بنك الإثمار
Ithmaar Bank

Annual Report 2022

NEW BEGINNING..
EXCLUSIVE FOCUS

CONTENTS

AT A GLANCE

Ithmaar Bank B.S.C. (closed) (Ithmaar Bank, Ithmaar or Bank) is a Bahrain-based Islamic bank that is licensed and regulated by the Central Bank of Bahrain (CBB) and provides commercial, treasury and financial institutions, and other banking services.

Ithmaar Bank is a wholly-owned subsidiary of Ithmaar Holding B.S.C. (Ithmaar Holding, the Group or the Company), a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the CBB and listed on the Bahrain Bourse and Dubai Financial Market (DFM). Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT).

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of small and medium enterprises (SMEs), corporates and institutions. Ithmaar Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan).

VISION, MISSION AND VALUES

Our Vision

We will prosper with our stakeholders and serve communities via commitment to Islamic morals, innovative Islamic solutions, service excellence, and intuitive community welfare aiming to expand value creation and prosperity to generations to come.

Our Mission

To inspire socially conscious corporate clients with the best-in-class personalized experience by embracing our passion of service excellence and innovative value creation to enable them to realize financial stability, business sustainability and prosperity.

Our Values

I - Innovative Islamic solutions

We strive to provide creative solutions with the aim to enhance value creation of our corporate clients, stakeholders and shareholders.

T - Team and Partnership Spirit

We nurture through service excellence, remaining close and thinking different to exceed our corporate clients' expectations and support them all the way to success.

H - Holistic

We intend to provide and facilitate a comprehensive business experience to our corporate client that is creative, simple, practical and quick in the most convenient way.

"M" - Morals of Islam

We embrace Islamic morals in all our relationships and business transactions and extend it to support the welfare of the communities.

"A" - Aspiration for Financial Stability and Prosperity

We cultivate towards best-in-class service and personalized experience to our corporate clients to support them in achieving their business sustainability and financial prosperity.

"A" - Accountability

We sustain our responsibility of promoting socially conscious corporates and spreading awareness that embraces communities' prosperity.

"R" - Revenue Realization of Value Creation

We envision and strive for exceptional performance and sustainable business relationships to realize consistent returns to our shareholders.

FINANCIAL HIGHLIGHTS

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	2022	2021	2020	2019	2018
Net profit [BD 000]	**8,344**	5,161	(10,969)	2,480	14,140
Net profit/(loss) attributable to shareholders [BD 000]	**3,104**	(512)	(15,294)	(1,352)	1,409
Net income before provision for impairment and overseas taxation [BD 000]	**28,879**	13,420	14,485	15,667	13,700
Total equity attributable to shareholders [BD 000]	**36,119**	43,730	49,831	79,171	85,385
Book value per share [Fils]	**36**	44	50	79	85
Earnings per share [Fils]	**3.10**	-0.51	-15.29	-1.35	1.41
Total assets [BD 000]	**2,309,558**	3,327,499	3,094,777	2,978,946	3,127,795
Funds under management [restricted investment accounts] [BD 000]	**15,812**	16,663	16,676	17,203	17,203
Return on average shareholders' equity	**7.77%**	-1.09%	-23.71%	-1.64%	1.17%
Return on average assets	**0.30%**	0.16%	-0.36%	0.08%	0.44%
Capital adequacy ratio	**13.21%**	12.90%	12.65%	13.52%	13.43%
Cost to operating income ratio	**69.40%**	84.72%	83.36%	81.26%	83.65%

JOINT MESSAGE

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to report that Ithmaar Bank continues to report profits for the year and it has started the next phase of growth as an exclusively corporate-focused Islamic bank.

The new, promising chapter of growth, marks an important milestone in the Group's transformation, and adds to our decades-long history as key pioneers of the region's Islamic banking and finance industry.

This follows completion of the transaction on 7 July 2022, which involved Ithmaar Holding, Ithmaar Bank's parent company, selling some of its key assets in Bahrain, including Ithmaar Bank's consumer banking business as well as Ithmaar Holding's ownership stake in BBK and Solidarity Group Holding, to Al Salam Bank. Following the transaction, which was approved by Ithmaar Holding shareholders at an Extra Ordinary General Meeting on 17 March 2022, Ithmaar Bank continues to operate as a CBB-licensed Islamic bank that is wholly-owned by Ithmaar Holding and specialised in Corporate Banking and related services.

In 2022, Ithmaar Bank's year-end financial results show a net profit attributable to equity holders for the year ended 31 December 2022 of BD3.10 million, a 706 percent increase compared to the net loss of BD0.51 million reported for 2021. Total net profit for the year ended 31 December 2022 is BD8.34 million compared to the net profit of BD5.16 million reported for 2021. This is mainly due to higher core income during the year.

The results also show that the group's share of income from unrestricted investment accounts as a Mudarib increased to BD176.99 million for the year ended 31 December 2022, a 106 percent increase compared to BD85.84 million for the same period in 2021. This contributed to increasing the group's share of income from unrestricted investment accounts as a Mudarib to BD83.07 million for the year ended 31 December 2022, a 75 percent increase compared to BD47.55 million for 2021.

The Group successfully ventured through the regional and global challenges faced during 2022. On one hand, the Group's investment in its subsidiary in Pakistan, Faysal Bank Limited, was impacted by strengthening of the US Dollar against other global currencies, coupled with the political situation in Pakistan, resulting in the Pakistan Rupee-US Dollar parity depreciating significantly. On the other hand, Faysal Bank continued its success story by completing its transformation into an Islamic bank by obtaining Islamic banking license effective 31 December 2022. This has set up the Group on target for an exciting growth prospect for 2023.

The Bank's achievements in 2022 would not have been possible after the grace of Allah without the unwavering support of our stakeholders, which we take big pride in allaying with them.

We take this opportunity to express our appreciation to our members of the Board of Directors and the Sharia Supervisory Board, our management, our employees, our subsidiaries and all our shareholders for all efforts contributed along the years. We consecutively convey our gratitude to the Central Bank of Bahrain, the Ministry of Industry and Commerce, the Bahrain Bourse and the Dubai Financial Market for their continuous prompt valuable support.

We pray to Allah the almighty for an improved performance and prosperity of the Bank for the years to come, collaborating all efforts for the best interest of all stakeholders... Ameen.

Amr Mohammed Al Faisal
Chairman

Abdulla Abdulaziz Taleb
Chief Executive Officer

HRH Prince Amr Mohammed Al Faisal
Chairman

Abdulla Abdulaziz Taleb
Chief Executive Officer

We have started the next phase of growth as an exclusively corporate-focused Islamic bank. The new, promising chapter of growth, marks an important milestone in the Group's transformation, and adds to our decades-long history as key pioneers of the region's Islamic banking and finance industry.

REVIEW OF OPERATIONS

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Strategy and Focus

Ithmaar Bank remains committed to becoming one of the region's premier Islamic banks that focus exclusively on serving corporate clients.

In line with that commitment, the Bank started in 2022 to focus on developing its corporate customers' Islamic banking experience.

In 2022, Ithmaar Bank continued investing in further developing the Bank's digital infrastructure, enhancing existing products and services while also introducing new ones that Is designed to meet corporate customers financial requirements.

Transformation and growth

In July 2022, Ithmaar Bank inaugurated its new Main Corporate Branch, exclusively for SMEs, corporate and all other types of businesses and institutions. The new Ithmaar Bank Main Corporate Branch, which is located on the ground floor of Seef Tower, is an important milestone in the Bank's transformation into an exclusively corporate-focused Islamic bank. The inauguration of the new Ithmaar Bank Main Branch marks the start of one of the most significant transformations in Ithmaar Bank's fourty-year history, and builds on its rich history of innovation as one of the region's Islamic banking pioneers.

The Main Branch also offers round the clock cardless deposit services through the ATM and CDM. Customers can save time and avoid queues by depositing cash or cheques into their account directly from Ithmaar Bank's ATM and CDM.

In 2022, Ithmaar Bank continued to issue Contactless Mastercard debit cards for its corporate customers, which can be used at all ATMs and POS machines in the Kingdom of Bahrain through the BENEFIT network, the Gulf Region through the GCCNET network and worldwide through the Mastercard network.

Digital enhancement experience

Ithmaar Bank continued to focus on developing its online banking services. In 2022, the Bank has developed the Quick Services on Ithmaar Bank website to allow customers to access several banking services without the need to visit the branch. The fast and secure services offer customers a variety of features, which allow them to generate IBAN certificates, account balance certificates, and account statements as well as update their details, activate their debit card and apply requests and complaints.

Commercial Banking

Ithmaar Bank's Commercial Banking unit is focusing exclusively to cater for the banking requirements of the Small and Medium Enterprises (SMEs) and Corporate within the Kingdom of Bahrain as well as all other types of businesses and institutions.

In 2022, the Commercial Banking continued to diversify its asset base and achieved good recovery of non-performing assets. In line with Central Bank of Bahrain directives, and among several other precautionary measures to reduce the economic impact of the COVID-19 pandemic, the SMEs and corporate clients had benefited from the instalments deferment scheme, which to a large extent, helped to ease the stress on their cash flow. Nevertheless, the focus in 2022 continued to be on growing the Bank's SMEs portfolio and strengthening relationships with SMEs, corporate and other institutions clients. Through an experienced team of relationship managers, Ithmaar Bank offer tailored financing solutions to businesses across different industries. The Bank is maintaining a diversified assets portfolio which was greatly achieved through extending the banking support to various sectors within the Kingdom such as; manufacturing, education, healthcare, retail trade, food and beverage, real estate, infrastructure, and social housing development sector.

Financial Institutions

Ithmaar Bank's Financial Institutions (FI) unit continued to offer products and services to cater for requirements of banks and other financial institutions, with a focus on offering money market placements as well as trade finance solutions.

The FI team also continued to partner with local, regional and international financial institutions for correspondent banking relationship.

Treasury

In 2022, Ithmaar Bank Treasury unit fulfilled its traditional role of managing the Bank's day-to-day liquidity through active market participation and securing medium to long term funds for lending. It also helped generate income for the Bank through the investment of excess liquidity in profitable accounts and securities.

Private Banking

In 2022, Ithmaar Bank continued to recognise the importance of its prime customers, as part of efforts to further enhance the level of services provided. Ithmaar Bank focused on managing, and growing the wealth of its customer base via tailored Sharia compliant liability products and financial solutions.

During 2022, the Private Banking department continued to focus and expand their respective client base through dedicated relationship managers who provide comprehensive personalised services founded on discretion and professionalism.

REVIEW OF OPERATIONS CONTINUED

Asset Management

Ithmaar Bank's Asset Management Department continued to focus its efforts in 2022 on managing the Bank's real estate investment portfolio and providing investment management services in relation to the corporate book investments and clients' investments. In light of the challenging environment with the geopolitical uncertainty and high inflationary pressure that took its toll on the global economy growth projections, the Asset Management Department directed its resources on protecting the value of investments and strengthening their performance while looking for exit opportunities. The investments are located in Bahrain, the United States of America and Europe. The Bank's Asset Management Department also provides outsourcing services to manage investments held by Ithmaar Holding and its subsidiary, IB Capital.

