

Kuwait Finance House (Bahrain) B.S.C.(c) Public Disclosure

30 June 2023



Table of Contents

- 1 Group Structure**
- 2 Capital Adequacy**
 - 2.1 Quantitative Disclosures
- 3 Risk Management**
 - 3.1 Credit Risk
 - 3.2 Market Risk
 - 3.3 Operational Risk
 - 3.4 Equity Positions in the Banking Book
 - 3.5 Equity of Investment Account Holders (URIA)
 - 3.6 Restricted Investment Accounts (“RIA”)
 - 3.7 Liquidity Risk
 - 3.8 Profit Rate Risk
 - 3.9 Financial Performance and Position
 - 3.10 Related Party Balances and Transactions



1 Group Structure {PD-1.3.6(a)}

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (“CBB”) requirements outlined in its Public Disclosure Module (“PD”), Section PD–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Kuwait Finance House (Bahrain) B.S.C. (c) (“KFH Bahrain” or “the Bank”) being a locally incorporated Bank with an Islamic retail banking license and its subsidiaries, together known as (“the Group”). All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2023 is as follows:

Name	Number of shares	Nominal Value	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,325,169,276	132,516,928	99.999%	Kuwaiti
Khalid Mohammed Al-Maarafi *	17,714	1,771	0.001%	Bahraini
Total	1,325,186,990	132,518,699	100.00%	

The above shareholding structure is consistent with the prior year.

The Board of Directors (the “Board”) at KFH Bahrain seeks to optimise the Group’s performance by enabling the business units to realise the Group’s business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the risk policy framework.

* It was resolved, in the extraordinary general meeting of the shareholders, that the entire shareholding of Khalid Mohammed Al-Maarafi will be transferred to a new shareholder subject to the finalization of the relevant legal formalities.

2 Capital Adequacy {PD-1.3.11, PD-1.3.16}

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

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

Regulatory capital consists of Tier 1 capital (core capital) and Additional Tier 1 and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, statutory reserve, general reserve, retained earnings (including current year's profit), foreign currency translation reserve, unrealised net gains arising from fair valuing equities and minority interest less goodwill. Additional Tier 1 and Tier 2 capital include general financing loss provisions and asset revaluation reserves. Certain adjustments are made to the financial results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1.

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy, the Group follows the Standardised Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, profit rate risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank does not consolidate any of its subsidiaries.

Investment in unconsolidated subsidiaries are risk weighted as per the requirement of CA Module.

All transfer of funds within the Group is only carried out after proper approval process.



The following is the key subsidiaries that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

S.No.	Name of the entity	Total assets (BD '000)	Total equity (BD '000)	Principal activities
1	Kuwait Finance House - Jordan	18,190	18,165	The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.



2.1 Quantitative Disclosures

Table – 1. Capital Structure

Amount in BD '000

CAPITAL STRUCTURE	
Capital Structure (PD-1.3.11,1.3.12, 1.3.13,1.3.14, 1.3.15) *	
Components of Capital	
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	132,519
Statutory reserve	30,405
Retained earnings	-
Accumulated other comprehensive income and losses (and other reserves)	14,850
Total CET1 capital prior to regulatory adjustments	177,774
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	(842)
Total Common Equity Tier 1 capital after the regulatory adjustments above	176,932
Other Capital (AT1 & T 2):	
General financing loss provisions	6,446
Total Available AT1 & T2 Capital	6,446
Total Capital	183,378

* For the purposes of guidance we have cross referenced every table with the relevant section of the CBB's Public Disclosures Module.



Table – 2. Capital Requirement by Type of Islamic Financing Contract. Amount in BD '000

CAPITAL ADEQUACY	
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts	
Type of Islamic Financing Contracts	Capital Requirement
Murabaha and Wakala contracts with Banks	256
Investments in sukuk	475
Financing contracts with customers	
-Murabaha	45,106
-Ijarah	8,340
Total	54,177

Table – 3. Capital Requirement for Market and Operational Risk Amount in BD '000

CAPITAL ADEQUACY			
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)			
Particulars	Risk Weighted Assets		Capital Requirement
Market Risk - Standardised Approach		22,885	2,861
Operational Risk - Basic indicator approach		126,823	15,853

Table – 4. Capital Ratios Amount in BD '000

CAPITAL ADEQUACY				
Capital Adequacy Ratios (PD-1.3.20)				
Particulars	Total Capital Ratio		Tier 1 Capital Ratio	
		%		%
Consolidated Ratios		27.6%		26.6%



Table – 5. Three Step Approach to Reconciliation (Appendix PD - 2)

