31 December	1,816,590,310	1,730,086,010

(ii) Treasury stock

Treasury stock represents the Bank's purchase of its own shares. At the end of the year, the Bank held 13,264,765 (2023: 10,337,691) of its own shares.

	2024	2023
Consideration paid	5.0	4.1

(iii) Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB.

(iv) Employee Performance Share Plan

The Group has an Employee Performance Share Plan (EPSP) under which shares are granted to certain eligible employees (refer to note 42).

(v) Unclaimed dividends

Following a regulatory directive issued by Bahrain Bourse per resolution no (3) of 2021, all the unclaimed dividends were transferred to a designated Bahrain Clear account held with CBB. Prior to this directive and as per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years were transferred to equity, however were available to the respective shareholders for any future claims. The Group did not make any payments to its shareholders from the reserve account in the equity (2023: same).

(vi) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 4.8 million to statutory reserve (2023: BD 7.5 million) as the reserve reached to 50% of the issued share capital. The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(vii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. During the years the Bank did not transfer any amount to general reserve. The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

16 CUMULATIVE CHANGES IN FAIR VALUES

	2024	2023
<i>Fair value through other comprehensive income</i>		
At 1 January	24.2	14.3
Transferred to retained earnings on sale / write-off of equity securities	1.7	(0.2)
Transferred to profit or loss on sale of investment securities (debt)	(7.7)	(4.6)
Transferred to profit or loss on impairment (debt)	0.8	1.7
Fair value changes on investment securities carried at FVTOCI	5.9	13.0
At 31 December	24.9	24.2
<i>Cash flow hedges</i>		
At 1 January	0.5	0.5
Change in unrealised fair values - associates (note 10)	(0.4)	-
At 31 December	0.1	0.5
	25.0	24.7

17 PROPOSED APPROPRIATIONS

	2024	2023
Cash dividend	40.6	34.4
Stock dividend	-	8.7
Donations	2.2	2.2
	42.8	45.3

The Board of Directors proposed cash dividend of BD 0.035 per share (including an interim cash dividend of BD 0.0125 per share, declared and paid during August 2024), net of treasury stock as of 31 December 2024 (2023: cash dividends of BD 0.030 per share, net of treasury stock as of 31 December 2023 and a stock dividend of BD 0.005 per share).

During the year, the Bank paid cash dividend of BD 0.030 per share, net of treasury stock and a stock dividend of BD 0.005 per share pertaining to 2023 (2023: BD 0.030 per share, net of treasury stock and a stock dividend of BD 0.005 per share pertaining to 2022).

The above appropriations for the year ended 31 December 2024 will be submitted for approval at the forthcoming Annual General Assembly of the Shareholders. The payment of the final cash dividend is subject to the approval of the CBB.

18 NET INTEREST AND SIMILAR INCOME**a) INTEREST AND SIMILAR INCOME**

	2024	2023
<i>At amortised cost:</i>		
Loans and advances to customers	117.1	117.2
Deposits and amounts due from banks and other financial institutions	48.5	37.2
Treasury bills	22.9	21.3
Investment securities	8.6	9.3
<i>At FVTOCI:</i>		
Investment securities	54.8	52.0
	251.9	237.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

18 NET INTEREST AND SIMILAR INCOME (continued)**b) INTEREST AND SIMILAR EXPENSE**

	2024	2023
<i>On financial liabilities carried at amortised cost:</i>		
Customers' deposits	(73.4)	(53.5)
Term borrowings	(20.8)	(16.6)
Borrowings under repurchase agreement	(20.2)	(20.2)
Deposits and amounts due to banks and other financial institutions	(12.9)	(13.3)
	<u>(127.3)</u>	<u>(103.6)</u>
NET INTEREST AND SIMILAR INCOME	124.6	133.4

19 FEE AND COMMISSION INCOME - NET

	2024	2023
Fee and commission income	55.3	49.3
Fee and commission expense	(35.8)	(34.9)
	<u>19.5</u>	<u>14.4</u>

Included in fee and commission income is a gain of BD 0.03 million (2023: loss of BD 0.02 million) relating to trust and other fiduciary activities.

20 INVESTMENT AND OTHER INCOME

	2024	2023
Dividend income	3.0	2.7
Gain on foreign exchange	6.5	7.4
Realised gain on sale of investment securities	7.7	4.6
Income from commercial activities *	1.6	2.2
Other income / (loss)	1.0	(0.6)
	<u>19.8</u>	<u>16.3</u>

* This represents income arising from non-financial business process outsourcing services provided by a Bank's subsidiary.

21 NET PROVISIONS AND CREDIT LOSSES

	2024	2023
Loans and advances to customers (note 7)	18.3	8.9
Recoveries from fully provided loans and advances written-off in previous years	(2.2)	(1.4)
Investment securities (note 8)	0.8	1.7
Off-balance sheet exposures	(0.1)	0.5
Collateral pending sale (note 9)	0.5	0.2
	<u>17.3</u>	<u>9.9</u>

22 TAXATION

	2024	2023
<i>Consolidated statement of financial position</i>		
Deferred tax asset (note 9)	0.9	0.8
<i>Consolidated statement of profit or loss</i>		
Deferred tax credit / (expense) on foreign operations	0.1	(0.2)

22 TAXATION (continued)

Current tax is measured at the amount expected to be paid in respect of taxable income of the Group's operations in India for the year, in accordance with the Income Tax Act, 1961 enacted by Parliament of India. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period. Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2024 is 38.22% (2023: 43.68%).

Domestic minimum top-up tax ("DMTT") and rules impact

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

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

As per the Group's preliminary assessment, it has concluded that it is not in scope for the Bahrain law or the GloBE rules. Accordingly, the Group does not expect to be subject to the Bahrain DMTT law and GloBE rules for the next fiscal year.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank by the weighted average number of shares outstanding during the year.

	2024	2023
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	72.0	74.5
Adjusted net profit for the year attributable to the owners of the Bank	72.0	74.5
Weighted average number of shares, net of treasury stock, outstanding during the year	1,806,270,145	1,805,692,207
Basic and diluted earnings per share (BD)	0.040	0.041

24 OPERATING SEGMENTS**Segment information**

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange. In addition, it includes lending to and deposit accounts raising from Private Banking customers.
Corporate banking	Principally handling loans and other credit facilities, deposit and current accounts for corporate and Small-Medium business customers in Bahrain.
International banking	Principally handling loans and other credit facilities, deposit and current accounts for international corporate and financial institution customers. This also covers the operations of the overseas units.
Investment, treasury and other activities	Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities mainly includes business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates. Interest is charged / credited to business segments based on a transfer pricing rate, which approximates the marginal cost of funds on a matched funded basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

24 OPERATING SEGMENTS (continued)

Segment information for the year ended 31 December 2024 was as follows:

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>International Banking</i>	<i>Investment, Treasury and Other activities</i>	<i>Total</i>
Interest and similar income	38.7	55.1	29.6	128.5	251.9
Interest and similar expense	(20.2)	(32.2)	(21.7)	(53.2)	(127.3)
Internal fund transfer price	28.6	11.6	7.5	(47.7)	-
Net interest and similar income	47.1	34.5	15.4	27.6	124.6
Other operating income	15.8	2.4	3.0	18.1	39.3
Operating income before results from associates and joint ventures	62.9	36.9	18.4	45.7	163.9
Net provisions and credit losses	(2.2)	(13.2)	2.1	(4.0)	(17.3)
Segment result	33.4	20.9	9.6	43.3	107.2
Share of loss from associates and joint ventures	-	-	-	(2.7)	(2.7)
Common costs					(31.8)
Net profit for the year					72.7
Less: Net profit attributable to non-controlling interests					(0.7)
Net profit attributable to the owners of the Bank					72.0
Segment assets	820.3	769.1	562.0	1,910.7	4,062.1
Investments in associates and joint ventures	-	-	-	45.2	45.2
Common assets *	-	-	-	-	85.3
Total assets					4,192.6
Segment liabilities	1,184.3	1,007.2	552.4	775.3	3,519.2
Common liabilities **	-	-	-	-	49.7
Total liabilities					3,568.9

* Common assets represent net premises and equipment, net collateral pending sale and other receivables.