Training and development

In 2022 Ithmaar Bank invested in its staff with continuous training and development. This included In-house training, external training and BIBF levy training.

In October, Ithmaar Bank held in-house training sessions for employees who are members in the ICC committee to ensure their adherence to Investment and Credit process.

In October, the Bank also held several refresher training sessions in Corporate Credit Application.

Ithmaar Bank conducted all necessary mandatory training as required by the CBB, which Included: training on Personal Data Protection Law, annual Anti Money Laundering (AML) refresher courses for all relevant employees, and physical security training for all new joiners, including employees, trainees, temporary employees and outsourced personnel.

Supporting the community

As a pioneering Islamic bank, Ithmaar Bank has long-recognised the important role it must play in supporting the community in which it operates. It is a responsibility the Bank has always taken very seriously, and one that has helped shape the Bank's progress and growth over the years.

As a result, the Bank continued throughout 2022 to support various initiatives and, whenever possible, participate in key national events that aim to have a positive impact on the society in different fields such as health, sport, education and charity.

In 2022, Ithmaar Bank continued to support Bahrain Football Association which, in cooperation with the Nasser Bin Hamad Al-Khalifa Media Office and Information Center, organised the King Hamad Cup and Nasser Bin Hamad Premier League 2022. The initiative aims to encourage youth to play sports, develop Bahraini athletes and enhance Bahrain's position on the map of international sports.

Ithmaar Group also has supported Bahrain Bourse's initiative of Trade Quest, which is a Program that aims to provide investment knowledge and experience among high school and university students by providing students with realistic experiences simulating the local and international financial markets.

Beyond philanthropy

In addition to supporting deserving charities, Ithmaar Bank fulfils its responsibility towards the community by focusing on economic growth and social development.

Ithmaar Bank's exceptionally high Bahrainisation level, which stood at approximately 92 percent in 2022, contributes directly to supporting the local community. Ithmaar Bank is also a strong advocate of gender equality, with two women on its board of directors, several on the executive management team and employed at various levels, from customer-facing personnel to senior executives.

Staff Overview (Bahrain)

	Bahrainis			Non-Bahrainis			
	Manager and Above	Associate and Assistant Manager	Senior Officer and Below	Manager and Above	Associate and Assistant Manager	Senior Officer and Below	Total
Male	19	3	7	4	0	0	33
Female	5	8	6	0	0	0	19
Total	24	11	13	4	0	0	52

FINANCIAL REVIEW

Financial Performance

Ithmaar Bank's year-end financial results show a net profit attributable to equity holders for the year ended 31 December 2022 of BD3.10 million, a 706 percent increase compared to the net loss of BD0.51 million reported for 2021. Total net profit for the year ended 31 December 2022 is BD8.34 million compared to the net profit of BD5.16 million reported for 2021. This is mainly due to higher core income during the year.

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Financial Position

Total owners' equity decreased to BD36.12 million as at 31 December 2022, a 17.40 percent decrease from BD43.73 million as at 31 December 2021. This is largely due to the Bank being significantly impacted by foreign exchange rate movements from its subsidiary in Pakistan, Faysal Bank Limited, with the Pakistan Rupee-US Dollar parity depreciating significantly during the year resulting from strengthening of US Dollar against other global currencies, coupled with the political situation in Pakistan.

KEY OPERATING SUBSIDIARIES
BOARD OF DIRECTORS
SHARIA SUPERVISORY BOARD
EXECUTIVE MANAGEMENT

KEY OPERATING SUBSIDIARIES

Faysal Bank Limited (FBL)

FBL is one of the most prominent and fastest growing retail banks in Pakistan.

FBL, including its predecessors, has been in operations for more than 30 years. FBL shares are listed on the Pakistan Stock Exchange. FBL is mainly engaged in Commercial, Retail and Corporate banking activities and strives to provide quality service to its customers to meet their financial needs. FBL's branches have been transformed into multi-product selling hubs through which customers can access a wide variety of products and services. There is also a great deal of focus on realising synergies between FBL's various operating units to ensure maximum value creation and holistic customer solutions. Ithmaar Bank owns 66.57 percent of FBL.

FBL has more than 698 branches, spread over 130 cities across Pakistan. The Bank has also sizable clients in the Corporate, Commercial, SME and Consumer segments. FBL is increasing its branch network to strengthen its customer reach and ability to provide banking services to customers at their doorsteps. The Bank is enhancing its technology platform to facilitate customers' transactions and reduce the cost of doing business. FBL introduced a Virtual Card allowing customers to make secure worldwide online purchases.

FBL successfully completed its Islamic transformation during 2022 and was granted an Islamic banking license by the State Bank of Pakistan effective 31 December 2022.

With a noticeable increase in its Islamic financing, deposits and investment accounts portfolios, the Bank is expected to maintain its growth trajectory.

FBL's total assets and total shareholders' equity as of 31 December 2022 amounted to PKR 1,067 billion (equivalent BD1.8 billion) and PKR 67 billion (equivalent BD112 million) respectively.

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Dilmunia Development Fund I L.P.

Dilmunia Development Fund I L.P. (the "Fund") is an exempted limited partnership formed and registered under the laws of the Cayman Islands. The General Partner in the Partnership is Ithmaar-Dilmunia General Partner Company Limited. The Fund was formed to acquire 650,000 square meters of land within the Health Island - Dilmunia Project in Bahrain to develop the infrastructure and to sell the Land in parcels.

The total assets and total shareholders' equity as of 31 December 2022 amounted to BD66 million and BD58 million respectively.

Ithmaar Bank owns 92 percent of the Fund.

BOARD OF DIRECTORS

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 28 September 2022

HRH Prince Amr has more than 30 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), and Chairman of Ithmaar Holding, Ithmaar Bank, IB Capital, Faisal Islamic Bank (Sudan), Faisal Islamic Bank (Egypt), and Gulf Investors Asset Management Co J.S.C. (Closed). HRH Prince Amr is also Founder and Director of Red Sea Design Consultants (Jeddah), and Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan).

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers.

HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Sheikh Mohamed Abdullah Abdulkarim Elkhereiji

Non-Executive Board Member

Elected 28 September 2022

Sheikh Elkhereiji has more than 42 years of diversified banking and management experience.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Board of Directors. Sheikh Elkhereiji is the Chairman of many companies in Saudi Arabia, including Elkhereiji Group Holding Co., Hal International Company and S.A. Elkhereiji Real Estate Limited Company. Sheikh Elkhereiji is the Vice Chairman of the Board of Directors of Yanbu Cement Company (Saudi Arabia) as well as the WorldCare International Company (United States of America). Sheikh Elkhereiji is also a member of the Board of Directors of Faisal Islamic Bank of Egypt.

Previously, Sheikh Elkhereiji was the Ex-Chairman of Faisal Investment Bank (Bahrain).

Sheikh Elkhereiji holds a Bachelor's degree in Law from Cairo University, Egypt, a Diploma in Change Management from Harvard, USA, and a Diploma in Marketing Management from the International Marketing Institute, Cambridge in USA.

Tunku Yaacob Khyra

Independent Board Member

Elected 28 September 2022

Tunku Dato' Yaacob Khyra is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Board of Directors. He holds a Bachelor of Science (Hons) Degree in Economics and Accounting from City University, London. An accountant by training, he is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA). Tunku Yaacob is also a Certified Financial Planner (CFP) with the Financial Planning Association of Malaysia (FPAM).

Tunku Yaacob started his career as an Auditor with Price Waterhouse in London and Kuala Lumpur (from 1982 to 1987). He later joined Malaysian Assurance Alliance Berhad (now known as Zurich Life Insurance Malaysia Berhad) which, under his leadership, became the leading locally owned life and non-life insurance company in Malaysia. Tunku Yaacob later established MAA Takaful Berhad, which became the leading Islamic family and general insurance institution in Malaysia.

Currently, Tunku Yaacob is the Executive Chairman of Malaysian listed companies, MAA Group Berhad, Melewar Industrial Group Berhad, and Mycron Steel Berhad. He is also a Board Member of Khyra Legacy Berhad, Yayasan Khyra, Melewar Equities Sdn Bhd and several other private companies. He also sits on the Board of Directors of Altech Chemicals Limited (listed in Australia) and KNM Group Berhad (listed in Malaysia).

Tunku Yaacob is the Founder and Chairman of The Budimas Charitable Foundation (Budimas) and Maaedicare Charitable Foundation (registered under Yayasan Amal Maaedicare) (Maaedicare). Budimas is a non-governmental charity organisation, established in 1998 that provide funding and management support, in the provision of welfare services, for the well-being of orphans and underprivileged children in Malaysia. Maaedicare had been set up primarily to take over the operations carried out previously by MAA Medicare Charitable Foundation (MMCF). MMCF was established in 1994 as a non-governmental medical charity organisation, to manage projects and activities to provide care and treatment in Malaysia for people suffering from chronic diseases including but not limited to kidney and heart diseases.

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BOARD OF DIRECTORS CONTINUED

Mohammed A. Rahman Bucheeri

Executive Board Member

Elected 28 September 2022

Mr. Bucheeri has more than 53 years of experience in Accounting and Commercial and Offshore Banking. He was Chief Executive Officer of Ithmaar Bank from July 2010 to August 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. Mr. Bucheeri is also a member of the Board of Directors of Ithmaar Holding and IB Capital, and Group Chief Executive Officer of Dar Al-Maal Al-Islami Trust (DMIT). Previously, he served as the General Manager of the Private Offices of HRH Prince Mohammed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He is Chairman of MFAI (Jersey) Limited, Faisal Finance Maroc S.A., Faisal Private Bureau, DMI Administrative Services, Ithmaar Development Company, and NASEEJ Rabat.

He is a member of the Board of Directors of the Islamic Investment Company of the Gulf (Bahamas) Limited, Faysal Bahamas Limited, Gulf Investors Asset Management Company J.S.C. Closed, DMI Services NV, Faisal Finance Luxembourg and Shamil Finance Luxembourg.

Mr. Bucheeri studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Elham Ebrahim Abdulla Hassan

Independent Board Member

Elected 28 September 2022

Ms. Hassan, who has more than thirty years of diversified experience in the financial services industry, is a member of the Ithmaar Holding, Ithmaar Bank, IB Capital and Ithmaar-Dilmunia General Partner Company Limited Boards of Directors.

She is currently Chairwoman of Taaheal Healthcare and an Advisor on Business and Corporate Strategy, as a well as a Board Member of Mumtalakat – Bahrain and BNP Paribas Investment Company – Saudi Arabia. A leading businesswoman in the Kingdom of Bahrain, Ms. Hassan was the first female partner at PricewaterhouseCoopers in the Middle East region. She was voted one of the Most Influential Women in the Middle East by Forbes Magazine, and earned the Euro Money Award for Islamic Assurance Advisory Services.