(PD-A.2.10, A.2.10A,)	Balance Sheet as Published in Financial Statements	Consolidated PIRI Data	Reference - Common Disclosure Template for Capital
	As at Period End	As at Period End	
	(BD '000)	(BD '000)	
Assets			
Cash and balances with banks and Central Bank of Bahrain	99,670	99,671	
Due from banks	18,471	18,622	
Financing contracts	1,015,026	1,030,432	
Investments in equity	3,405	3,405	
Investment Properties	-	21,957	
Investment in sukuk	280,588	280,598	
Receivables and other assets	121,408	99,465	
Premises, equipment and right of use assets	3,142	3,142	
- of which other intangibles	-	842	9
Total assets	1,541,710	1,557,292	
Liabilities			
Customers' current accounts	121,174	121,174	
Due to banks	38,967	38,967	
Due to non-banks	85,102	85,102	
Other liabilities	23,576	23,552	
Equity of Investment Account Holders	1,103,647	1,103,647	
Total liabilities	1,372,466	1,372,442	
Shareholders' Equity			
Share capital *	132,519	132,519	1
Retained earnings and unrealized gains *	6,320	-	2, 3
Other reserves *	30,405	36,725	2, 3
Expected Credit Losses (ECL) Stages 1 & 2	-	15,606	
- of which cap on inclusion of provision in Tier 2	-	6,446	50, 77
Total Shareholders' Equity	169,244	184,850	

* These amounts are eligible for CET1

Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3)

S.No.	Description	Tier 1
1	Issuer	Kuwait Finance House (Bahrain) B.S.C. (c)
2	Unique identifier (e.g. CUSP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	1. Central Bank of Bahrain; and 2. Ministry of Industry, Commerce and Tourism
<i>Regulatory treatment</i>		
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Paid Up Capital, Reserves and Retained Earning
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 176,932 (thousands)
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	January-02
12	Perpetual or date	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Based on the performance of the Bank and approval of the AGM.
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non - Cumulative



Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3) (Continued)

S.No.	Description	Tier 1
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	No
32	If write-down, full or partial	No
33	If write-down, permanent or temporary	No
34	If temporary write-down, description of write-up mechanism	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual Claim. All Liabilities (including Tier 2 instrument) and Equity of Investment Account Holders are senior to this instrument. Equity of Investment Account holders are senior to Common Equity Tier 1 in cases where the Bank is proven to be negligent to the Equity of Investment Account holders' rights. In other circumstances, Equity of Investment Account holders are pari-passu with Common Equity Tier 1. this is all subject to the actual application of relevant laws upon residual claim being made.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Table – 7. Capital disclosures (Appendix PD - 1)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
1	Directly issued qualifying common share capital plus related stock surplus	132,519
2	Retained earnings including current period profits	6,320
3	Accumulated other comprehensive income (and other reserves)	38,935
4	<i>Not applicable</i>	
6	Common Equity Tier 1 Capital Before Regulatory Adjustments	177,774
Common Equity Tier 1 Capital: Regulatory Adjustments		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	842
28	Total Regulatory Adjustments to Common Equity Tier 1	842
29	Common Equity Tier 1 Capital (CET1)	176,931
Additional Tier 1 Capital: Instruments		
36	Additional Tier 1 Capital Before Regulatory Adjustments	-

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
Additional Tier 1 Capital: Regulatory Adjustments		
43	Total Regulatory Adjustments to Additional Tier 1 Capital	-
44	Additional Tier 1 Capital (AT1)	-
45	Tier 1 Capital (T1 = CET1 + AT1)	176,931
Tier 2 Capital: Instruments and Provisions		
50	Provisions	6,446
51	Tier 2 Capital Before Regulatory Adjustments	6,446
Tier 2 Capital: Regulatory Adjustments		
58	Tier 2 Capital (T2)	6,446
59	Total Capital (TC = T1 + T2)	183,377
60	Total Risk Weighted Assets	665,420
Capital Ratios and Buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	26.59%
62	Tier 1 (as a percentage of risk weighted assets)	26.59%
63	Total capital (as a percentage of risk weighted assets)	27.56%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	N/A
67	of which: D-SIB buffer requirement	N/A
68	(Common Equity Tier 1 available to meet buffers [as a percentage of risk weighted assets] Note 61 less note 65 less 6.5% (minimum CET1 requirement without buffer))	17.59%

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
National Minima Including CCB (Where Different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9%
70	CBB Tier 1 minimum ratio	10.50%
71	CBB total capital minimum ratio	12.50%
Amounts Below the Thresholds for Deduction (Before Risk Weighting)		
72	Non-significant investments in the capital of other financials	1,030
Applicable Caps on the Inclusion of Provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,606
77	Cap on inclusion of provisions in Tier 2 under standardised approach	6,446



3 Risk Management

3.1 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing, trade finance and treasury activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage on real estate properties or other tangible securities.