** Common liabilities represent other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

24 OPERATING SEGMENTS (continued)

Segment information for the year ended 31 December 2023 was as follows:

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>International Banking</i>	<i>Investment, Treasury and Other activities</i>	<i>Total</i>
Interest and similar income	37.7	57.0	27.6	114.7	237.0
Interest and similar expense	(13.9)	(25.3)	(14.9)	(49.5)	(103.6)
Internal fund transfer price	29.6	7.5	2.7	(39.8)	-
Net interest and similar income	53.4	39.2	15.4	25.4	133.4
Other operating income	12.9	1.8	3.5	12.5	30.7
Operating income before results from associates and joint ventures	66.3	41.0	18.9	37.9	164.1
Net provisions and credit losses	(1.8)	(8.3)	1.1	(0.9)	(9.9)
Segment result	37.7	29.6	9.8	37.5	114.6
Share of loss from associates and joint ventures	-	-	-	(10.2)	(10.2)
Common costs					(29.3)
Net profit for the year					75.1
Less: Net profit attributable to non-controlling interests					(0.6)
Net profit attributable to the owners of the Bank					74.5
Segment assets	811.5	675.6	457.0	1,820.3	3,764.4
Investments in associates and joint ventures	-	-	-	51.2	51.2
Common assets *	-	-	-	-	86.3
Total assets					3,901.9
Segment liabilities	1,123.3	853.3	497.3	769.6	3,243.5
Common liabilities **	-	-	-	-	44.5
Total liabilities					3,288.0

* Common assets represent net premises and equipment, net collateral pending sale and other receivables.

** Common liabilities represent other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

24 OPERATING SEGMENTS (continued)**Geographic information**

The Group operates in two geographic markets: Domestic (Bahrain) and International (other markets). The following tables show the distribution of the Group's revenue and assets by geographical segment, allocated based on the countries where the Bank and its Group entities are located.

	<i>Domestic</i>	<i>International</i>	<i>Total</i>
31 December 2024			
Total operating income and share of results from associates and joint ventures	150.2	11.0	161.2
Total assets	3,815.1	377.5	4,192.6
	<i>Domestic</i>	<i>International</i>	<i>Total</i>
31 December 2023			
Total operating income and share of results from associates and joint ventures	141.1	12.8	153.9
Total assets	3,531.2	370.7	3,901.9

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated statement of cash flows included the following as at 31 December:

	2024	2023
Cash in hand and vaults (note 4)	21.2	24.6
Current accounts and placements with central banks (note 4)	558.2	430.6
Treasury bills	0.1	-
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	142.7	244.4
	722.2	699.6

26 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent major shareholders, associates and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. All the loans and advances to related parties are performing and subject to ECL allowances.

Amounts outstanding as of the statement of consolidated financial position date in respect of transactions entered into with related parties are as follows:

	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Directors and key management personnel</i>	<i>Total</i>
31 December 2024				
Loans and advances to customers	-	31.0	4.8	35.8
Deposits and amounts due from banks and other financial institutions	10.9	-	-	10.9
Investments in associates and joint ventures	-	45.2	-	45.2
Customers' deposits	56.2	2.7	7.6	66.5
Deposits and amounts due to banks and other financial institutions	21.8	-	-	21.8
Commitments and contingent liabilities	-	6.2	-	6.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Directors and key management personnel</i>	<i>Total</i>
<i>31 December 2023</i>				
Loans and advances to customers	-	15.8	4.0	19.8
Deposits and amounts due from banks and other financial institutions	6.7	-	-	6.7
Investments in associates and joint ventures	-	51.2	-	51.2
Customers' deposits	0.6	2.3	8.9	11.8
Deposits and amounts due to banks and other financial institutions	71.9	-	-	71.9
Commitments and contingent liabilities	-	5.4	-	5.4

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Directors and key management personnel</i>	<i>Total</i>
<i>31 December 2024</i>				
Interest and similar income	0.6	2.1	-	2.7
Interest and similar expense	2.4	-	0.4	2.8
Share of loss from associates and joint ventures	-	(2.7)	-	(2.7)
<i>31 December 2023</i>				
Interest and similar income	0.4	1.0	-	1.4
Interest and similar expense	2.1	-	0.4	2.5
Share of loss from associates and joint ventures	-	(10.2)	-	(10.2)

Compensation for key management, including executive officers, comprises the following:

	2024	2023
Short-term employee benefits	14.0	14.2
Long-term employee benefits	0.9	1.3
	14.9	15.5

For key management personnel interest in the employee share incentive scheme, refer to note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities given below has been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, except in the case of customer' deposits. The liquidity profile of customer' deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