Ms. Hassan was previously a Board Member of the Bahrain Economic Development Board (EDB), Tamkeen, BBK, the Bahrain Real Estate Investment Company (EDAMAH), Solidarity Group Holding and the University of Bahrain, as well as a member of both the Women Empowerment Economic Committee of the Supreme Council for Women and the Planning and Follow-up Committee of the Bahrain Business Women's Society. She was the Country Senior Partner at PricewaterhouseCoopers in Bahrain until June 2010, and was the financial services leader for PricewaterhouseCoopers Middle East until June 2007. While at PricewaterhouseCoopers, Ms. Hassan worked extensively with Islamic institutions since the early eighties.

Ms. Hassan qualified as Certified Public Accountant in 1986 and is a member of the American Institute of Certified Public Accountants.

Dr. Amani Khaled Bouresli

Independent Board Member

Elected 28 September 2022

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, has almost 32 years of experience in training, consulting and banking. Dr. Bouresli is a member of the Board of Directors of Ithmaar Holding, Ithmaar Bank, IB Capital, Faisal Islamic Bank of Egypt and Burgan Bank (Kuwait).

She is currently a Professor of Finance and the head of the Finance Department at Kuwait University's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning. Dr. Bouresli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait. Also, she earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize and the head of the Economic Forum annually held in Kuwait.

Prior to her ministerial appointments, Dr. Bouresli was the Chairman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and the Head of the Capital Market Authority Project from 2006 to 2007. Dr. Bouresli, who has many published works in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

Dr. Bouresli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

SHARIA SUPERVISORY BOARD

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 28 September 2022

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is the Chairman of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia, a consultant at the Royal Court, a member in the International Islamic Fiqh Academy of the Organisation of Islamic Cooperation and a member in the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

Sheikh Al Manee'a has been appointed in several positions including chairman of the Sharia Supervisory Board of Al Bilad Bank, a member of the Supreme Judicial Council, President of the Makkah Al-Mukarramah Courts, judge in the Court of Cassation in Makkah Al-Mukarramah, and General Deputy of the General President for Scholarly Research, Ifta, Da'wah and Guidance.

Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment in Saudi Arabia, and has authored several books including `Paper Money: Truth, History and Reality', `Islamic Economic Fatawa and Research', `A window on the community' and others.

Sheikh Nedham Mohammed Saleh Yaqouby

Member

Appointed 28 September 2022

Sheikh Yaqouby is a prominent and highly-respected Islamic Sharia scholar in the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Sharia Board of AAOIFI, a member of the Central Sharia Supervisory Board of the Central Bank of Bahrain (CBB) and Chairman or a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order of Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking Award among other awards.

Sheikh Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Appointed 28 September 2022

Sheikh Al-Asfoor is a well-known and highly respected Sharia scholar in the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is also a member in the Central Sharia Supervisory Board of the CBB and a member of the Sharia Supervisory Board in Solidarity General Takaful and Solidarity Group Holding. He is a member In the Supreme Council for Islamic Affairs and in the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Sheikh Al-Asfoor, who is a former judge at the Sharia Supreme Appeals Court - Jaafari Endowments Directorate, was chairman of The Jaffaria Endowment Board. He was Also a member in several Sharia Supervisory Boards in Bahrain and abroad, including the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank.

He is a graduate of Islamic Hawza from Qom, Iran, and has authored more than 100 books on the Islamic Sharia.

Sheikh Osama Mohammed Saad Bahar

Member

Appointed 28 September 2022

Sheikh Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is currently a Sharia consultant in Sayacorp and a member of the Central Sharia Supervisory Board of the CBB, as well as of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad. He was also a member of the Sharia Supervisory Board of First Energy Bank.

Sheikh Bahar holds a Master's degree from AlImam Ouzai University in Lebanon and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Bahar has authored several books on Islamic banking as well as on society affairs. He has participated in and conducted several radio interviews and written newspaper columns.

EXECUTIVE MANAGEMENT

Abdulla Abdulaziz Taleb

Chief Executive Officer

Mr. Taleb is the Chief Executive Officer of Ithmaar Holding, Ithmaar Bank and IB Capital with over 23 years of progressive banking experience in all Banking domains especially Commercial Banking, Financial Institutions and Treasury.

He is an experienced Board Member and a member of "Board Risk Management Committee" and "Board Information Technology Committee" of Faisal Bank Limited (Pakistan) with proven ability to drive business growth, increase market shares and enhance remedial recoveries through a solid and extended client base network and by continually introducing innovative and practical solutions and process improvements, operational leadership in managing employees, P&L, budgets, cost rationalization, capital restructurings and business strategies.

Mr. Taleb has joined the Group since 2014 and in addition to his board membership in Faisal Bank Limited (Pakistan), he is a board member of Shamil Bank of Yemen and Bahrain (Yemen), Turiya Berhard (Malaysia), Chase Perdana Berhard (Malaysia), Health Island (Bahrain) and Verity Kuwait (Kuwait).

Prior to his appointment as the Chief Executive Officer, he held several senior positions at Ithmaar Bank including General Manager, Business Banking Group from 2019 to 2022, Assistant General Manager Commercial, Financial Institutions and Treasury from 2017 to 2019 and Head of Commercial and International Banking from 2015 – 2017.

Mr. Taleb is a Certified Arbitrator by G.C.C. Commercial Arbitration Centre specialized in Banking and Finance and has a Master's in Business Administration from DePaul University, a Bachelor's Degree in Banking and Finance from Kingdom University and Associate Diploma in Economics Banking and Finance from University of Bahrain. He also holds an Advanced Diploma in Islamic Banking from Bahrain Institute of Banking and Finance.

In addition, Mr. Taleb is a certified Director from the Pakistan Institute of Corporate Governance.

Maysan Faisal Almaskati

Assistant General Manager, Busniess Banking Group

Mr. Almaskati is Assistant General Manager, Business Banking Group of Ithmaar Bank with over 23 years of investment and banking experience.

Mr. Almaskati has been with the Ithmaar Bank Asset Management Department since 2019 and he represents Ithmaar Holding B.S.C. on a number of boards, including Naseej B.S.C. (Closed), Family Microfinance House B.S.C. (Closed), Cityview Real Estate Development Company B.S.C. (Closed) and Ithmaar-Dilmunia General Partner Company Limited.

Prior to joining Ithmaar Bank, he was Chief Investment Officer of Dux Capital (UAE) from 2017 to 2018, an Investment Manager in ASMA Capital Partners (Bahrain) from 2014 – 2016, Head of Ithmaar Bank Asset Management Department from 2007 to 2014 and he was a Vice President, Infrastructure in gulf One Investment Bank (Bahrain) from 2006 to 2007. Throughout his career, he was involved in managing more than US$5 billion of infrastructure, private equity and real-estate investments.

Mr. Almaskati holds a Bachelor of Science in Industrial Engineering from Kansas State University, USA and completed a number of professional certifications, including the Investment Representative Program (Series 7), Bahrain.

Saqib Mahmood Mustafa

Assistant General Manager, Chief Financial Officer,

Mr. Mustafa is the Chief Financial Officer of Ithmaar Bank with over 23 years of banking and finance experience.

Mr. Mustafa has been with the Ithmaar Bank Financial Control Department since he joined the Bank in April 2007. Prior to joining Ithmaar Bank, he was a Senior Auditor in the Financial Services Group of Ernst & Young (Bahrain) from 2004 to 2007, and before that, he was a Supervisory Senior in the Assurance Division at KPMG Karachi (Pakistan).

Mr. Mustafa is a Fellow Member of the Institute of Chartered Accountants of England & Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA). He is also a Certified Islamic Professional Accountant (CIPA) and a Certified Sharia Advisor and Auditor (CSAA) from Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He also holds a Bachelor of Commerce from Karachi University (Pakistan).

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Overview of Policies and Controls

Ithmaar Bank follows the "High Level Controls" and "Public Disclosure" Modules of the Rulebook issued by the Central Bank of Bahrain (CBB) and the Corporate Governance Code of the Ministry of Industry and Commerce, Ithmaar Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable.

Ithmaar Bank's Corporate Governance Policy provides guidance on engaging with its stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is Ithmaar Bank's policy to treat shareholders in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value for shareholders over the long-term. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Bank adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics, Business Conduct, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Bank, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interests of stakeholders.

The written Code of Ethics and Business Conduct that binds all employees and members of the Board of Directors lends further weight to the practical implementation of the Bank's stated policies.

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The "Comply or Explain" Principle

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Bank must comply with the Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with the CBB regulations, the Bank wishes to explain the following:

The Chairman is a non-executive director but not an independent director, as defined by the CBB, due to his position as the Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), the Bank's controller.

FBL, a subsidiary of Ithmaar Bank, follows the local regulations of the State Bank of Pakistan, which may differ from CBB regulations in some aspects, including the Sharia governance requirements applicable to Bahrain-incorporated banks

Developments in Regulations

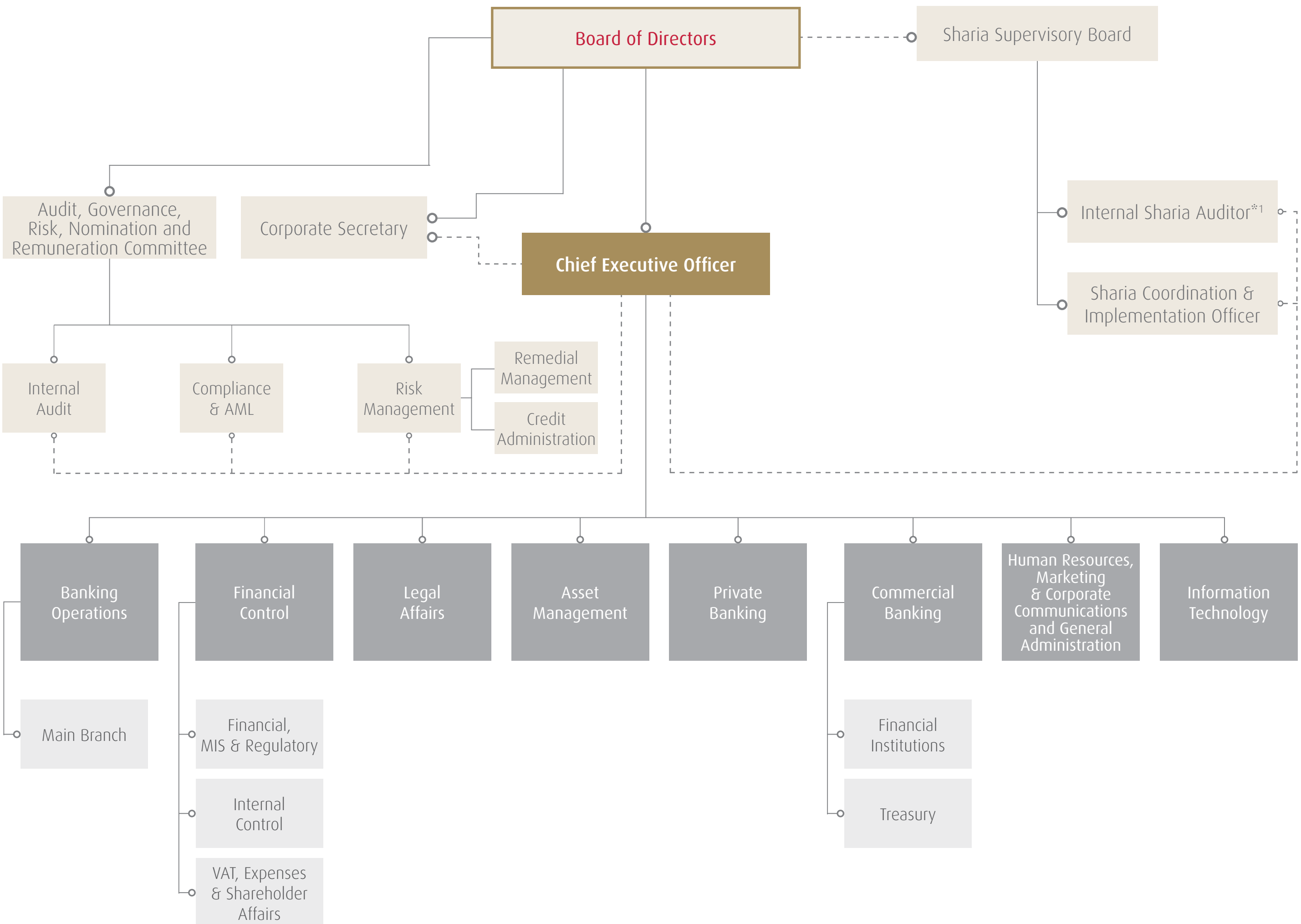
On an ongoing basis, the Bank monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. The amendments made by the CBB to the HC Module during the year have been duly complied with.