3.1.1 Highly Leveraged and Other High Risk Counterparties

The Bank defines “Highly Leveraged Institutions” in line with the definitions of Basel in its papers detailed “Review of issues relating to Highly Leveraged Institutions (HLIs)”, “Sound Practices for Banks’ Interactions with Highly Leveraged Institutions”, “Banks’ Interactions with Highly Leveraged Institutions” as follows:

- Large financial institutions
- Are subject to little or no regulatory oversight.
- Are generally subject to very limited disclosure requirements and are not subject to rating by credit reference agencies.
- Take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and capital.

The Bank will not provide financing facilities to HLIs. On a case by case basis, if required, all financing deals to HLIs will be approved by the board of directors.

3.1.2 Displaced Commercial Risk (DCR)

DCR refers to the market pressure to pay returns to Unrestricted Investment Account (URIA) holders that exceeds the rate that has been earned on the assets financed by the URIA, when the return on assets is under performing as compared with competitor’s rates.

The Bank manages DCR through the Profit Sharing Investment Account (PSIA) policy approved by the Board according to which the Bank can forego its mudarib share to manage DCR for Mudarabah based PSIA. The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Group does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders.

3.1.2 Quantitative disclosures

Table – 8. Average and Gross Credit Risk Exposure

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
Portfolios	Self-Financed		Financed by Unrestricted Investment Accounts	
	* Total Gross Credit Exposure	** Average Gross Credit Exposure Over the Period	* Total Gross Credit Exposure	** Average Gross Credit Exposure Over the Period
Funded				
Balances with central banks	9,457	8,985	67,072	61,418
Due from banks	7,854	8,756	23,864	25,564
Financing contracts***	218,075	209,521	812,357	819,201
Investment in sukuk	88,279	88,613	192,319	194,185
Receivables and other assets	67,459	67,534	-	-
Total	391,124	383,409	1,095,612	1,100,368
Un-funded				
Contingent liabilities and commitments	38,023	37,836	-	-
Grand Total	429,147	421,245	1,095,612	1,100,368

* Gross credit exposure is reflected net of stage 3 expected credit loss (ECL) and gross of stage 1 and 2 expected credit loss (ECL).

** Average credit exposure has been calculated using quarterly consolidated financial statements and PIRI forms submitted to the CBB.

*** Financing contracts include Musharka contracts which are all self financed.



Table – 9. Portfolio Geographic Breakdown.

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Geographic Breakdown (PD-1.3.23(b))										
Portfolios	Self-Financed Geographic Area					Financed by Unrestricted Investment Accounts Geographic Area				
	Bahrain	Other GCC	North America	Other countries	Total	Bahrain	Other GCC	North America	Other countries	Total
Funded										
Balances with central banks	9,457	-	-	-	9,457	67,072	-	-	-	67,072
Due from banks	4,614	1,368	1,611	261	7,854	14,020	4,156	4,895	793	23,864
Financing contracts	213,660	4,416	-	-	218,076	795,908	16,449	-	-	812,357
Investment in sukuk	88,279	-	-	-	88,279	192,319	-	-	-	192,319
Receivables and other assets	1,639	65,820	-	-	67,459	-	-	-	-	-
Total	317,649	71,604	1,611	261	391,125	1,069,319	20,605	4,895	793	1,095,612
Un-funded										
Contingent liabilities and commitments	38,023	-	-	-	38,023	-	-	-	-	-
Grand Total	355,672	71,604	1,611	261	429,148	1,069,319	20,605	4,895	793	1,095,612

Note: The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.