	<i>Within 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Subtotal</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>More than 20 years</i>	<i>Total</i>
31 December 2024										
Assets										
Cash and balances with central banks	579.4	-	-	-	579.4	-	-	-	108.3	687.7
Treasury bills	31.8	78.4	86.7	202.3	399.2	-	-	-	-	399.2
Deposits and amounts due from banks and other financial institutions	138.4	28.3	-	0.5	167.2	0.4	0.3	-	-	167.9
Loans and advances to customers	203.1	187.1	96.6	116.8	603.6	801.2	274.0	98.5	16.8	1,794.1
Investment securities	-	4.9	22.3	41.4	68.6	336.9	181.1	252.2	100.6	939.4
Interest receivable, derivative and other assets	100.7	-	-	-	100.7	20.3	-	-	-	121.0
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	45.2	45.2
Premises and equipment	-	0.1	0.1	0.4	0.6	33.8	1.4	2.2	0.1	38.1
Total assets	1,053.4	298.8	205.7	361.4	1,919.3	1,192.6	456.8	352.9	271.0	4,192.6
Liabilities										
Deposits and amounts due to banks and other financial institutions	215.4	109.9	12.3	37.9	375.5	-	-	-	-	375.5
Borrowings under repurchase agreement	-	-	91.7	101.9	193.6	158.0	-	-	-	351.6
Term borrowings	-	-	-	94.2	94.2	212.3	-	-	-	306.5
Customers' deposits	284.7	97.2	37.5	54.6	474.0	47.8	-	-	1,889.5	2,411.3
Interest payable, derivative and other liabilities	119.8	0.1	0.1	0.4	120.4	1.9	1.4	0.3	-	124.0
Total liabilities	619.9	207.2	141.6	289.0	1,257.7	420.0	1.4	0.3	1,889.5	3,568.9
Net liquidity gap	433.5	91.6	64.1	72.4	661.6	772.6	455.4	352.6	(1,618.5)	623.7
Cumulative liquidity gap	433.5	525.1	589.2	661.6		1,434.2	1,889.6	2,242.2	623.7	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Subtotal	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
<i>31 December 2023</i>										
Assets										
Cash and balances with central banks	455.2	-	-	-	455.2	-	-	-	94.7	549.9
Treasury bills	40.9	69.0	158.4	174.9	443.2	-	-	-	-	443.2
Deposits and amounts due from banks and other financial institutions	240.7	3.9	-	-	244.6	0.9	0.3	-	-	245.8
Loans and advances to customers	191.5	109.5	89.7	95.3	486.0	693.7	298.8	97.2	12.6	1,588.3
Investment securities	0.1	3.8	22.0	18.5	44.4	350.3	252.6	105.6	103.2	856.1
Interest receivable, derivative and other assets	111.7	-	-	-	111.7	17.9	-	-	-	129.6
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	51.2	51.2
Premises and equipment	-	0.1	0.2	0.2	0.5	33.4	1.5	1.1	1.3	37.8
Total assets	1,040.1	186.3	270.3	288.9	1,785.6	1,096.2	553.2	203.9	263.0	3,901.9
Liabilities										
Deposits and amounts due to banks and other financial institutions	316.9	58.7	16.9	13.7	406.2	-	-	-	-	406.2
Borrowings under repurchase agreement	37.0	1.5	2.8	52.4	93.7	233.2	-	-	-	326.9
Term borrowings	-	-	18.8	188.5	207.3	94.3	-	-	-	301.6
Customers' deposits	242.1	62.3	30.0	73.7	408.1	11.3	-	-	1,710.6	2,130.0
Interest payable, derivative and other liabilities	118.5	0.1	0.2	0.2	119.0	2.5	1.5	0.3	-	123.3
Total liabilities	714.5	122.6	68.7	328.5	1,234.3	341.3	1.5	0.3	1,710.6	3,288.0
Net liquidity gap	325.6	63.7	201.6	(39.6)	551.3	754.9	551.7	203.6	(1,447.6)	613.9
Cumulative liquidity gap	325.6	389.3	590.9	551.3		1,306.2	1,857.9	2,061.5	613.9	

28 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

	Positive fair value	Negative fair value	Notional amount
31 December 2024			
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts	0.5	0.7	253.5
<i>Derivatives held as fair value hedges:</i>			
Interest rate swaps	39.9	3.1	730.6
	40.4	3.8	984.1
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2023			
<i>Derivatives held for trading:</i>			
Forward foreign exchange contracts	0.2	0.3	158.2
<i>Derivatives held as fair value hedges:</i>			
Interest rate swaps	43.9	1.7	624.3
	44.1	2.0	782.5

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

28 DERIVATIVES (continued)***Derivatives held or issued for trading purposes***

Most of the Group's derivative trading activities relate to back-to-back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer to notes 36 and 37 respectively.

As part of its asset and liability management, the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases, the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, fair value through other comprehensive income debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

In these hedge relationships, the main sources of ineffectiveness is the maturity mis-matches or the hedging instruments. The hedged instruments are subject to different counterparty risks, resulting in a change to hedge effectiveness measurement elements.

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year to 5 years</i>	<i>More than 5 years</i>
31 December 2024					
Nominal amount	-	1.9	51.4	373.0	304.3
Average fixed interest rate	-	7%	4%	7%	7%
31 December 2023					
Nominal amount	34.0	3.8	24.9	224.8	336.8
Average fixed interest rate	6%	4%	6%	6%	6%

The line item in the consolidated statement of financial position where the positive fair value of derivatives included is "Interest receivable, derivative and other assets". Refer to note 9 for further details.

The line item in the consolidated statement of financial position where the negative fair value of derivatives included is "Interest payable, derivative and other liabilities". Refer to note 14 for further details.

28 DERIVATIVES (continued)***Fair value hedges (continued)***

The amounts relating to items designated as hedged items were as follows:

	2024		2023	
	<i>Carrying amount</i>	<i>Fair value adjustments*</i>	<i>Carrying amount</i>	<i>Fair value adjustments*</i>
Bonds (Investment securities)	518.1	(33.1)	564.4	(37.6)
Borrowings under repurchase agreement	35.0	(0.1)	69.0	(0.2)
Term loan borrowing	185.9	(2.8)	-	-

* Represents accumulated fair value hedge adjustments on the hedged item included in the carrying amount.

For the year ended 31 December 2024, the Group recognised a net loss of BD 5.5 million (2023: net loss of BD 15.2 million), representing the loss on the hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to BD 5.5 million (2023: gain of BD 15.0 million).

Fair value hedges of interest rate risk

The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate note or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item.

In these hedging relationships, the main sources of ineffectiveness are the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other investment income.

Cash flow hedges

At 31 December 2024 and 2023, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

29 COMMITMENTS AND CONTINGENT LIABILITIES**Credit-related commitments**

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

31 December 2024	On demand	Less than 3 months	3 to 12 months	Over 1 year to 5 years	More than 5 years	Total
Contingencies:						
Letters of credit	-	1.4	7.5	6.8	15.5	31.2
Guarantees	286.4	-	-	-	-	286.4
						317.6
Commitments:						
Undrawn loan commitments	121.0	-	-	-	-	121.0
Forward foreign exchange contracts	-	164.5	57.6	31.4	-	253.5
Interest rate swaps	-	-	-	267.5	463.1	730.6
						1,105.1
						1,422.7
31 December 2023	On demand	Less than 3 months	3 to 12 months	Over 1 year to 5 years	More than 5 years	Total
Contingencies:						
Letters of credit	4.0	13.8	10.1	-	-	27.9
Guarantees	251.4	-	-	-	-	251.4
						279.3
Commitments:						
Undrawn loan commitments	171.7	-	-	-	-	171.7
Forward foreign exchange contracts	-	138.3	19.9	-	-	158.2
Interest rate swaps	-	37.8	24.9	224.8	336.8	624.3
						954.2
						1,233.5

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Exposure (after applying credit conversion factor) and ECL by stage is as follows:

	2024			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Credit commitments and contingencies	198.2	20.1	14.3	232.6
ECL allowances (note 14)	0.2	0.1	2.9	3.2

	2023			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Credit commitments and contingencies	229.9	21.3	13.5	264.7
ECL allowances (note 14)	0.4	0.1	2.8	3.3

A reconciliation of changes in gross carrying amount for undrawn loan commitments and contingencies by stage is as follows:

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
1 January 2024	380.6	56.8	13.6	451.0
New exposures	172.6	23.4	-	196.0
Exposures matured / lapsed	(190.5)	(19.4)	(0.5)	(210.4)
Net transfers between stages	(5.1)	3.5	1.6	-
Foreign exchange and other movements	1.8	0.4	(0.2)	2.0
At 31 December 2024	359.4	64.7	14.5	438.6

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
1 January 2023	234.6	69.2	14.4	318.2
New exposures	160.7	9.5	-	170.2
Exposures matured / lapsed	(28.1)	(9.3)	(0.3)	(37.7)
Net transfers between stages	15.0	(15.0)	-	-
Foreign exchange and other movements	(1.6)	2.4	(0.5)	0.3
At 31 December 2023	380.6	56.8	13.6	451.0

30 RISK MANAGEMENT

The activities of the Group entails risk taking on a regular basis through its businesses. Risk management involves the identifying, measuring, monitoring and managing of risks on a continuous basis. Efficient and timely management of risks in the Group's activities is critical for the financial soundness and profitability of the Group. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices with an aim to manage the overall risk profile of the Group in the most efficient and effective way.