Administration

Ithmaar Bank is administered by the Board of Directors and the Sharia Supervisory Board and, for day-to-day matters, by the Executive Management.

CORPORATE GOVERNANCE CONTINUED

Organisation Chart



Note 1: Internal Sharia Audit Department will be handled by Internal Audit Department.

CORPORATE GOVERNANCE CONTINUED

Board of Directors

The Board of Directors (the **Board**) of Ithmaar Bank is comprised of six (6) members, of whom three (3) are independent. Independence is determined based on the Central Bank of Bahrain (CBB) definition of "Independent Director" which is stipulated in the Glossary section of the CBB Rulebook.

The Board is committed to the roles and responsibilities prescribed by the Commercial Companies Law of 2001 (as amended), which are reflected in the Bank's Board of Directors Charter and constitutive documents.

The Board's roles and responsibilities include, but are not limited to, the overall business performance and strategy for the Bank; causing financial statements to be prepared which accurately disclose the Bank's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related-party transactions; and assuring equitable treatment of shareholders. In particular, the Board, among other things, ensures that the Bank's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following:

- Setting the Bank's strategic direction;
- Maintaining overall responsibility for the performance of the Bank;
- Selecting, appointing and evaluating the performance of the management;
- Reviewing the performance and compensation of the management;
- Reviewing the structure and succession planning of the management;
- Advising and counselling the management;
- Monitoring and managing potential conflicts of interest;
- Ensuring the integrity of the financial information statements are true and fair, and otherwise conform with applicable law;
- Monitoring the effectiveness of the governance and compliance practices;
- Ensuring timely and adequate legal and regulatory disclosures;
- Ensuring effective internal controls; and
- Arranging the shareholders' annual, ordinary and extraordinary general meetings.

Some of the responsibilities of the Board of Directors are delegated to the committees of the Board.

The Board has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investments, financings exceeding certain limits, and business relationships with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per the applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Bank's Articles of Association and the Board of Directors Charter, both of which comply with applicable statutory and regulatory rules. Board members serve three-year terms, extendable by up to six months subject to the CBB's approval. At the end of each term, a new Board is to be elected (or appointed, as applicable) at the Bank's annual general meeting.

The next election of the Board of Directors shall take place during 2025.

Structure and Composition of the Board

The Bank is managed at the high level by the Board. The size of the Board is subject to the Bank's Articles of Association, the Board of Directors Charter and the rules and regulations decreed by the Ministry of Industry and Commerce and the Central Bank of Bahrain.

Diversity has always been at the forefront of the Bank's vision, and this starts at the top. Evidently, the Board consists of four (4) men and two (2) women, representing 66.7 percent and 33.3 percent, respectively.

Duties of Board Members

The Board members, individually and collectively, are bound by distinct fiduciary duties to the Bank. The Board members owe their fiduciary duty to the Bank as a corporate entity in its own right and not just to individual shareholders and/or groups of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by the Board members to the Bank are the duty of obedience, the duty of care and the duty of loyalty.

The Bank provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The following duties are detailed in the Board of Directors Charter and Code of Ethics and Business Conduct, which is approved by the Board

Duty of Obedience

The Board members are required to act in accordance with the Bank's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of the Bank's internal authorities and policies.

CORPORATE GOVERNANCE

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of the Bank.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of the Bank. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using the Bank's properties and assets for their personal needs or seeking business opportunities for personal benefit. This duty also requires the Board members to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter.

Board Members' Election and Evaluation System

All appointments to the Board are governed by and subject to the Bank's Memorandum of Association, Articles of Association, the Board of Directors Charter and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Audit, Governance, Risk, Nomination and Remuneration Committee reviews the composition and performance of the Board annually. The Audit, Governance, Risk, Nomination and Remuneration Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives, as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

The arrangements for the termination of membership in the Board of Directors are stipulated in the Bank's Articles of Association. In the event of a vacancy, termination or resignation on the Board of Directors, the Audit, Governance, Risk, Nomination and Remuneration Committee shall make recommendations to the Board for the appointment of a new director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All the Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

The Board members also receive a copy of the Code of Ethics and Business Conduct.

The Board, its committees and individual members are regularly assessed with respect to their effectiveness and contributions.

Board Induction and Development Programme

The Bank prepares an all-day induction programme for newly appointed and elected Board members, which starts with a welcome note from the Chief Executive Officer.

Thereafter, members of the Executive Management introduce the Bank in detail, covering its history, structure, subsidiaries, products, strategy, financial performance and organisational chart. This is followed with presentations from the heads of various departments in respect of their role and function within the Bank. The newly appointed/elected Board members are introduced to the Board's roles and duties, covering the legal and regulatory requirements.

The Bank also arranges training sessions throughout the year for Board members and the Executive Management, to keep them abreast of recent developments (legal, regulatory, market, technology and others) in the banking and investment sectors.

Board Members' Conflict

When the Board deliberates an agenda item wherein a conflict of interest arises, the conflicted Board member declares his or her conflict and abstains from voting on the agenda item. Article 189 of the Commercial Companies Law of 2001 (as amended) requires that members of the Board and Management should not have a direct or indirect personal interest in transactions and contracts concluded by the Bank, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

Interested members have a duty to inform the Board of any matter which presents a conflict and are then restricted from voting on the matter. Such declaration is to be recorded in the meeting minutes.

The Chairman shall inform the General Assembly of the results of such contracts in the annual general meeting following execution of the transactions and such notification is to be accompanied by a special report of an external auditor in respect of the nature and details of the matter, and the extent of interest of the respective member. Violating this Article 189 shall render the Board member and the Board jointly liable for compensation of any damage caused by the breach.

This provision is reflected in the Bank's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to the Bank without the approval of the General Assembly. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by the majority vote of disinterested directors, subject to CBB approval. The Bank's Articles of Association specify that violations of such restriction shall permit the shareholders to claim compensation from the conflicted Board member, for damage caused to the Bank or profit realised by the conflicted Board member.

CORPORATE GOVERNANCE CONTINUED

Board Members' Sitting Fees

The Board members' sitting fees for Board and Board committees' meetings in 2022 amounted to BHD 95,758 (2021: BHD 127,803). The Sharia Supervisory Board retention fee for 2022 amounted to BHD 22,620 (2021: BHD 22,620) and their sitting fees for 2022 was BHD 6,032 (2021: BHD 6,032).

Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total remuneration to attract and retain qualified and competent employees. The Bank's Variable Remuneration Policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders. These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share the Bank's success, and to align employees' incentives with its risk framework and risk outcomes.

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

- Fixed pay;
- Benefits; and
- Discretionary performance bonus.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy.

All remuneration matters, and related overall compliance with regulatory requirements, are overseen by the Nomination and Remuneration Committee (NRC).

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

In order to ensure alignment between what we pay our employees and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives in line with our performance management system.

This assessment also takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity.

Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also, importantly, on how it is achieved, as the NRC believes the latter contributes to the long-term sustainability of the business.

Remuneration Policy

The Remuneration Policy is reviewed on a periodic basis to reflect changes in market practices and Ithmaar Bank's business plan and risk profile.

The Bank's remuneration policies will apply only to its subsidiaries which are licensed by the CBB under Volume 1 or Volume 2 of the CBB Rulebook. In the case of other subsidiaries and branch of the Bank, the NRC should ensure that, where applicable, such entities comply with local rules that apply to their remuneration policies.

No external consultants' advice was sought in 2022 regarding the remuneration process.

Ithmaar Share Incentive Scheme

As Ithmaar Bank is not listed, the Award Price of the Phantom Shares will be defined to be the adjusted Net Asset Value (NAV) as per the latest audited financial statements of the Bank.

Variable Remuneration for Employees

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

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

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

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

CORPORATE GOVERNANCE CONTINUED

Variable Remuneration for Employees (Contiuned)

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. The objective is to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

At the individual level, poor performance by the Bank would mean individual Key Performance Indicators are not met and hence employee performance ratings would be lower.

Remuneration of Control Functions

The remuneration structure of control function personnel should not compromise their independence or create conflicts of interest in their advisory role to the NRC. The NRC will ensure that the increased conflicts of interest arising from variable remuneration of the control functions based on institution-wide performance criteria is properly addressed.

The Bank will take all reasonable steps to ensure that control function personnel are not placed in a position where, for example, approving a transaction, making decisions or giving advice on risk and financial control matters could be directly linked to an increase in their performance-based remuneration.

The variable remuneration of those staff members in control functions will be designed in a way that avoids conflict of interests related to the business unit they are overseeing and will be appraised and determined independently.