Table – 10. Industrial Sector Breakdown by Portfolio

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Industry Sector Breakdown (PD-1.3.23(c))										
Portfolios	Self-Financed Industry Sector					Financed by Unrestricted Investment Accounts Industry sector				
	Trading and Manufacturing	Banking and Financial	Construction and Real Estate	Others	Total	Trading and Manufacturing	Banking and Financial	Construction and Real Estate	Others	Total
Funded										
Balances with central banks	-	9,457	-	-	9,457	-	67,072	-	-	67,072
Due from banks	-	7,854	-	-	7,854	-	23,864	-	-	23,864
Financing contracts	22,066	5,414	106,439	84,156	218,075	82,199	20,169	396,500	313,489	812,357
Investment in sukuk	-	84,481	3,798	-	88,279	-	192,319	-	-	192,319
Receivables and other assets	-	64,595	2,120	744	67,459	-	-	-	-	-
Total	22,066	171,801	112,357	84,900	391,124	82,199	303,424	396,500	313,489	1,095,612
Un-funded										
Contingent liabilities and commitments	1,195	-	1,059	35,768	38,022	-	-	-	-	-
Grand Total	23,261	171,801	113,416	120,667	429,146	82,199	303,424	396,500	313,489	1,095,612



Table – 11. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	Self-Financed	Financed by Unrestricted Investment Accounts
	Concentration of Risk	Concentration of Risk
Counterparty # 1	7.25%	12.57%

Restructured Islamic Financing Contracts {PD-1.3.23(j)}

The outstanding amount of financing contracts with customers for which financing terms have been restructured during the period and one year has not elapsed amounted to BD 30,547 thousand (2022: BD 38,872 thousand) and these are secured with collateral amounting to BD 57,080 thousand (2022: BD 72,657 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

The restructuring does not have any significant impact on impairment provisions and present and future earnings of the Group as most of the exposures are sufficiently collateralised and restructuring is based on the market terms. The concession provided to the restructured relationships mainly relates to the extension of the repayment dates.

Foreclosed Assets

The Group has implemented a policy to deal with foreclosed assets which prescribes the procedure to be followed by business units when foreclosing assets as deemed necessary. The policy provides for the recording of foreclosed assets in the Bank's books and their management, including sale or rental.



Table – 12. Maturity Breakdown of Credit Exposures

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	Self Financed						Total
	Maturity Breakdown						
	Up to 3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	9,457	-	-	-	-	-	9,457
Due from banks	7,854	-	-	-	-	-	7,854
Financing contracts	41,897	34,704	52,068	44,779	37,719	6,907	218,075
Investment in sukuk	1,150	3,798	71,617	11,714	-	-	88,279
Receivables and other assets	3,152	995	63,312	-	-	-	67,459
Total	63,511	39,497	186,997	56,493	37,719	6,907	391,124
Contingent liabilities and commitments	-	36,964	1,059	-	-	-	38,023
Grand Total	63,511	76,461	188,056	56,493	37,719	6,907	429,147

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	Financed by Unrestricted Investment Accounts						Total
	Maturity breakdown						
	Up to 3 Months	3-12 Month	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	67,072	-	-	-	-	-	67,072
Due from banks	23,864	-	-	-	-	-	23,864
Financing contracts	156,077	129,280	193,966	166,814	140,513	25,707	812,357
Investment in sukuk	2,063	-	169,249	21,007	-	-	192,319
Grand Total	249,076	129,280	363,215	187,821	140,513	25,707	1,095,611



Table – 13. Break-up of Impaired Finances, Past Due Finances and Allowances by Industry Sector

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES														
Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))														
Industry Sector	Total Portfolio	Stage 1	Stage 2	Self-Financed				Stage 3 expected credit losses				Stage 1 & 2 expected credit losses		
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of period	Transferred to other stages	Transferred from other stages	Net remeasurement		Recoveries & write offs during the period	Balance at the End of period
Trading and manufacturing	22,066	15,905	6,102	59	30	-	29	15	(1)	3	32	(1)	49	231
Banking and financial institutions	5,414	5,414	-	-	-	-	-	(0)	-	-	-	-	(0)	-
Construction & real estate	106,436	92,074	11,533	2,829	1,445	10	1,374	242	(7)	24	178	(4)	433	1,528
Others	84,156	72,475	11,611	70	36	-	34	66	(1)	4	2	(0)	70	1,502
Total	218,072	185,868	29,246	2,958	1,511	10	1,437	324	(9)	31	211	(5)	553	3,261

Past due finances are stated net of stage 3 expected credit losses.

Amount in BD '000

Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))														
Financed by Unrestricted Investment Accounts														
Industry Sector	Total Portfolio	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses				Stage 1 & 2 expected credit losses		
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of period	Transferred to other stages	Transferred from other stages	Net remeasurement		Recoveries & write offs during the period	Balance at the End of period
Trading and manufacturing	82,200	59,250	22,730	220	112	1	107	61	(3)	10	119	(2)	186	861
Banking and financial institutions	20,169	20,169	-	-	-	-	-	0	-	-	-	-	0	-
Construction & real estate	396,499	342,983	42,962	10,554	5,391	41	5,122	935	(26)	90	663	(17)	1,645	5,692
Others	313,490	269,980	43,252	258	132	1	125	261	(4)	15	7	(4)	276	5,594
Total	812,358	692,382	108,944	11,032	5,635	43	5,354	1,257	(33)	115	789	(22)	2,107	12,147

Past due finances are stated net of stage 3 expected credit losses.