Risk is measured, monitored and reported according to principles and policies approved by the Board of Directors. The Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks. The Group Chief Risk Officer (GCRO) is head of Risk and Credit Management Division (RCMD). GCRO reports to Board Risk Committee, ensuring segregation of duties and management oversight from the business originating units – a fundamental principle of risk management process.

Whilst the Board approves and periodically reviews risk management policies and strategies based on the recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC), the Country Risk Committee (CRC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to asset-liability mismatches, interest rate risks and liquidity. The CRC reviews country risk, business strategies and macro-economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee (ORMC) manages the overall operational risk of the Group by instituting CBB guidelines and Basel standards and carrying out required oversight.

RCMD of the Group maintains a high standard of risk management by means of applying available techniques and methodology. The control environment is, among other things, based on the principle of segregation of duties and independence. RCMD is responsible for looking into risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing and amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. RCMD in collaboration with Financial Control Division, prepares the Risk Appetite, stress testing and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank. RCMD is also responsible for ensuring adherence to regulatory and statutory requirements related to risk management such as introducing the use of IFRS 9 guidelines, ICAAP etc. in the Bank. Group Internal Audit Department makes an independent assessment of the processes regarding risk and capital management in accordance with the annual audit plan duly approved by the Board, Audit and Compliance Committee.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the notes below.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The business activities of the Group entail risk of loss due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligations including the whole and timely payment of principal, interest, collateral and other receivables. The failure thereby causes the Group to incur a financial loss.

31 CREDIT RISK (continued)

The Group's credit risk management objectives are to:

- maintain a framework of controls to oversee credit risk;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk taking in line with the Board of Directors expectations and avoiding undesirable concentrations; and
- monitor credit risk and adherence to agreed controls.

A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry. Policy limits and operating limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated risk appetite. Limits are typically based on the nature of the lending and the amount of the underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure limits to individual counterparties exposures. Excesses are reported to the appropriate authority as set by the Credit Risk Policy.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit as well as at a portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Designated Credit and Investment Officers in RCMD before approval of the appropriate approving authority is obtained. The Group has a tiered approval authority level matrix depending on the extent of risk, comprising individuals with proven credit and investment credentials, Management Credit Committee and Board Committees. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. All larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer / Designated Investment Officer in RCMD is one of the signatories in the credit / investment approval chain and provides independent view on credit and investment proposals.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the CBB and the local regulators in overseas locations.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return, reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

31 CREDIT RISK (continued)

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position and for commitments and contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	2024	2023
Balances with central banks	666.5	525.3
Treasury bills	399.2	443.2
Deposits and amounts due from banks and other financial institutions	167.9	245.8
Loans and advances to customers	1,794.1	1,588.3
Investment securities	864.7	786.9
Interest receivable, derivative and other assets	96.9	108.9
Total	3,989.3	3,698.4
Contingent liabilities	317.6	279.3
Commitments	1,105.1	954.2
Total credit related commitments	1,422.7	1,233.5
Maximum exposure to credit risk	5,412.0	4,931.9

32 CONCENTRATION RISK

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

	2024			2023		
	Assets	Liabilities	Credit commitments and contingencies	Assets	Liabilities	Credit commitments and contingencies
<i>Geographic region:</i>						
GCC countries	3,646.0	2,979.5	847.6	3,380.7	2,711.0	784.7
North America	74.1	8.2	4.2	89.8	8.2	10.5
Europe	217.2	425.3	491.1	195.1	416.2	393.2
Asia	157.1	134.4	79.1	176.4	132.7	44.3
Others	98.2	21.5	0.7	59.9	19.9	0.8
	4,192.6	3,568.9	1,422.7	3,901.9	3,288.0	1,233.5
<i>Industry sector:</i>						
Trading and manufacturing	501.9	254.2	115.0	536.5	199.2	170.5
Banks and other financial institutions	540.9	1,054.7	1,026.1	553.6	990.1	821.9
Construction and real estate	397.1	62.3	171.4	309.8	53.0	140.7
Government and public sector	1,813.5	276.1	9.8	1,642.5	309.2	71.4
Individuals	574.5	1,317.5	6.3	568.9	1,203.1	5.0
Others	364.7	604.1	94.1	290.6	533.4	24.0
	4,192.6	3,568.9	1,422.7	3,901.9	3,288.0	1,233.5

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 and 10 as non-performing grades. Grades 1 to 3 represent high grade (undoubted through to good credit risk), 4 to 6 represent standard grade (satisfactory through to adequate credit risk) and 7 to 8 represent sub-standard grade (sub-standard through to high credit risk).

The Group's rating method comprises 19 rating levels for debt instruments. The master scale maps the external credit ratings of rating agencies for debt instruments into high, standard, substandard and past due or individually impaired. Grades 1 to 7 represent high grade (AAA to A-), 8 to 16 represent standard grade (BBB+ to B-) and 17 to 19 represent sub-standard grade (CCC+ to CCC-).

All key lending relationships are reviewed at least once a year and more frequently in the case of higher credit risk triggers.

33.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVTOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2024			
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Loans and advances to customers				
Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	409.2	0.1	-	409.3
Standard (Grade 4 to 6)	465.7	121.5	-	587.2
Substandard (Grade 7 to 8)	5.0	125.7	-	130.7
Non-performing (Grade 9 to 10)	-	-	66.3	66.3
	879.9	247.3	66.3	1,193.5
Expected credit losses	(1.4)	(17.8)	(42.5)	(61.7)
Net carrying amount	878.5	229.5	23.8	1,131.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.1 Credit quality analysis (continued)**

31 December 2023				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Commercial loans and overdrafts at amortised cost</i>				
High (Grade 1 to 3)	315.4	1.8	-	317.2
Standard (Grade 4 to 6)	416.9	132.7	-	549.6
Substandard (Grade 7 to 8)	1.3	100.3	-	101.6
Non-performing (Grade 9 to 10)	-	-	38.3	38.3
	733.6	234.8	38.3	1,006.7
Expected credit losses	(4.4)	(26.3)	(25.8)	(56.5)
Net carrying amount	729.2	208.5	12.5	950.2

31 December 2024				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Consumer loans at amortised cost</i>				
High (Grade 1 to 3)	641.6	2.5	-	644.1
Standard (Grade 4 to 6)	-	8.0	-	8.0
Substandard (Grade 7 to 8)	-	12.4	-	12.4
Non-performing (Grade 9 to 10)	-	-	11.6	11.6
	641.6	22.9	11.6	676.1
Expected credit losses	(1.3)	(4.3)	(8.2)	(13.8)
Net carrying amount	640.3	18.6	3.4	662.3