Risk Assessment Framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes, and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

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

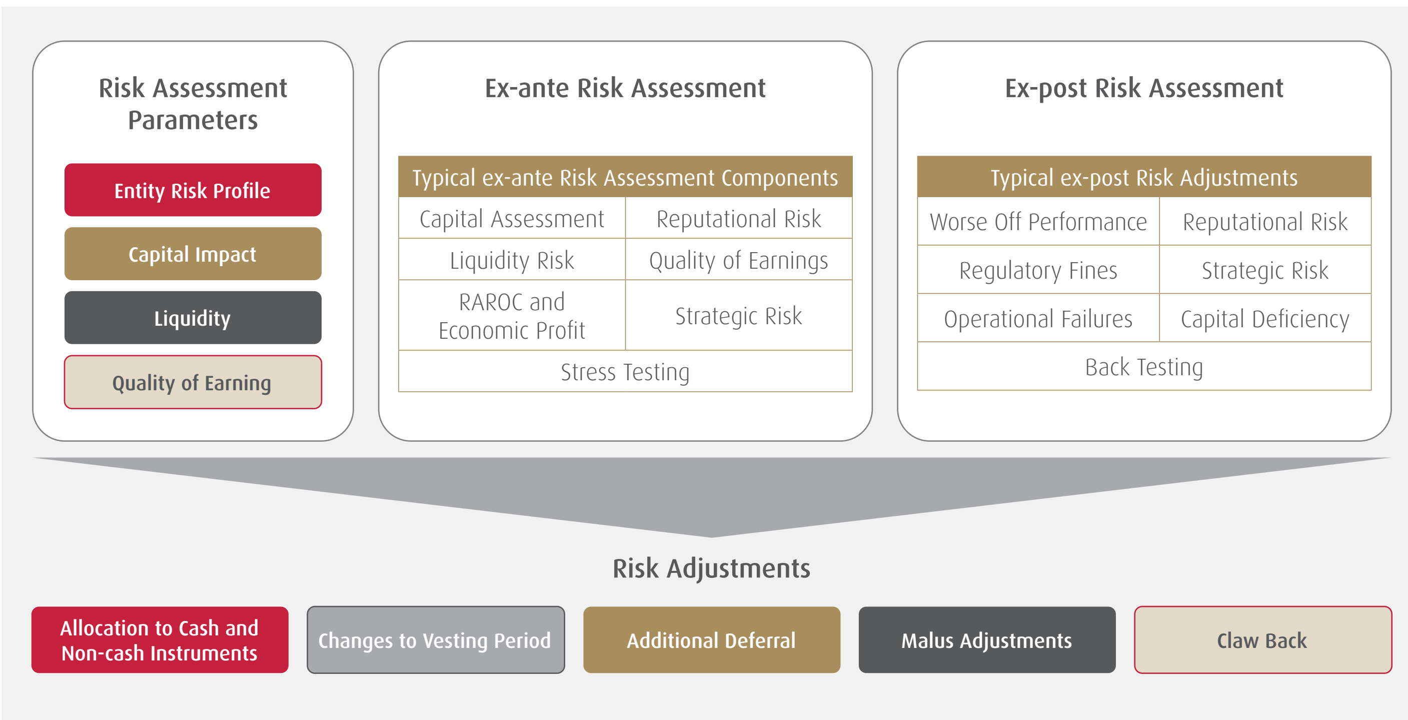
- The cost and quantity of capital required to support the risks taken;
- The cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

CORPORATE GOVERNANCE CONTINUED

Risk Adjustment Methodologies

The Bank's risk alignment framework will use a mix of quantitative and qualitative approaches.

The Bank's risk adjustment framework is set out below:



CORPORATE GOVERNANCE CONTINUED

Long-term Performance Measures

The malus and clawback provisions allow the Board of Directors to determine that, if appropriate, elements under the deferred bonus plan can be forfeited or adjusted, or that the delivered variable compensation could be recovered in certain situations. The intention is to allow appropriate response if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

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

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

These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank or the employee's business unit to suffer material loss in its financial performance, material misstatement of financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.

- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

CORPORATE GOVERNANCE CONTINUED

Components of Variable Remuneration

Variable remuneration has the following main components:

Upfront Cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years.
Deferred Non-cash	The Bank has two forms of non-cash awards to align long-term performance and risk and to encourage employee retention: • Deferred short-term incentives – incentives that are rewarded for current performance and considered as earned but are deferred in terms of payment to employees. These include deferred annual bonuses in the form of Phantom Shares Awards (PSA) or deferred annual bonus Performance Linked Units (PLU). The minimum term of deferral is three years. • Future performance awards (FPA) – incentives that are awarded with future performance and service conditions i.e. not yet earned by the employee. FPAs include Long Term Incentive Plan (LTIP) shares in the form of Phantom Shares and performance linked units and provide better risk alignment to the business and individual performance of the employee.

Deferred Compensation (Bahrain)

All employees with job titles of Executive Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of Variable Remuneration	Assistant General Managers and Above	Executive Senior Managers	Deferral Period	Retention	Malus	Clawback
Upfront cash	40%	70%	Immediate	-	-	Yes
Deferred cash	-	30%	Over 2 years	-	Yes	Yes
	10%	-	Over 3 years	-	Yes	Yes
Deferred non-cash	50%	-	Over 3 years	6 months	Yes	Yes

Minimum Vesting Period

The minimum vesting period for deferred annual bonus share awards is pro-rata over a minimum three-year period, i.e. at most, a third of the deferred awards vest each year. For Future Performance Awards (FPA), the Bank may provide for a longer period to align with the underlying performance conditions, but a minimum period of three years would apply.

CORPORATE GOVERNANCE CONTINUED

Employee Remuneration (Bahrain)

2022

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	3	319,562	-	-	-	-	-	-	-	-	-	319,562
Approved Persons Control & Support	6	614,531	-	-	-	-	-	-	-	-	-	614,531
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Total	**9**	**934,093**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**934,093**

2021

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	6	934,411	-	-	-	-	-	-	-	-	-	934,411
Approved Persons Control & Support	9	1,074,347	-	-	-	-	-	-	-	-	-	1,074,347
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff	3	260,086	-	-	-	-	-	-	-	-	-	260,086
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Total	**18**	**2,268,844**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,268,844**

CORPORATE GOVERNANCE CONTINUED

Deferred Awards for Current Year (2022)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	614,558	5,686,032	250,185	864,743
Awarded During the Period	-	-	-	-
Paid Out / Released During the Period	(29,197)	(3,010,321)	(129,202)	(158,399)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	585,361	2,675,711	120,983	706,344

Deferred Awards for Previous Year (2021)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	627,672	3,441,422	172,071	799,743
Awarded During the Period	46,213	4,995,673	226,911	273,124
Paid Out / Released During the Period	(59,327)	(2,751,063)	(148,797)	(208,124)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	614,558	5,686,032	250,185	864,743

Notes:

1. The payment of vested shares for the deferred component was completed after the reorganisation.
2. The number of shares has been adjusted to reflect the Phantom Shares in Ithmaar Bank B.S.C. (c) post reorganisation.

Additional remuneration data will be made available on the website for the year ended 31 December 2022.

CORPORATE GOVERNANCE CONTINUED

Employment of Relatives of Approved Persons

The Human Resources Policy of Ithmaar Bank indicates that any employee who is a first degree relative of an existing Approved Person in the Bank is required to declare the relationship in writing to the Human Resources Department.

Board Committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit, Governance, Risk, Nomination and Remuneration Committee (constituted effective 8 November 2022)

The Audit, Governance, Risk, Nomination and Remuneration Committee (AGRNRC) is appointed by the Board to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems, reviewing the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors, coordinating the implementation of the Corporate Governance Policy framework, and acting as a formal forum for communication between the Board and Management on human resource issues.

The AGRNRC reviews and, as appropriate, approves and recommends for the approval of the Board, among other things: the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation of various regulatory reports; internal and external audit reports and the status of their implementation (as appropriate); and new accounting and regulatory pronouncements and their implications. Furthermore, the AGRNRC proposes candidates for Board election; appointment of new senior management executives; and the remuneration policies as well as guidelines for increments and promotions.

The objectives of the AGRNRC include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk, liquidity risk and profit rate, in addition to any other risk categories the Bank faces in carrying out its activities.

The AGRNRC also recommends and monitors the overall risk management framework in line with the regulatory guidelines which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board. The AGRNRC also ensure that the information security and the business continuity management framework of the Bank are in line with regulatory guidelines and commensurate to the scale of business operations of the Bank.

The AGRNRC is chaired by an Independent Director and comprised of:

- Elham Ebrahim Abdulla Hassan – Chairperson
- Tunku Yaacob Khyra - Member
- Mohammed A. Rahman Bucheerei – Member
- Dr. Amani Khaled Bouresli – Member
- Sheikh Dr. Osama Bahar – Member*

* Sheikh Dr. Osama Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Sharia governance issues.

The AGRNRC meets a minimum of four (4) times in a year.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending them to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight of the Corporate Governance, Compliance and Regulatory requirements;
- Updating and aligning all risk and information security policies in line with changes in the regulatory requirements;
- Reviewing of existing risk limits and establishing new risk limits for better control of credit, market, operational, liquidity, profit rate risk and concentration risks;
- The Internal Capital Adequacy Assessment Process (ICAAP) report for review;
- Reviewing the Expected Credit Losses as per the FAS 30 standards;
- Identify Board and executive management candidates;
- Evaluate the sitting fees and/or remuneration of directors, the chief executive officer or other approved persons;
- Recommending the organisation chart and succession plan; and
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board.

The AGRNRC received an aggregate sitting fees of BD7,917 for the year 2022 (2021: Nil), and have met two (2) times.

CORPORATE GOVERNANCE CONTINUED

Audit, Governance and Risk Management Committee (discontinued effective 28 September 2022)

During 2019-2022, the Audit, Governance and Risk Management Committee (AGRMC) assisted the Board in fulfilling its responsibility, particularly (a) overseeing and monitoring the implementation of a robust audit, risk and compliance frameworks by working together with the Management and the Sharia Supervisory Board, and (b) providing the Board with reports and recommendations based on its findings in the exercise of its function.

The AGRMC was appointed by the Board and comprised of the following Directors:

- Elham Ebrahim Abdulla Hassan – Chairperson
- Abdulellah Ebrahim Al-Qassimi – Member
- Dr. Amani Khaled Bouresli – Member
- Sheikh Dr. Osama Bahar – Member*

* Sheikh Dr. Osama is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Sharia governance issues.

The AGRMC received an aggregate sitting fees of BD12,441 for the year 2022 (2021: BHD 23,625), and have met four (4) times.

Executive Committee (discontinued effective 28 September 2022)

During 2019 - 2022, the Executive Committee (ExCom) assisted the Board with the oversight of the general management of the Bank and its business by the Management, as well as considered and recommended to the Board the strategy, business plans and budget, and evaluated the financial and business performance of the Bank.

The ExCom was appointed by the Board and comprised of the following Directors:

- Omar Abdi Ali - Chairman
- Abdelhamid Mohamed Aboumoussa - Member
- Mohammed A. Rahman Bucheeri - Member

The ExCom received an aggregate sitting fees of BD2,262 for the year 2022 (2021: BHD 6,750), and have met one (1) time.

Remuneration and Nomination Committee (discontinued effective 28 September 2022)

During 2019-2022, the Remuneration and Nomination Committee (RNC) fulfilled its responsibility in acting as the formal forum for communication between the Board and Management on human resource issues.