Table –16. Counter Party Credit Risk

Amount in BD '000

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)**General Disclosures (PD-1.3.26 (b))**

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha	386,255	-	386,255	-	54,825	-	-	54,825
Ijarah	644,177	-	644,177	275,624	-	-	63,670	339,294
Total	1,030,432	-	1,030,432	275,624	54,825	-	63,670	394,119

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.



3.2 Market Risk

3.2.1 Introduction

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the Group's income or the value of its portfolios. The Group is also exposed to profit rate and potential foreign exchange risks arising from financial assets and liabilities.

The Board has approved the overall market risk appetite in terms of market risk strategy and market risk limits. RMD is responsible for the market risk control framework and sets a limit framework within the context of the approved market risk appetite. The Bank separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include all other positions that are not included in the trading book.

Daily market risk reports are produced for the Bank's senior management covering the different risk categories. These reports are discussed with the senior management committees such as ALCO/Risk Management Committee which take appropriate action to mitigate the risk.

3.2.2 Market Risk Factors

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit Rate Risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on FX Value At Risk (VAR) . Positions are monitored on a daily basis to ensure risk is maintained within established limits using VaR methodology.

Equity Risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

Commodity Price Risk is the risk that arises as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors. The Group is not exposed to material commodity price risk.



3.3 Operational Risk

3.3.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks to an acceptable level. Controls include but are not limited to effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, and the internal audit process.

The Board acknowledges that it has the ultimate responsibility for operational risk. Oversight rests with the BRC Committee. The Board has approved the operational risk framework in terms of strategy, policy and limits. The Bank has implemented Risk Controls and Self-Assessment (RCSA) and departments report the incidents and Key Risk Indicators (KRIs) values to the operational risk unit for monitoring and reporting the key operational risks in the Bank.



3.3.2 Quantitative disclosures

Table –18. Indicators of Operational Risk

Amount in BD '000

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b))	
Particulars	Total
Gross Income (average)	67,639
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial year	-

Legal cases resulting from normal course of business are handled by the Bank's in-house legal team and external legal consultants are also consulted on such matters, as and when required.

Any non-Shari'a compliant earnings are given away as charity.



3.4 Equity Positions in the Banking Book (PD-1.3.31(a))

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements. All of the Group's investments are intended to be for long term holdings.

3.4.1 Quantitative disclosures

Table – 19. Total and Average Gross Exposures

Amount in BD '000

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total and Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type and Nature of Investment	Total Gross Exposure	* Average Gross Exposure	** Publicly Traded	Privately held
Equity investments	31,825	31,840	-	31,825
Musharaka	16	16	-	16
Total	31,841	31,856	-	31,841

* Average exposure has been calculated using quarterly consolidated financial statements or PIRI forms submitted to CBB.

** This includes publically listed equities classified as available for sale in the financial statements.



3.5 Equity of Investment Account Holders (URIA) {PD-1.3.32}

The Investment Account Holder ("IAH") authorizes the Bank to invest the account holder's funds (URIA) on the basis of Mudaraba and Wakala contracts in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner's equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of URIA Mudaraba/Wakala contract). The IAH and the Bank participate in the returns on the invested funds. The funds received under the wakala arrangement

The Bank has developed a Profit Sharing Investment Accounts (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are:

- Investment in Shari'a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders' funds are invested in due from banks, Sukuks and the financing portfolio. The Bank invests these funds through various departments including Treasury, corporate, consumer, and capital markets. The experience of relevant department heads is mentioned in Section 4. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after setting aside amount for mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari'a requirements. Income generated and losses arising (including provisions) from the invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total pool assets of the Bank. The process has not changed significantly from the past years. The amount of administrative expenses charged to URIA are provided in table 34.

IAH's can request the Bank to withdraw funds before the maturity of the URIA contract however, such arrangement are subject to the approval of the Bank.

The mudarib share on investment accounts ranges from 30% to 85% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 85% to 95%. However, during the year, in addition to investors' share of profit, the Bank has distributed profit to investors from its own share of mudarib share. The ranges of Mudarib share are provided in table 31. The Bank also did not charge any Wakala agency fees to URIA-Wakala.