31 December 2023				
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Loans and advances to customers</i>				
<i>Consumer loans at amortised cost</i>				
High (Grade 1 to 3)	620.8	-	-	620.8
Standard (Grade 4 to 6)	-	9.2	-	9.2
Substandard (Grade 7 to 8)	-	11.2	-	11.2
Non-performing (Grade 9 to 10)	-	-	11.6	11.6
	620.8	20.4	11.6	652.8
Expected credit losses	(1.0)	(5.2)	(8.5)	(14.7)
Net carrying amount	619.8	15.2	3.1	638.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.1 Credit quality analysis (continued)

	31 December 2024			
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
Debt investment securities at FVTOCI				
High (AAA to A-)	114.5	-	-	114.5
Standard (BBB+ to B-) *	545.4	18.4	-	563.8
Substandard (CCC+ to CCC-)	-	-	-	-
	659.9	18.4	-	678.3
Expected credit losses	(1.2)	(1.2)	-	(2.4)
Net carrying amount	658.7	17.2	-	675.9
Treasury bills and debt investment securities at amortised cost				
High (AAA to A-)	43.3	-	-	43.3
Standard (BBB+ to B-) *	544.7	-	-	544.7
	588.0	-	-	588.0
Expected credit losses	-	-	-	-
Net carrying amount	588.0	-	-	588.0
Loan commitments and financial guarantees				
High (Grade 1 to 3)	165.4	0.5	-	165.9
Standard (Grade 4 to 6)	193.1	47.7	-	240.8
Substandard (Grade 7 to 8)	0.8	16.7	-	17.5
Non-performing (Grade 9 to 10)	-	-	14.4	14.4
	359.3	64.9	14.4	438.6
Expected credit losses	(0.2)	(0.1)	(2.9)	(3.2)
Net carrying amount	359.1	64.8	11.5	435.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.1 Credit quality analysis (continued)**

	31 December 2023			
	Stage 1: 12 - month ECL	Stage 2: Lifetime ECL not credit - impaired	Stage 3: Lifetime ECL credit - impaired	Total
<i>Debt investment securities at FVTOCI</i>				
High (AAA to A-)	109.6	-	-	109.6
Standard (BBB+ to B-) *	469.4	32.2	-	501.6
Substandard (CCC+ to CCC-)	1.6	-	-	1.6
	580.6	32.2	-	612.8
Expected credit losses	(0.5)	(1.8)	-	(2.3)
Net carrying amount	580.1	30.4	-	610.5
<i>Treasury bills and debt investment securities at amortised cost</i>				
High (AAA to A-)	73.8	-	-	73.8
Standard (BBB+ to B-) *	545.8	-	-	545.8
	619.6	-	-	619.6
Expected credit losses	-	-	-	-
Net carrying amount	619.6	-	-	619.6
<i>Loan commitments and financial guarantees</i>				
High (Grade 1 to 3)	200.8	-	-	200.8
Standard (Grade 4 to 6)	177.6	40.5	-	218.1
Substandard (Grade 7 to 8)	2.2	16.4	-	18.6
Non-performing (Grade 9 to 10)	-	-	13.5	13.5
	380.6	56.9	13.5	451.0
Expected credit losses	(0.4)	(0.1)	(2.8)	(3.3)
Net carrying amount	380.2	56.8	10.7	447.7

* Standard grade includes unrated investments amounting to BD 0.1 million (2023: BD 0.1 million).

33.2 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and bank guarantees;
- For retail lending, mortgages over residential properties;
- Cash collaterals such as bank deposits; and
- Marketable securities.

The Group also obtains guarantees from parent companies for loans granted to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.2 Collateral and other credit enhancements (continued)**

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	2024	2023
Loans and advances and other commitments:		
- Cash	70.4	53.1
- Secured by real estate	924.4	874.2
- Financial Instruments	15.3	14.6
- Tamkeen Guarantees	0.4	-

33.3 Inputs, assumptions and techniques used for estimating impairment**(a) Significant increase in credit risk**

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

(b) Credit risk grades

The Group allocates each borrower to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each borrower is allocated to a credit risk grade at initial recognition based on available information about the borrower. Borrowers are subject to ongoing monitoring, which may result in a borrower being moved to a different credit risk grade.

(c) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its Credit risk exposures analysed by credit risk grading for Corporate and days-past-due for Retail portfolio. The Group employs statistical models to analyse 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 has taken exposures.

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgment and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)*****(d) Determining whether credit risk has increased significantly (continued)***

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

(e) Renegotiated / Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts restructured due to credit reasons will be classified under stage 2 as per the CBB rulebook appendix CM-6. A higher time period may be considered by management on a case-by-case basis.

(f) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. Financial assets are written-off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

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 realising security (if any security is held); and
- The borrower is past due more than 90 days on any credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

A financial instrument is considered as 'cured' and therefore re-classified out of Stage 3 when the criteria in line with the regulatory guidelines are met i.e. exposure is not 90 days past due, continuous repayment period ranging from 3-12 months based on the repayment frequency, assessment that the counterparty's financial situation has improved and the borrower is not considered as defaulted / impaired as per financial reporting and regulatory framework. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PD's are significantly deviated from the present forecast of the economic conditions, qualitative PD overlays shall be used by management after analysing the portfolio as per the diagnostic tool.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)*****(g) Incorporation of forward-looking information (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 the default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(h) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- i) Probability of default (PD);
- ii) Loss given default (LGD); and
- iii) Exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties. If a counterparty or exposure migrates between rating PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimations are estimations of:

- 1- Cure Rate:** Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
- 2- Recovery Rate:** Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
- 3- Discounting Rate:** Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for-time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The contractual life have been considered as maturity for ECL computation for the assets with fixed maturity whereas, for overdraft a maturity of 3 years (Stage 2) and 1 year (Stage 1) shall be considered based upon the stage under which asset lies.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics and counterparty type that include:

- i) Credit risk gradings;
- ii) Product type; and
- iii) Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**33.3 Inputs, assumptions and techniques used for estimating impairment (continued)****(h) Measurement of ECL (continued)**

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are banks and financial institutions, sovereign and investment securities (debt instruments).

The measurement of ECL is a complex calculation that involves a large number of interrelated inputs and assumptions and the allowance is not sensitive to any one single factor alone. The key drivers of changes in ECL mainly include the following:

- Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal / external risk ratings;
- Changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which the models are calibrated, which are those most closely correlated with credit losses in the relevant BBK portfolio;
- Changes to the value of the underlying collateral held impacting the LGD's;
- Changes in scenario design and the weights assigned to each scenario; and
- Transfers between stages, which can be triggered by changes in the credit quality of the borrower or instrument or any restructuring of the exposures.

Being cognizant of the fact that the economic environment remains uncertain and future impairment changes may be subject to further volatility (including from changes to macroeconomic forecasts), the Group has reviewed and validated the PD methodology to be able to effectively capture the current situation. The Group has also considered the adequacy of the ECL estimates vis-à-vis potential requirements in future based on internal stress testing analysis.

The models used by the Group have been constructed and calibrated using historical trends and correlation as well as forward looking economic scenarios.