The RNC was appointed by the Board and comprised of the following Directors:

- Abdulellah Ebrahim Al-Qassimi - Chairman
- Sheikh Zamil Abdullah Al-Zamil - Member
- Tunku Yaacob Khyra - Member

The RNC received an aggregate sitting fees of BD3,393 for the year 2022 (2021: BHD 6,786), and have met one (1) time.

CORPORATE GOVERNANCE CONTINUED

Attendance

2022 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit, Governance & Risk Management Committee		Executive Committee		Remuneration & Nomination Committee		Audit, Governance, Risk, Nomination and Remuneration Committee	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	4	4	-	-	-	-	-	-	-	-
2	Tunku Yaacob Khyra	4	4	-	-	-	-	1	1	2	1
3	Abdelhamid Mohamed Aboumoussa *(resigned effective 28 September 2022)*	3	3	-	-	1	0	-	-	-	-
4	Sheikh Zamil Abdullah Al-Zamil *(resigned effective 28 September 2022)*	3	3	-	-	-	-	1	1	-	-
5	Mohammed A. Rahman Bucheerei	4	4	-	-	1	1	-	-	2	2
6	Abdulellah Ebrahim Al-Qassimi *(resigned effective 28 September 2022)*	3	3	4	3	-	-	1	1	-	-
7	Dr. Amani Khaled Bouresli	4	4	4	4	-	-	-	-	2	2
8	Sheikh Mohamed Abdullah Abdulkarim Elkhereiji	4	4	-	-	-	-	-	-	-	-
9	Elham Ebrahim Abdulla Hasan	4	4	4	4	-	-	-	-	2	2
10	Omar Abdi Ali *(resigned effective 28 September 2022)*	3	3	-	-	1	1	-	-	-	-

Dates of Meetings During 2022					
	14 February	6 February	5 June	13 February	9 November
	6 June	28 April	-	-	22 November
	28 August	11 May	-	-	-
	13 November	22 August	-	-	-

Notes:

- Sheikh Osama Bahar, member of the Sharia Supervisory Board, is also a member of the Audit, Governance, Risk, Nomination and Remuneration Committee. He attended one (1) meeting. The other meeting Sheikh Osama Bahar did not attend as It did not include any Sharia governance items.
- Sheikh Osama Bahar, a member of the Sharia Supervisory Board, was also a member of the Audit, Governance and Risk Management Committee (before its discontinuation). He attended three meetings. The other meeting Sheikh Osama Bahar did not attend as it did not include any Sharia governance items.
- In accordance with the Central Bank of Bahrain's requirement and the Bank's Articles of Association, the Board of Directors shall meet at least four (4) times a year, and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

CORPORATE GOVERNANCE CONTINUED

Sharia Supervisory Board

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. The SSB contributes in the guidance and development of Ithmaar Bank's activities and it monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed in compliance with the licensing requirements of the Central Bank of Bahrain (CBB) and Ithmaar Bank's Memorandum and Articles of Association by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Nomination and Remuneration Committee (NRC). The SSB serves a three-year term.

The SSB has full authority to achieve its goals and responsibilities.

It is also allowed to view all records and transactions from any sources without restrictions, including access to the Board and to management personnel, professional and legal consultants, employees, as well as access to the Sharia Coordination and Implementation Department at Ithmaar Bank, which is represented by the Sharia officer who is proactively involved in reviewing and advising on the Sharia compliance of all products and anything related to the products, as well as investment projects, conducting training for employees to ensure they understand the products and their implementations, handling the secretary tasks for the SSB and replying to customers' enquiries according to SSB's fatwas. The SSB also communicates directly with the Internal Sharia Audit Department and reviews its periodic reports and implemented operations according to SSB fatwas and AAOIFI standards and produces periodic reports to the SSB in order to ensure that activities are under a strict and direct oversight of SSB guidelines and decisions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities, in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended. These remunerations are recommended by the NRC, the structure of which is approved by the shareholders. Currently, Ithmaar Bank does not pay any performance-related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section. All SSB members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described. SSB members also receive a copy of the Code of Ethics and Business Conduct.

Management

The day-to-day operations of Ithmaar Bank are handled by the Executive Management team.

Departments are grouped into Business, Control and Support Units with clear definition between them to avoid conflicts of interests. These safeguard measures are reinforced by independent Internal Audit, Risk Management, Compliance and Anti-Money Laundering departments, as well as an Internal Sharia Auditor and a Sharia Coordinator and Implementation Officer.

The Risk Management Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Compliance and Anti-Money Laundering Department reports functionally to the Audit, Governance, Risk, Nomination and Remuneration Committee and, administratively, to the Chief Executive Officer. The Internal Audit Department reports functionally to the Audit, Governance, Risk, Nomination and Remuneration Committee and, administratively, to the Chief Executive Officer. The Internal Sharia Auditor and Sharia Coordinator & Implementation Officer reports functionally to the Sharia Supervisory Board, and, administratively, to the Chief Executive Officer.

The total remuneration of the Chief Executive Officer and senior management in 2022 was BD0.9 million (2021: BD2.26 million).

CORPORATE GOVERNANCE CONTINUED

Management Committees

Ithmaar Bank has the following key Management Committees:

Investment and Credit Committee (ICC)

The (i) Provisioning Committee and (ii) Recoveries – RMU and Collection Working Group have been merged with the Investment and Credit Committee (ICC).

The main objective of the ICC is to review and approve transactions within their discretionary powers. It is also responsible for assessing and mitigating the credit risk of the Bank, including provisioning assessment of financings and investments in line with the Bank's policies and CBB regulations, monitoring and enhancing recoveries, as well as recommending changes in the Bank's credit and investment banking portfolio strategy and related policies. The Committee is chaired by the Chief Executive Officer.

Asset and Liability Management Committee (ALCO)

The ALCO is responsible for the management of liquidity risk, profit rate risk, market risk, balance sheet structure and capital management. The main objective of this Committee is to review financial performance and manage liquidity to achieve sustainable and stable profits within a framework of acceptable financial risks and controls. The Committee is chaired by the Chief Executive Officer.

Business Continuity Plan (BCP): Crisis Management Team (CMT)

The Team defines the roles and responsibilities for executives in the management of a crisis, including an assessment of the impact an event will have on time-sensitive business processes, and guidance on formally declaring a disaster. Since such plans are developed to address the worst-case scenario, they are likely to require alteration at the time of the event to effectively address the specific situation.

The CMT is responsible for working with each of the teams to refine strategies, tasks, and assignments at the time of the incident; therefore, CMT meets at least twice a year. The CMT plays a leadership role in managing disasters as well as maintaining the Bank Business Continuity plan. The Team is chaired by the Head of Banking Operations.

Information Security Steering Committee (ISSC)

The Committee's focus is to ensure the confidentiality, integrity, and availability of the Bank's information technology resources and data by safeguarding them from compromise, misuse, loss or damage caused intentionally or unintentionally. The Committee is chaired by Head of Compliance and AML.

Information Technology Steering Committee (ITSC)

The ITSC is a recommendation-making authority with regards to Information Technology (IT), its strategy, management and governance. The ITSC is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding to achieve the goals and the needs of the Bank. The ITSC aims to obtain the greatest value and returns for its use within a well-controlled risk containment framework. The Committee is chaired by the Chief Executive Officer.

Compliance Working Group

The Group has the general responsibility to oversee the Bank's compliance, policies and procedures as well as to discuss and decide compliance-related issues including compliance with regulatory requirements, AML/CFT, sanctions, KYC, FATCA, CRS and other matters relating to managing the compliance risk facing the Bank and arising from time to time. The Group is chaired by the Head of Compliance and AML.

Environmental, Social and Governance Committee (ESG)

ESG Committee is responsible to manage and oversee the ESG Internal and External disclosures for Ithmaar Bank, recommend and implement the values of ESG via the various authorities of the Group, set the ESG indicators, manage the compliance to ESG indicators, coordinate with internal functions and external parties with respect to ESG matters, participate in internal and external awareness programs. The Committee is chaired by the Head of Human Resources, Marketing & Corporate Communications and General Administration.

CORPORATE GOVERNANCE CONTINUED

Changes in the organisational structure and reporting lines

July 2022: Main Branch reporting line was shifted to Head of Banking Operations.

October 2022: Banking Operations, Asset Management, Private Banking, Information Technology and Commercial Banking's reporting line was shifted to Chief Executive Officer.

Changes in Management and Management Committees

Changes in Management Personnel

Senior appointments:

October 2022: Abdulla Abdulaziz Taleb, was appointed as the Chief Executive Officer.

December 2022: Enas Mohammed Rahimi, Executive Senior Manager, was appointed as Head of Human Resources, Marketing and Corporate Communications and General Administration.

December 2022: Khalil Alasfoor, Executive Senior Manager, was appointed as Head of Internal Audit and Internal Sharia Audit.

Other appointments, promotions and resignations:

July 2022: due to Ithmaar - Al Salam transaction, the following six Approved Persons employees were transferred to Al Salam Bank:

- Yusuf Abdulla Mohamed Al Khan, General Manager, Information Technology and Banking Operations.
- Mohammed Hasan Janahi, General Manager, Retail Banking Group.
- Ahmed Fareed Saud Buqais, Executive Senior Manager, Head of Information Technology.
- Murtadha Abbas Mohamed Isa, Manager, Head of General Services.
- Asma Abdulhameed Ahmed, Assistant Manager, Acting Head of Internal Sharia Audit.
- Ahmed Isa Abdullatif Al Saif, Senior Officer, Deputy Money Laundering Reporting Officer.

September 2022: Ahmed A. Rahim, Chief Executive Officer and Abdulhakeem Al Mutawa, Deputy Chief Executive Officer were retired from the Bank.

October 2022: Taimour Raouf, Executive Senior Manager, Head of Marketing and Corporate Communications, resigned from the Bank.

Changes in Management Committees:

IT Steering Committee (ITSC):

- November 2022:
- Added Head of Asset Management.
- Added Head of Commercial Banking.
- Removed Deputy Chief Executive Officer.
- Removed Executive Senior Manager, Branches Network.

Assets and Liability Committee (ALCO)

- July 2022:
- Removed General Manager, Retail Banking Group due to his resignation.
- October 2022:
- Removed Executive Senior Manager, Innovation and Digitization due to his resignation.

Investment and Credit Committee (ICC)

In October 2022, the Board of Directors of Ithmaar Bank approved the new ICC Charter, to reflect the changing structure of the Bank following the sale of the consumer banking business, which revised the ICC membership as the following:

New Structure

- Chief Executive Officer, Chairperson
- Assistant General Manager, Asset Management, Vice Chairperson
- Chief Financial Officer, Voting Member
- Head of Commercial Banking, Voting Member
- Head of Private Banking, Voting Member
- Manager, Asset Management, Voting Member
- Senior Manager, Risk Management, Non-Voting Member
- Head of Operations, Non-Voting Member

Former Structure:

- Chief Executive
- Deputy Chief Executive Officer, Vice Chairman
- General Manager – Business Banking Group, Member
- General Manager – Retail Banking Group, Member
- Executive Senior Manager – Innovation and Digitization, Member
- Head of Asset Management Group, Member
- Chief Risk Officer, Non-Voting Member (Advisor)
- Chief Financial Officer, Non-Voting Member (Advisor)
- General Manager – Information Technology and Banking Operations, Non-Voting Member (Advisor)

CORPORATE GOVERNANCE CONTINUED

Changes in Management and Management Committees (continued)

Information Security Steering Committee (ISSC)

- January 2022:
- Removed Senior Officer - Information Security.
- April 2022:
- Manager IT, replacing Head of IT.
- July 2022:
- Removed HR Manager due to her resignation.
- Removed Retail Support Manager due to his resignation.