The Bank has a Corporate Communications Department which is responsible for communicating new and/or extended product information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. The URIA products available to the customers can be classified broadly under two categories, 1) Term URIA and 2) Saving URIA. Term URIA are fixed term URIA having maturity of 1, 3, 6, 9, 12, 24, 36 and 60 months whereas Saving URIA can be withdrawn on demand. Detailed information about the features of various products offered by the Bank can be obtained from the website of the Bank, brochures at the branches, call center and customer service representatives at the branches of the Bank. Branches of the Bank are the primary channel through which products are made available to the customers.

3.5 Equity of Investment Account Holders (URIA) (continued)

Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by investment account holders.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors. The bank may also forgo part of its shareholder's returns as a "hiba" to URIA holders in order to mitigate DCR.

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on the pool of assets. Based on the results of URIA, allocation will take place to the URIA holders affected by the following factors including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmarks (LIBOR etc). The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Bank does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders. In order to ensure smooth returns and to mitigate the potential withdrawal of funds by URIA Investors; the Bank can use Profit Equalisation Reserve (PER). Similarly, the Bank can use an Investment Risk Reserve (IRR) to cater against future losses for URIA holders. The amount of PER and IRR as at 30 June 2023 and 31 December 2022 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.

Deposits and URIA held with the Bank are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No.(34) of 2010.



3.5.1 Quantitative Disclosures

Table – 22. Break-up of URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (a),(e) &(g))			
	Amount	Financing to Total URIA %	Ratio of Profit Distributed
Savings URIA	267,066	24%	5%
Term URIA	836,581	76%	95%
Total	1,103,647	100%	100%

Table – 23. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (d))	
	Percentage
Average profit paid on average URIA assets	3.42%
Average profit earned on average URIA assets	5.15%

Table – 24. Percentage of Mudarib share to Total URIA Profits

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (f))			
	URIA Return Before Mudarib share	Share of Profit Paid to Bank as Mudarib	Percentage
Mudarib share to total URIA Mudaraba profits	4,349	3,842	88.35%

Table – 25. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	Financing	Financing to Total URIA %
Cash and balances with banks	75,107	6.81%
Murabaha and due from banks	23,864	2.16%
Investments at amortised cost – Sukuk	192,319	17.43%
Customer Murabaha	304,510	27.58%
Customer Ijarah Muntahia Bittamleek	507,847	46.02%
Total	1,103,647	100.00%



Table – 26. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	Financing	Financing to Total URIA %
Cash items	8,036	0.73%
Claims on sovereigns & MDBs	192,319	17.43%
Claims on banks	90,936	8.24%
Claims on corporate	315,024	28.54%
Regulatory retail portfolio	81,569	7.39%
Real Estate financing	405,161	36.71%
Past due facilities	10,554	0.96%
Others	47	0.00%
Total	1,103,647	100.00%

Table – 27. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:								
Unrestricted Investment Account (PD-1.3.33 (l) (m) & (n))								
						Share of Profit Paid to IAH Before Transfer To/From Reserves %	Share of Profit Paid to IAH After Transfer To/From Reserves %	Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %
URIA						11.65%	11.65%	88.35%

Table – 28. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:								
Unrestricted Investment Account (PD-1.3.33 (q))								
Declared rate of return for Investments accounts	1-Month	3-Month	6-Month	9 - Months	12-Month	2-Years	3-Years	5-Years
BHD denominated	1.26% - 4%	1.58% - 5.2%	1.89% - 5.6%	5% - 5.6%	2.21% - 5.7%	5.1% - 5.7%	5.1% - 5.7%	5.1% - 5.7%
USD denominated	0.95% - 3.89%	1.26% - 4.27%	1.58% - 4.64%	4.64%	1.89% - 4.98%	NA	NA	NA
GBP denominated	0.4% - 0.52%	0.55% - 1.04%	0.7% - 1.39%	0.8%	0.9% - 1.74%	NA	NA	NA
EUR denominated	0.2% - 0.52%	0.3% - 1.04%	0.4% - 1.39%	0.45%	0.5% - 1.74%	NA	NA	NA



Table – 29. Movement of URIA by Type of Assets

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r) & (s))			
Type of Assets	Closing Actual Allocation as at 31 Dec 2022	Net Movement During the Period	Closing Actual Allocation as at 30 Jun 2023
Cash and Balance with banks and CBB	60,842	14,265	75,107
Due from banks	32,166	(8,301)	23,864
Investment in sukuk	196,038	(3,719)	192,319
Murabaha due from customers	312,493	(7,982)	304,510
Ijarah Muntahia Bittamleek due from customers	494,901	12,945	507,847
Total	1,096,440	7,207	1,103,647

Note: There are no limits imposed on the amount that can be invested by URIA funds in any one asset. However, the Bank monitors its URIA deployment classifications so that to ensure that URIA funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate). The Bank also does not allocate URIA funds to the equity investments in the trading book.