The following table outlines the impact of multiple scenarios (Good:Base:Worst) on the ECL (Stage 1 and Stage 2) used by the Group as compared to the ECL that would have resulted from applying more conservative weighting to the base case or worst case scenarios:

	Scenario mix used by the Group (19:70:11)	Scenario 1 (10:60:30)	Scenario 2 (10:50:40)
31 December 2024			
Loans and advances to customers	24.8	27.2	28.2
Investment securities	2.4	2.4	2.4
Off-balance sheet exposures	0.3	0.5	0.5
	<i>Scenario mix used by the Group (19:70:11)</i>	<i>Scenario 1 (10:60:30)</i>	<i>Scenario 2 (10:50:40)</i>
31 December 2023			
Loans and advances to customers	36.9	39.7	40.8
Investment securities	2.3	2.3	2.3
Off-balance sheet exposures	0.5	0.7	0.7

34 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

The table below shows the carrying amount for financial assets by class that were restructured during the year.

	2024	2023
Loans and advances to customers		
Commercial loans	68.6	69.5

35 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities / implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investments (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 36 for further details.

The Group uses the standardised approach for allocating market risk capital. The standardised approach for market risk was adopted on 08 November 2024 as approved by the CBB from the internal model approach previously used. As at 31 December 2024, market risk weighted exposure under the standardised method was BD 12.5 million (2023: BD 41.6 million based on the internal model approach).

36 INTEREST RATE RISK

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap / duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Head of Treasury, ALMC also reviews the interest rate risk reports periodically.

36 INTEREST RATE RISK (continued)**Sensitivity analysis**

Based on the consolidated statement of financial position as at 31 December 2024, an increase of 200 basis points in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following 12 months, by approximately BD 11.2 million (2023: increase by BD 16.4 million). On the other hand, for a downward movement of interest rates by 200 basis points with a floor of 0%, the negative impact on the net interest income for the following 12 months is approximately BD 11.2 million (2023: BD 16.4 million).

Rate Shock Forecasting (+200 bps)			Rate Shock Forecasting (-200 bps)		
	2024	2023		2024	2023
Bahraini Dinars	12.4	13.8	Bahraini Dinars	12.4	13.8
US Dollar	(2.0)	2.6	US Dollar	(2.0)	2.6
Kuwaiti Dinars	1.6	1.4	Kuwaiti Dinars	1.6	1.4
Others	(0.8)	(1.4)	Others	(0.8)	(1.4)
Total	11.2	16.4	Total	11.2	16.4

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on capital of approximately 10.8% amounting to BD 66.7 million (2023: 9.0% amounting to BD 54.9 million). Similarly, a decrease of 200 basis points in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 10.8% amounting to BD 66.7 million (2023: 9.0% amounting to BD 54.9 million).

The table below provides an analysis of the Group's interest rate risk exposure:

31 December 2024					
	Up to three months	Over three months up to one year	Over one year	Rate insensitive	Total
Cash and balances with central banks	556.2	-	-	131.5	687.7
Treasury bills	110.1	289.1	-	-	399.2
Deposits and amounts due from banks and other financial institutions	141.4	0.5	0.7	25.3	167.9
Loans and advances to customers	990.3	111.9	641.0	50.9	1,794.1
Investment securities	23.6	63.8	773.3	78.7	939.4
	1,821.6	465.3	1,415.0	286.4	3,988.3
Deposits and amounts due to banks and other financial institutions	298.7	50.1	-	26.7	375.5
Borrowings under repurchase agreement	269.6	82.0	-	-	351.6
Term borrowings	120.6	-	185.9	-	306.5
Customers' deposits	804.9	390.5	76.6	1,139.3	2,411.3
	1,493.8	522.6	262.5	1,166.0	3,444.9
On balance sheet gap	327.8	(57.3)	1,152.5	(879.6)	543.4
Off balance sheet gap	281.4	18.9	(300.3)	(277.1)	(277.1)
Total interest sensitivity gap	609.2	(38.4)	852.2		
Cumulative interest sensitivity gap	609.2	570.8	1,423.0		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

36 INTEREST RATE RISK (continued)

	31 December 2023				
	Up to three months	Over three months up to one year	Over one year	Rate insensitive	Total
Cash and balances with central banks	412.7	-	-	137.2	549.9
Treasury bills	109.9	333.3	-	-	443.2
Deposits and amounts due from banks and other financial institutions	208.1	-	1.2	36.5	245.8
Loans and advances to customers	848.7	108.9	605.7	25.0	1,588.3
Investment securities	3.9	40.6	741.6	70.0	856.1
	<u>1,583.3</u>	<u>482.8</u>	<u>1,348.5</u>	<u>268.7</u>	<u>3,683.3</u>
Deposits and amounts due to banks and other financial institutions	335.7	30.6	-	39.9	406.2
Borrowings under repurchase agreement	257.4	2.8	66.7	-	326.9
Term borrowings	113.1	188.5	-	-	301.6
Customers' deposits	506.6	408.5	43.6	1,171.3	2,130.0
	<u>1,212.8</u>	<u>630.4</u>	<u>110.3</u>	<u>1,211.2</u>	<u>3,164.7</u>
On balance sheet gap	370.5	(147.6)	1,238.2	(942.5)	518.6
Off balance sheet gap	516.2	(24.9)	(491.3)	(371.0)	(371.0)
Total interest sensitivity gap	<u>886.7</u>	<u>(172.5)</u>	<u>746.9</u>		
Cumulative interest sensitivity gap	<u>886.7</u>	<u>714.2</u>	<u>1,461.1</u>		

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars. The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2024 Equivalent long (short)	2023 Equivalent long (short)
US Dollar	170.0	164.7
Euro	0.1	0.3
GCC currencies (excluding Kuwaiti Dinars)	17.0	15.4
Kuwaiti Dinars	(1.6)	7.0
Others	0.3	0.2

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US\$), positions in US\$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVTOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Trading Equities</i>		<i>% Change in Index</i>	<i>Effect on Equity</i>	
	2024	2023		2024	2023
Bahrain Bourse	11.4	11.6	± 15%	1.7	1.7
Other stock exchanges	32.3	26.1	± 15%	4.8	3.9
				6.5	5.6

39 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time buckets of the maturity ladder and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Head of Treasury, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

39 LIQUIDITY RISK (continued)

The tables below summarise the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

	31 December 2024									
	<i>On demand</i>	<i>Within 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>More than 20 years</i>	<i>Total</i>
Deposits and amounts due to										
banks and other financial institutions	48.9	167.8	113.1	12.9	39.1	4.3	-	-	-	386.1
Borrowings under repurchase agreement	-	1.3	2.9	95.6	109.4	168.7	-	-	-	377.9
Term borrowings	-	1.3	0.6	8.2	102.6	231.2	-	-	-	343.9
Customers' deposits	1,287.1	343.6	332.6	189.0	222.4	97.4	-	-	-	2,472.1
Total undiscounted financial liabilities	1,336.0	514.0	449.2	305.7	473.5	501.6	-	-	-	3,580.0
Letters of guarantee	286.4	-	-	-	-	-	-	-	-	286.4
Undrawn loan commitments	121.0	-	-	-	-	-	-	-	-	121.0
Derivative financial instruments										
Contractual amounts payable	-	(9.4)	(20.8)	(18.7)	(53.5)	(579.9)	(198.8)	(185.4)	-	(1,066.5)
Contractual amounts receivable	-	4.4	7.9	23.3	57.3	631.9	214.0	197.2	-	1,136.0
	-	(5.0)	(12.9)	4.6	3.8	52.0	15.2	11.8	-	69.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