Business Continuity Plan (BCP) and Crisis Management Team (CMT)

- July 2022:
- Removed GM, Information Technology and Banking Operations, GM Retail Banking Group, Head of IT, Head of General Services and IT Manager due to their resignation.
- September 2022:
- Added Manager IT as Vice Chairman.
- Added Senior Officer of IT as Secretary.
- Added Head of Private Banking as Member.
- October 2022:
- Removed Head of Marketing and Corporate Communications due to his resignation.
- December 2022:
- Removed Executive Senior Manager, Branches Network

Complaints Management Working Group (CMWG)

- November 2022:
- Head of Private Banking appointed as the Chairman of the CMWG replacing General Manager, Retail Banking Group.
- Customer Complaint's officer appointed as secretary in addition as being the Vice Chairman.
- Senior Manager from Operational Risk Management replacing Senior Officer from Branches Network.
- Associate from Main Branch replacing an assistant manager from Banking Operations.
- Senior Manager from Internal Audit replacing Manager from Collections Unit.

Environmental, Social and Governance Committee (ESG)

- July 2022:
- Manager, Financial Control replacing Executive Senior Manager, Financial Control as a member due to his resignation.
- Assistant Manager, HR replacing Manager HR as secretary due to her resignation.
- Senior staff, General Services replacing Head of General Services due to his resignation.
- Senior officer, Marketing and Corporate Communications replacing Head of Marketing and Corporate Communications due to his resignation.
- Added Senior Manager, Risk Management as Vice Chairperson.
- Added Assistant Manager, Banking Operations.
- Removed Manager Product Development due to her resignation.
- Removed Assistant Manager, Business Banking Group.
- Removed Senior officer, retail Banking

Compliance Working Group:

- December 2022:
- Executive Senior Manager, branches network removed due to his resignation.
- MLRO, Compliance & AML appointed as Secretary
- Senior Officer Compliance & AML removed as Secretary

Operational Risk Management Committee (ORMC):

- July 2022:
- Appointed Head of Banking Operations as Chairman
- Manager, Information Technology replacing Head of Information Technology
- Removed GM, Information Technology and Banking Operations and Head of IT due to their resignation.
- December 2022:
- Removed Executive Senior Manager, branches Networks due to his resignation

CORPORATE GOVERNANCE CONTINUED

Communication with Stakeholders

Ithmaar Bank maintains a website which customers and other stakeholders may access for information about products and services, as well as the corporate profile, corporate information, press releases and financial performance, amongst others. The Bank also continues to provide public announcements and press releases on major developments and news.

Code of Ethics and Business Conduct

Ithmaar Bank's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar Bank.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Bank's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

The employment of relatives of approved persons is covered under the Human Resource Policy which requires the employee to declare to the Human Resources Department the relationship (father, mother, brother, sister, husband or wife) with any approved persons at the time of recruitment and/or subsequently, as appropriate. The employees will be given a grace period of one year so one or more of the relatives leave the Bank and exceptions, if any, require the approval of the Chief Executive Officer.

Risk Management

Ithmaar Bank has in place a comprehensive Enterprise Wide Risk Management Framework in place addressing all activities and commensurate to the business operations and risk appetite of the Bank. The Risk Management Framework plays a pivotal role in protecting the shareholders' and customers' interests and is accorded paramount importance by the Board and the management.

The Risk Management culture emanates at the level of Board of Directors who establish the risk appetite and tolerance levels in line with the business strategy. The risk management framework is detailed in the Risk Charter and the various risk management policies which include the approach and methodology for the management of various risks. The risk appetite and risk policies are periodically reviewed to maintain their relevance and alignment with the business strategy and prevailing market conditions, and to ensure compliance with the guidelines of the CBB.

Risk Management in Ithmaar Bank is considered a collective responsibility and hence the risk management culture is effectively communicated across the organisation. Ithmaar Bank has an effective risk governance structure enabling the effective monitoring and management of risks across all business and support activities. The Board is assisted by the Audit, Governance, Risk, Nomination and Remuneration Committee, which meet periodically to oversee the implementation of the risk framework and management of the same. However, the Board retains ultimate responsibility for the effective implementation and functioning of the risk management framework and thereby approves all risk management policies. The Audit, Governance, Risk, Nomination and Remuneration Committee is supported by an independent Risk Management Department headed by the Chief Risk Officer who is responsible for implementing the Board-approved risk management framework in close coordination with the senior management and all other relevant departments.

The Risk management framework also encapsulates a robust monitoring and reporting process wherein the Risk Management Department monitors risk parameters on an ongoing basis against the Board-approved limits and tolerance levels, and presents the same to the management and the Board.

Additional information on the risk framework and the approach and methodology of managing each dimension of risk is detailed in the Public Disclosures section.

CORPORATE GOVERNANCE CONTINUED

Compliance, Anti-Money Laundering and Internal Controls

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, directives, reporting requirements and codes of conduct, including the internal code of conduct.

The Compliance Management Policy sets the compliance framework for managing compliance risks within the Bank, through setting the roles and responsibilities of the Board of Directors, the Senior Management and the Compliance Function staff, as well as formalising the independence and effectiveness of the compliance function and the reporting line of the Compliance Officer. The compliance function follows a risk-based approach to compliance risk management, in accordance with the compliance plan approved by the Audit, Governance, Risk, Nomination and Remuneration Committee of the Board.

Ithmaar Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations.

The Bank has established the Compliance Committee to effectively oversee and manage the compliance risk and other matters relating to regulatory requirement, AML/CFT and KYC standards. The Compliance Officer has the duty of promoting a sound compliance culture across the organisation through effective training, supported by periodic compliance testing to identify areas of improvement. Furthermore, the Compliance Function communicates matters of interest from a compliance perspective across the Bank by way of regular communications, training and awareness programs in order to ensure that Senior Management and other personnel are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance across the Bank's operations. The Bank has also implemented the concept of "compliance champions" in support of the Bank's continuing efforts in strengthening the compliance culture and sustaining the highest standards in regulatory compliance.

Customer Complaint Procedures

A formal complaints management policy is in place, in line with the requirements of the Central Bank of Bahrain (CBB). A dedicated customer complaints unit and officer is responsible for handling the management of complaints. Contact details of the complaints unit are published at all branches and on Ithmaar Bank's website. All customer complaints are promptly resolved to the best satisfaction of the customers.

Anti-Money Laundering

The Kingdom of Bahrain defines Money Laundering and Terrorist Financing (ML/TF) as criminal offences. The CBB mandates Islamic Financial Institutions in Bahrain to comply with all applicable legislations, laws and regulations on Anti-Money Laundering and Combating Terrorist Financing.

Ithmaar Bank complies with Bahrain relevant legislations on AML/CFT, CBB rules and the guidance of the Financial Crime Module which is based on the principles of the Financial Action Task Force's (FATF) 40 recommendations and the Basel Committee on Banking Supervision Paper.

The Bank continues to follow a Risk Based Approach (RBA) in terms of transaction monitoring, sanctions screening, Know Your Customer (KYC) requirements, as well as other matters relating to financial crime. The Bank has adopted policies and procedures to combat ML/TF that are approved by the Board of Directors, and implements programmes against ML/TF by establishing and maintaining appropriate systems and controls to limit the vulnerability to financial crime. The Bank maintains adequate policies and procedures related to Customer Due Diligence (CDD), customer screening and transaction monitoring to prohibit and actively prevent the Bank from conducting business relationships with entities engaged in money laundering practices or any illegal activities that facilitate funding of terrorism. These policies and procedures apply to all employees, branches and offices of the Bank.

All relevant staff of the Bank who deal with customers and/or are managerially responsible for handling customer relationships, must undergo annual training on Anti-Money Laundering and Know Your Customer (KYC) rules and procedures.

Ithmaar Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a dedicated Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently monitors implementation of the AML policies of the Bank and reports suspicious transactions to the relevant regulatory authorities in the accordance with the regulatory requirements. The AML and KYC framework incorporates the following four key elements: customer acceptance, customer identification procedures, verification of source of funds, ongoing transaction monitoring and risk assessment.

CORPORATE GOVERNANCE CONTINUED

Compliance, Anti-Money Laundering and Internal Controls (Continued)

Internal Controls

The Internal Control Framework of the Bank is overseen by the Board Audit, Governance, Risk, Nomination and Remuneration Committee (AGRNRC).

The Bank has a multi-faceted internal control framework in terms of the following:

- Policies and procedures detailing the controls to be adopted for the various processes in place.
- Clear segregation of duties to ensure there are no lapses in controls with adequate monitoring of processes.
- Robust Operational Risk Management Framework defining the methodologies for identification, measurement and monitoring of operational risks.
- Independent Internal Audit of all functions to measure the adequacy of internal controls across various processes and systems.
- Independent compliance oversight to ensure that the applicable regulatory requirements are adequately adhered to.

All processes and systems are evaluated on an ongoing basis by the concerned process owners and by the Risk Management through the Risk Control Self-Assessment as well as Internal Audit departments for any possible enhancements of controls from an audit perspective.

Any instances of control failures are immediately investigated by business and control functions to evaluate the need for further strengthening on controls across processes and functions. The AGRNRC actively monitors the Internal Control Framework of the Bank based on reports submitted by the Internal Control, Risk Management, Compliance and Internal Audit departments on a periodic basis.

FUNDS UNDER MANAGEMENT

FUNDS UNDER MANAGEMENT

As a commercial financial institution, a fundamental objective of the Bank is to act as a financial intermediary, channelling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Account Holders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined ratios and conditions set out in the agreements. This is activity known as Funds Under Management (FUM).

Structure of the Funds

The Bank provides three types of FUMs, namely Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as the Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner in which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's Know Your Customer (KYC) requirements.

As of 31 December 2022, the Bank's operated URIA funds are as follows:

- General Modaraba
- Special Modaraba

II. Restricted Funds (RIA)

In the case of RIA accounts, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Modaraba and/or Agency agreements) so as to formalise the relationship. RIA funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in the case of RIA funds. As per the CBB's instructions, all future RIA funds shall be structured as CIUs.

The funds managed by the Bank are mainly in real estate and private equity.

These are subject to various risks including:

- Foreign exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being not marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operational costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus.