Table – 30. Capital Charge on URIA by Type of Claims

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (v))			
Type of Claims	Exposures	* Risk Weighted Assets	Capital Charge
Cash items	8,036	-	-
Claims on sovereign	192,319	-	-
Claims on banks	90,936	4,426	166
Claims on corporate	315,024	177,623	6,661
Regulatory retail portfolio	81,569	61,177	2,294
Mortgages	405,161	139,697	5,239
Past due facilities	10,554	13,314	499
Other assets	47	47	2
Total	1,103,647	396,285	14,861

* The RWA for Capital Adequacy Ratio Purposes is presented above prior to the application of the CBB approved 30% alpha factor which is the proportion of assets funded by URIA for RWA purposes in accordance to the CA module.



Table – 31. Percentage of Profit Earned and Profit Paid to Total Mudaraba

Amount in BD '000

DISPLACED COMMERCIAL RISK - URIA: Mudaraba only			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b))			
	Total Mudaraba profits available for sharing between URIA and shareholders as Mudarib	Contractual Range of Mudharib Share	Mudharib Share % of URIA Mudaraba Profit Earned
June 2023	3.36%	30%-95%	88.35%
2022	3.11%	30%-95%	35.76%
2021	3.34%	30%-95%	53.29%
2020	3.78%	30%-95%	42.82%
2019	6.02%	30%-95%	38.30%

Table –32. Percentage rate of return to URIA and shareholders from Mudaraba Profit

Amount in BD '000

DISPLACED COMMERCIAL RISK - URIA: Mudaraba only			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))			
Type of Claims			Mudaraba Profit Earned as % of mudaraba funds (before admin charge)
June 2023			5.65%
2022			5.92%
2021			3.53%
2020			3.67%
2019			4.94%



Table – 33. Percentage of Profit Earned and Profit Paid to Total URIA Funds

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w))					
	* URIA Funds (Average)	Profit Earned (net of admin charges)	Profit Earned as a percentage of funds invested	Profit paid	Profit paid as a percentage of funds invested (after smoothing)
June 2023	1,095,099	18,896	3.45%	18,713	3.42%
2022	1,146,595	36,329	3.17%	23,298	2.03%
2021	1,048,535	34,982	3.34%	17,575	1.68%
2020	957,170	41,226	4.31%	19,221	2.01%
2019	597,206	23,205	3.89%	13,457	2.25%

* Average assets funded by URIA have been calculated using consolidated management accounts.

Table – 34. Operating Expenses Allocated to URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	Amount
Amount of administrative expenses charged to URIA	9,324



3.6 Restricted Investment Accounts (“RIA”)

Under RIA, the IAH has authorized the Bank to invest the funds on the basis of Mudaraba contract for investments, but imposes certain restrictions as to where, how and for what purpose this funds are to be invested. Further, the Bank may be restricted from commingling its own funds with the RIA funds for the purposes of investment. In addition, there may be other restrictions which IAHs may impose. RIA funds are invested and managed in accordance with Shari’a requirements. The funds are managed by the Bank under a fiduciary capacity as per the instructions of the RIA holders and accordingly the Bank is not liable to make good any losses occurred due to normal commercial reasons.

The Bank has developed the PSIA policy, approved by the Board, which details the manner in which the RIA funds are deployed and the way the profits are calculated for the RIA.

The Bank as fund manager (mudarib) carries out its fiduciary duties and administers the scheme in a proper, diligent and efficient manner, in accordance with the Shari’a principles and applicable laws and relevant rules and guidelines issued by the CBB.

The Bank has appropriate procedures and controls in place which commensurate with the size of its portfolio which includes:

- a) Organising its internal affairs in a responsible manner, ensuring it has appropriate internal controls and management systems and procedures and controls designed to mitigate and manage such risk;
- b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- c) Ensuring that the Bank has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

RIA products are made available to the customers through Private Banking department. Detailed product information about various RIA products is available in the respective RIA information pack. The detailed risks are disclosed in the respective RIA information pack for the investors to make informed decision. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks.