39 LIQUIDITY RISK (continued)

	31 December 2023									
	On demand	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
Deposits and amounts due to										
banks and other financial institutions	81.0	238.6	60.0	17.9	14.8	1.8	-	-	-	414.1
Borrowings under repurchase agreement	-	38.7	3.5	6.8	62.3	251.6	-	-	-	362.9
Term borrowings	-	6.5	0.7	20.5	196.5	98.1	-	-	-	322.3
Customers' deposits	1,250.6	228.8	213.6	141.6	305.5	59.8	-	-	-	2,199.9
Total undiscounted financial liabilities	1,331.6	512.6	277.8	186.8	579.1	411.3	-	-	-	3,299.2
Letters of guarantee	251.4	-	-	-	-	-	-	-	-	251.4
Undrawn loan commitments	171.7	-	-	-	-	-	-	-	-	171.7
Derivative financial instruments										
Contractual amounts payable	-	(37.3)	(12.7)	(18.7)	(29.1)	(345.2)	(276.0)	(139.1)	(37.5)	(895.6)
Contractual amounts receivable	-	38.9	11.9	21.6	38.6	407.8	311.5	164.2	38.9	1,033.4
	-	1.6	(0.8)	2.9	9.5	62.6	35.5	25.1	1.4	137.8

40 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2024, there were legal cases pending against the Group aggregating to BD 1.1 million (2023: BD 1.4 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases. However, on a conservative basis, the Group has made a provision on the same of BD 0.9 million (2023: BD 0.2 million) or its best estimate as of the report date.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Operational Risk Department operates independently from other units of the Bank and reports to the GCRO. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank is steadfast in its pursuit of operational excellence, driven by a robust Business Continuity Management (BCM) framework. Aligned with the internationally recognized standard, ISO 22301, this framework ensures the resilience of the Bank's services by proactively mitigating unforeseen challenges. The BCM Department safeguards the Bank's ability to achieve its strategic objectives by implementing comprehensive crisis management strategies and robust business continuity plans. This ISO 22301 certification reflects the Bank's unwavering commitment to continuous improvement in its business continuity efforts.

The Bank's BCM framework is founded on a proactive and systematic approach, prioritizing Business Impact Analysis (BIA), Risk Assessment, and the development of robust Recovery Strategies and Comprehensive Plans. This framework empowers the Bank to achieve its strategic objectives while ensuring resilience in line with Business goals. A culture of continuous improvement, fostered through regular testing, training, and awareness campaigns, ensures preparedness across all levels. Seamlessly integrated across the Bank and its subsidiaries, our BCM practices deliver consistent services, reinforcing trust and confidence within the entire Group.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self-assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The significant inputs for valuation of equities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2024 and 2023:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2024				
Financial assets				
Bonds	666.3	9.5	-	675.8
Equities	43.7	-	30.0	73.7
Managed funds	-	1.0	-	1.0
Derivatives held for trading	-	0.5	-	0.5
Derivatives held as fair value hedges	-	39.9	-	39.9
	710.0	50.9	30.0	790.9
Financial liabilities				
Borrowing under repurchase agreement	-	35.0	-	35.0
Term borrowings	-	185.9	-	185.9
Derivatives held for trading	-	0.7	-	0.7
Derivatives held as fair value hedges	-	3.1	-	3.1
	-	224.7	-	224.7
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2023				
Financial assets				
Bonds	608.8	1.7	-	610.5
Equities	37.7	-	30.5	68.2
Managed funds	-	1.0	-	1.0
Derivatives held for trading	-	0.2	-	0.2
Derivatives held as fair value hedges	-	43.9	-	43.9
	646.5	46.8	30.5	723.8
Financial liabilities				
Borrowing under repurchase agreement	-	69.0	-	69.0
Derivatives held for trading	-	0.3	-	0.3
Derivatives held as fair value hedges	-	1.7	-	1.7
	-	71.0	-	71.0

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**Transfers between Level 1, Level 2 and Level 3**

During the years ended 31 December 2024 and 2023, there were no transfers into or out of Level 3 fair value measurements. Further, there was no significant movements with equity instruments classified under level 3.

The table below sets out the estimated carrying value and fair value of financial assets under level 1 carried at amortised cost where fair value is different from the carrying amount shown in the consolidated financial position:

	31 December 2024			31 December 2023		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Financial assets						
Investment securities	188.9	180.7	8.2	176.4	177.0	0.6

As at 31 December 2024 and 2023, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE - BASED PAYMENTS

In 2014, the Group adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the revised remuneration framework mandated by the CBB and is referred to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan

Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2024	2023
Expense arising from equity-settled share-based payment transactions	2.3	0.4
Shares vested during the year	(2.0)	(2.1)

42 SHARE - BASED PAYMENTS (continued)**Short-Term and Long-Term Shares Incentive Plan (continued)**

The movement in the number of shares in the Group's LTIP and STIP was as follows:

	<i>Number of shares</i>	
	2024	2023
Opening balance of shares granted but not vested	9,983,999	9,409,019
Equity shares transferred to trust	3,891,289	4,907,485
Shares released during the year to the participants	(4,021,288)	(4,332,505)
	<u>9,854,000</u>	<u>9,983,999</u>

The market price of the Bank's shares based on the price quoted in the Bahrain Bourse at 31 December 2024 was BD 0.482 (2023: BD 0.504) per share.

43 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Group is as follows:

	2024	2023
CET1 capital	614.5	611.3
Tier 2 capital	27.0	24.9
Total capital base (a)	641.5	636.2
Credit risk weighted exposure	2,156.4	1,995.9
Operational risk weighted exposure	249.1	227.7
Market risk weighted exposure	12.5	41.6
Total risk weighted exposure (b)	2,418.0	2,265.2
Capital adequacy (a/b*100) - %	26.5%	28.1%
Minimum requirement - %	14.0%	14.0%

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Group has adopted the Standardised Approach for Credit Risk, the Standardised Approach for Market Risk in all branches (effective 08 November 2024 for Kingdom of Bahrain and State of Kuwait Branches), and the Basic Indicator Approach for Operational Risk.

The Group has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO

The objective of the Net Stable Funding Ratio (NSFR) is to promote the resilience of banks' liquidity risk profile and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits over reliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module requirements, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2024 is 142.0% (31 December 2023: 137.6%).

The main drivers behind the Group's robust Available Stable Funds (ASF) are the solid capital base, sizeable retail and small business deposits portfolio, large portfolio of non-financial institutions deposits (related to government and corporate deposits), as well as medium term funding from borrowings under repurchase agreements and term borrowings. The capital base formed 22.3% (31 December 2023: 23.6%) of Group's ASF, while the retail and small business deposits formed 44.2% (31 December 2023: 45.9%) of the ASF (after applying the relevant weights).

For the Required Stable Funds (RSF), the primary reason for the relatively low RSF, in comparison to the ASF, is related to the sizeable portfolio of BBK's High Quality Liquid Assets (HQLAs) which accounts for 29.1% (31 December 2023: 26.7%) of total RSF (before applying the relevant weights).

In comparison to 31 December 2023 (NSFR of 137.6%), the NSFR ratio increased by 4.4% as the increase in the ASF was higher than the increase in the RSF. The robust increase in the ASF by BD 189.4 million is mainly due to the significant increase in core customer deposits, as well as the successful issuance of the 5-year Euro Medium Term Notes (EMTN) of BD 188.5 million during the year to replace the previous EMTN that matured in July 2024. On the other hand, the RSF increased by BD 73.2 million mainly due to the increase in the loans portfolio.

The consolidated NSFR calculated in accordance with the requirements of the CBB rulebook, for the Group is as follows:

	2024	2023
Total available stable funding	2,919.0	2,729.6
Total required stable funding	2,056.3	1,983.1
Group's consolidated NSFR	142.0%	137.6%
Minimum NSFR requirement	100.0%	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

44 NET STABLE FUNDING RATIO (continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
	No		More than		
Item	specified	Less than	6 months	Over	Total
	maturity	6 months	and less than	one year	weighted
			one year		value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	623.3	-	-	27.0	650.3
Retail deposits and deposits from small business customers:					
Stable deposits	-	473.5	9.6	0.6	459.4
Less stable deposits	-	759.7	123.9	36.6	831.8
Wholesale funding:					
Other wholesale funding	-	1,326.0	304.4	410.8	977.5
Other liabilities:					
All other liabilities not included in the above categories	-	122.1	-	-	-
Total ASF	623.3	2,681.3	437.9	475.0	2,919.0
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)					
	-	-	-	-	225.9
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions					
	-	214.8	8.6	100.0	136.5
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:					
	-	424.5	93.0	898.9	1,022.8
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines					
	-	16.9	8.8	194.1	139.0
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
	-	29.7	47.1	198.9	224.6
Other assets:					
NSFR derivative assets	-	31.9	-	-	31.9
NSFR derivative liabilities before deduction of variation margin posted	-	0.1	-	-	0.1
All other assets not included in the above categories	226.9	-	-	-	226.9
Off-balance sheet items	-	971.3	-	-	48.6
Total RSF	226.9	1,689.2	157.5	1,391.9	2,056.3
NSFR (%)					142.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

44 NET STABLE FUNDING RATIO (continued)

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

	Unweighted Values (i.e. before applying relevant factors)				
	No		More than		Total
Item	specified	Less than	6 months	Over	weighted
	maturity	6 months	and less than	one year	value
			one year		
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	620.3	-	-	24.9	645.2
Retail deposits and deposits from small business customers:					
Stable deposits	-	469.3	9.6	0.9	455.9
Less stable deposits	-	714.9	135.3	32.5	797.7
Wholesale funding:					
Other wholesale funding	-	1,086.6	380.6	334.9	830.8
Other liabilities:					
All other liabilities not included in the above categories	-	121.0	-	-	-
Total ASF	620.3	2,391.8	525.5	393.2	2,729.6
<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	287.9
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	292.8	14.2	37.5	88.5
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	326.4	71.4	837.3	910.6
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	19.8	5.1	251.0	175.6
Securities that are not in default and do not qualify as HQLA, including exchange- traded equities	-	24.8	35.2	188.4	208.0
Other assets:					
NSFR derivative assets	-	40.6	-	-	40.6
NSFR derivative liabilities before deduction of variation margin posted	-	0.1	-	-	0.1
All other assets not included in the above categories	220.7	-	-	-	220.7
Off-balance sheet items	-	1,021.9	-	-	51.1
Total RSF	220.7	1,726.4	125.9	1,314.2	1,983.1
NSFR (%)					137.6%

45 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible "natural persons" (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution, as mandated by CBB, is paid by the Bank under this scheme.

46 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employees of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that the total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2024, the total contribution fund including the earned income stands at BD 24.4 million (2023: BD 22.8 million). Out of the total fund amount, payment of the principal amount equal to BD 19.1 million (2023: BD 18.5 million) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 13.5 million (2023: BD 10.0 million) is the exposure to Bahrain and GCC sovereigns. The charge to the consolidated statement of income on account of staff saving scheme for the year amounted BD 1.4 million (2023: BD 1.2 million).

The Bank is in process of moving the fund of the Staff Saving Scheme into a Trust governed by the Trust Law of Bahrain. The Bank will continue to be involved in investment decisions related to the fund within the scope of the Employee Saving Scheme Investment Committee.

47 FIDUCIARY ASSETS

Funds under management as at 31 December 2024 amounted to BD 202.6 million (2023: BD 169.0 million). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position. The total market value of all such funds at 31 December 2024 was BD 209.1 million (2023: BD 172.2 million).

48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

	<i>Designated as at FVTPL</i>	<i>FVTOCI – debt instruments</i>	<i>FVTOCI – equity instruments</i>	<i>Amortised cost</i>	<i>Total</i>
31 December 2024					
Cash and balances with central banks	-	-	-	687.7	687.7
Treasury bills	-	-	-	399.2	399.2
Deposits and amounts due from banks and other financial institutions	-	-	-	167.9	167.9
Loans and advances to customers	-	-	-	1,794.1	1,794.1
Investment securities	1.0	675.9	73.7	188.8	939.4
Interest receivable, derivative and other assets	-	-	-	96.9	96.9
Total assets	1.0	675.9	73.7	3,334.6	4,085.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2024

All figures in BD millions

48 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2024	Designated as at FVTPL	FVTOCI – debt instruments	FVTOCI – equity instruments	Amortised cost	Total
Deposits and amounts due to banks and other financial institutions	-	-	-	375.5	375.5
Borrowings under repurchase agreements	-	-	-	351.6	351.6
Term borrowings	-	-	-	306.5	306.5
Customers' deposits	-	-	-	2,411.3	2,411.3
Interest payable, derivative and other liabilities	-	-	-	85.2	85.2
Total liabilities	-	-	-	3,530.1	3,530.1
31 December 2023	Designated as at FVTPL	FVTOCI – debt instruments	FVTOCI – equity instruments	Amortised cost	Total
Cash and balances with central banks	-	-	-	549.9	549.9
Treasury bills	-	-	-	443.2	443.2
Deposits and amounts due from banks and other financial institutions	-	-	-	245.8	245.8
Loans and advances to customers	-	-	-	1,588.3	1,588.3
Investment securities	1.0	610.5	68.2	176.4	856.1
Interest receivable, derivative and other assets	-	-	-	108.9	108.9
Total assets	1.0	610.5	68.2	3,112.5	3,792.2
Deposits and amounts due to banks and other financial institutions	-	-	-	406.2	406.2
Borrowings under repurchase agreemen	-	-	-	326.9	326.9
Term borrowings	-	-	-	301.6	301.6
Customers' deposits	-	-	-	2,130.0	2,130.0
Interest payable, derivative and other liabilities	-	-	-	88.0	88.0
Total liabilities	-	-	-	3,252.7	3,252.7

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2023 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications did not affect previously reported net profit, total assets, total liabilities or total equity of the Group.

50 PROPOSED TRANSACTION WITH NATIONAL BANK OF BAHRAIN B.S.C.

As at 31 December 2024, the Bank continues to progress its discussions and negotiations on the potential merger with National Bank of Bahrain B.S.C.

51 SUBSEQUENT EVENT

Subsequent to the year ended 31 December 2024, the Bank has entered into a binding agreement to acquire retail banking operations of HSBC Bank Middle East, Bahrain Branch ("HSBC Bahrain"). This acquisition includes the transfer of all retail loans, deposits and accounts of HSBC Bahrain customers' and is expected to be completed in second half of 2025. The transaction is subject to the approval of Central Bank of Bahrain and other legal and regulatory formalities.