3.6.1 Quantitative Disclosures

Table – 35. History of Profit Paid to RIA Holders

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.35 (a) & (b))					
	Jun-23	2022	2021	2020	2019
Return to RIA holders	3,285	6,205	7,272	8,076	7,619

Table – 36. RIA Exposure

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
Average RIA funds during the year	123,478

Table – 37. Percentage of Profit Paid to RIA Holders to RIA Assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (d))	
	Percentage
Return on average* RIA assets	5.32%

* Average RIA funds have been calculated using consolidated management accounts.

Table – 38. Mudarib share as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (f))	
	Percentage
Mudarib share to total (gross) RIA profits	18.28%

Table – 39. Share of Islamic Financing Contracts in Total RIA Financing

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:			
Restricted Investment Account (PD-1.3.33 (h))			
Shari'a-Compliant Contract	Financing	Financing to Total Financing %	
Murabaha	123,930	100.00%	
Total	123,930	100.00%	

Table – 40. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:			
Restricted Investment Account (PD-1.3.33 (i))			
Counterparty Type	Financing	Financing to Total Financing %	
Claims on corporate	123,930	100.00%	
<u>Maturity buckets:</u>			
6-1y	84,245		
1-3Y	10,590		



3.7 Liquidity Risk {PD-1.3.36}

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Limits

The limits are in line with the overall liquidity risk management strategy approved by the Board. The breach of the limits is reported to the Board. The Bank monitors the limits on the liquidity gaps in various tenor buckets and on the ratios. The Bank also calculates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Stress Tests

On a monthly basis, the Bank conducts stress tests on its liquidity profile. The institution specific and market wide stress tests are conducted. The gaps are created under stress conditions to understand the liquidity needs in case of stress situations.

Table – 45. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2023	33.36%
During the period:	
Average	33.39%
Highest	35.85%
Lowest	32.35%

Liquidity Coverage Ratio	
LCR (Liquidity Coverage Ratio) *	204.87%
Minimum LCR as required by CBB	100.00%

* Daily average figures (Year to Date)



3.8 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

3.8.1 Quantitative Disclosures

Table – 46. Profit Rate Shock

Amount in BD '000

PROFIT RATE RISK IN THE BANKING BOOK					
200bp Profit Rate Shocks (PD-1.3.40 (a)+(b))					
Assets	Amount	Change in Basis Points		Effect on Net Income for the Period	
Due from banks	18,471		200		369
Financing contracts	1,015,026		200		20,301
Investment in sukuk	280,588		200		5,612
Liabilities					
Due to banks	38,967		200		(779)
Due to non-banks	85,102		200		(1,702)
Equity of investment account holders	1,103,647		200		(22,073)

3.9 Financial Performance and Position

Table – 47. Ratios

Financial Performance and Position					
(PD-1.3.39(b))					
Quantitative Indicator	June 2023	2022	2021	2020	2019
Return on average equity	7.19%	13.66%	13.00%	8.85%	13.82%
Return on average assets	0.82%	1.46%	1.31%	0.89%	1.59%
Staff cost to net operating income ratio	34.84%	25.93%	25.95%	29.20%	27.12%

Formula is as follows:

ROAE = Net Income/average equity

ROAA= Net profit/ average Assets



3.10 Related Party Balances and Transactions

Related parties represent associated companies, the Parent and its major shareholders, Board of Directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the period end, excluding financing contracts, are unsecured.

Table – 48. Related Party Transactions (PD-1.3.23(d))

Amount in BD '000

The balances with related parties included in the interim condensed consolidated financial statements are as follows:

	Parent	Directors & key management personnel	Other related parties	As at 30 June 2023
Balances with banks	1,328	-	165	1,493
Due from banks	-	-	-	-
Financing contracts *	-	622	-	622
Investment in sukuk	-	-	3,798	3,798
Fees receivable	-	-	663	663
Receivables and other assets	-	-	64,398	64,398
Due to banks	1,135	-	47	1,182
Customers' current accounts	-	479	2,288	2,767
Equity of investment account holders	166,761	2,541	7,919	177,221
Off-balance sheet equity of investment account holders				
- Funds extended to related parties	-	-	123,930	123,930
- Funds received from related parties	-	670	-	670
Assets under management	-	-	511,142	511,142

Amount in BD '000

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

	Parent	Directors & key management personnel	Other related parties	Six months ended 30 June 2023
Income from due from banks	-	-	22	22
Income from financing contracts	-	6	-	6
Income from investment in sukuk	-	-	114	114
Fee income	-	-	327	327
Profit on equity investment account holders	4,503	37	312	4,852
Operating expenses	-	-	872	872
Mudarib share of off-balance sheet equity				
of investment account holders	-	-	735	735