FUNDS UNDER MANAGEMENT CONTINUED

Structure of the Funds (Continued)

III. Collective Investment Undertakings (CIU)

CIU have the following features:

- The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.
- These funds are structured in accordance with relevant CIU rules issued by the CBB.

All investors are required to meet the KYC requirements as per CBB rules.

Risk and Reward

In accordance with the principles of the Islamic Sharia, all FUMs are managed on a profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of an FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows

Specific Term

TThe IAH invests for a specific term, and profits/losses are accounted for at the time the Fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH may invest for an unspecified term (such as Savings Accounts), and profits are accounted for on a periodical basis during the Modaraba period. URIA funds are not subject to administration fees.

In the case of RIA and CIU, specific expenses that may arise in relation to the launching of a Modaraba fund and in the employment of funds may be charged against the gross revenue of that Modaraba, provided this is set out in the related Modaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Modaraba. Distributable profit is calculated after all permitted expenses have been deducted.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

Redemptions

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices, provided such exposure does not cause any violations of regulatory or internal limits.

Fiduciary Obligations

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly.
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management.
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills to manage FUMs in accordance with this policy and other regulatory rules.
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects.
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports.
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to IAHs as well as shareholders.
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

Investment Objectives

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Modaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

FUNDS UNDER MANAGEMENT CONTINUED

Governance of Funds Under Management

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit, Governance and Risk Management Committee, amongst its other responsibilities, to look after the interests of the IAHs. The Asset and Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including the Retail Banking and the Business Banking groups.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetites of investors.

A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management department and the Compliance department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

The Profit Distribution Sheet (Modaraba Account) provides details the on investment periods and the Bank's share of investments in 2022 as per the terms and conditions:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2022:

BD or US$	1 day	7 days	1 month	3 months	6 months	1 year	2 years	3 Years
Savings	0.10	-	-	-	-	-	-	-
General Modaraba	0.10	0.10	1.50	1.75	1.90	2.55	2.75	2.85
Special Modaraba	-	-	3.80	4.45	4.80	5.60	5.80	6.05

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

Contents

REPORT OF THE SHARIA SUPERVISORY BOARD

www.ithmaarbank.com

بنــك الإثمـار
Ithmaar Bank

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2022 until 31 December 2022, corresponding to the Year from 28 Jumada Al-Ula 1443 H until 7 Jumada Al-Akhirah 1444 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) and subsidiaries (the Bank) performed the following during the financial year ended at 31 December 2022:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities through Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards more diligence on Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different Mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined the books, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established Sharia Auditing Standards.

4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, consolidated income statement and the Bank's overall banking activities.

5. Examined and approved Sharia reports which are published by the Sharia Coordination and Implementation Department, Internal Sharia Audit Department and External Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the year ended at 31 December 2022. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, the resolution of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The Bank's management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent legitimate opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above, the Sharia Supervisory Board hereby resolves as follows:

First: With regard to the Bank's business in general:

a. The Bank's overall operations, investment and financing activities and banking services were conducted in full in compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board approved standard contracts.

REPORT OF THE SHARIA SUPERVISORY BOARD CONTINUED

بنــك الإثـمـار
Ithmaar Bank

www.ithmaarbank.com

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial from 1 January 2022 until 31 December 2022, corresponding to the Year from 28 Jumada Al-Ula 1443 H until 7 Jumada Al-Akhirah 1444 H.

b. Mudaraba profit and loss distribution reserve is in compliance with the principles and provisions of Islamic Sharia.

c. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Ithmaar Bank's accounts are consolidated under Ithmaar Holding. Thus, Zakat calculation will be included in the consolidated Financial Statements of Ithmaar Holding.

e. Income and expenses and gains made from sources prohibited by Sharia is disclosed in Ithmaar Holding's financial statements, as the Bank's accounts are consolidated under Ithmaar Holding.

Second: What has been transferred to the Bank after reorganization:

The Sharia Supervisory Board has reviewed the structure of the Bank and its subsidiaries following the establishment of the Holding Company and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary for commercial operations in Bahrain and Pakistan.

Since the bank's accounts are part of the accounts of Ithmaar Holding, the Shariah Supervisory Board directs the shareholders to refer to those accounts.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

This report has been issued on Monday 22 Rajab 1444, 13 February 2023.

رئيس الهيئة	عضو الهيئة	عضو الهيئة	عضو الهيئة
سماحة الشيخ عبدالله المنيع	فضيلة الشيخ أسامة بحر	فضيلة الشيخ محسن آل عصفور	فضيلة الشيخ نظام يعقوبي

DIRECTORS' REPORT

For the year ended 31 December 2022

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the year ended 31 December 2022, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended.

Principal activities

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017. On 7 July 2022, the sale of the consumer banking business of the Bank to Al Salam Bank B.S.C. (ASB) was completed.

The principal activities of the Group are a wide range of financial services, including commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2022, together with the consolidated results for the year ended is set out in the accompanying consolidated financial statements.

The Group has reported a net income of BD3.1 million for the year ended 31 December 2022 attributable to the equity shareholders of the Group, as compared to a net loss of BD0.51 million for 2021. Total assets at 31 December 2022 amounted to BD2,309.6 million (31 December 2021: BD3,327.5 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2022 was 13.21% (31 December 2021: 12.90%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 36 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2022:

HRH Prince Amr Mohammed Al-Faisal (Chairman)
Tunku Yaacob Khyra
Mr. Mohammed A. Rahman Bucheerei
Dr. Amani Khaled Bouresli
Sheikh Mohamed Abdullah El Khereiji
Ms. Elham Ebrahim Hassan
Governor Abdelhamid Mohamed Abou Moussa (Resigned with effect from 28 September 2022)
Sheikh Zamil Abdullah Al-Zamil (Resigned with effect from 28 September 2022)
Mr. Abdulellah Ebrahim Al-Qassimi (Resigned with effect from 28 September 2022)
Mr. Omar Abdi Ali (Resigned with effect from 28 September 2022)

DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2022

Directors' & Executive Management Remuneration

In accordance with the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, the table below shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2022.

Board of Directors' Remuneration Details:

	Fixed remunerations					Variable remunerations							
Name	**Remunerations of the chairman and BOD**	**Total allowance for attending Board and committee meetings**	**Salaries**	**Others***	**Total**	**Remunerations of the chairman and BOD**	**Bonus**	**Incentive plans**	**Others****	**Total**	**End-of-service award**	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
Independent Directors													
1. Dr. Amani Khaled Bouresli	-	13,195	-	-	13,195	-	-	-	-	-	-	13,195	-
2. Ms. Elham Ebrahim Hassan	-	13,195	-	-	13,195	-	-	-	-	-	-	13,195	-
3. Tunku Yaacob Khyra	-	9,802	-	-	9,802	-	-	-	-	-	-	9,802	-
Non-Executive Directors:													
1. HRH Prince Amr Mohammed Al-Faisal	-	7,917	-	-	7,917	-	-	-	-	-	-	7,917	-
2. Sheikh Mohamed Abdullah El Khereiji	-	7,917	-	-	7,917	-	-	-	-	-	-	7,917	-
Executive Directors:													
1. Mr. Mohammed A. Rahman Bucheerei	-	9,802	-	-	9,802	-	-	-	-	-	-	9,802	-
Resigned during the year													
1. Sheikh Zamil Abdullah Al-Zamil	-	7,917	-	-	7,917	-	-	-	-	-	-	7,917	-
2. Mr. Abdulellah Ebrahim Al-Qassimi	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
3. Governor Abdelhamid Mohamed Abou Moussa	-	6,786	-	-	6,786	-	-	-	-	-	-	6,786	-
4. Mr. Omar Abdi Ali	-	7,917	-	-	7,917	-	-	-	-	-	-	7,917	-
Total	**-**	**95,758**	**-**	**-**	**95,758**	**-**	**-**	**-**	**-**	**-**	**-**	**95,758**	**-**

Note: All amounts Expressed in Bahraini Dinars

Other remunerations:

* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).

** It includes the board member's share of the profits - Granted shares (insert the value) (if any).

Note:

1.The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. Further there is no remuneration proposed for the year.

2. Board remuneration represents payments made during the year 2022 based on approval of the Annual General Meeting dated 16 March 2022.

3. Others" represents consultancy contract for acting as nominee on the board of the Group's subsidiary.

DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2022

Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	717,251	32,754	-	750,005

Note: All amounts Expressed in Bahraini Dinars

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

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

Note:

1. The total bonus included BD11,704 as cash based remuneration and BD21,050 as shares based remuneration.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.

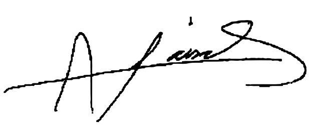
Dividend

No dividend has been proposed for 2022 (2021: Nil).

Auditors

The Board of directors recommend KPMG Fakhro Bahrain to be appointed as auditors of the Bank for the year ending 31 December 2023, subject to the regulatory and shareholder approvals.

By order of the Board of Directors



HRH Prince Amr Mohammed Al-Faisal
Chairman

20 February 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ithmaar Bank B.S.C.(C)

Independent auditor's report to the shareholders of Ithmaar Bank B.S.C. (c)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2022, its consolidated financial performance, consolidated cash flows and consolidated statement of changes in restricted investment accounts, for the year then ended in accordance with the Financial Accounting Standards "(FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in restricted investment accounts for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Block no. 346, P.O. Box 60771, Manama/Sea Front, Kingdom of Bahrain, Floor 47, West Tower,
Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

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Independent auditor's report to the shareholders of Ithmaar Bank B.S.C. (c) (continued)

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

Other information

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

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

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

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

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

Responsibilities of those charged with governance for the consolidated financial statements

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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), the Central Bank of Bahrain ("CBB") Rulebook (Volume 2) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

pwc

Independent auditor's report to the shareholders of Ithmaar Bank B.S.C. (c) (continued)

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

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

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

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

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

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

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Shareholders of Ithmaar Bank B.S.C.(C)

pwc

Independent auditor's report to the shareholders of Ithmaar Bank B.S.C. (c) (continued)

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

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

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

Report on other legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rulebook (Volume 2), we report the following:

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

ii. The financial information contained in the Report of the Sharia Supervisory Board and the Directors' report is consistent with the consolidated financial statements;

iii. Except for the matter described below in connection with the non-compliance with the requirements of the CBB's Rulebook (Volume 2 – Licensing Requirements module – LR-2.5.2A), nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, CBB Rulebook (Volume 2) and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2022 or its financial position as at that date:

- The total consolidated owners' equity of the Bank as at 31 December 2022 stood at less than BD 100 million which is a non-compliance with the requirements of the CBB's Rulebook (Volume 2 – Licensing Requirements module – LR-2.5.2A); and

iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

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

PricewaterhouseCoopers

Elias Abi Nakhoul
Partner's registration number: 196
PricewaterhouseCoopers M.E Limited
Manama, Kingdom of Bahrain
20 February 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2022 (Audited)	At 31 December 2021 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	122,377	196,839
Commodity and other placements with banks, financial and other institutions	4	18,440	70,290
Murabaha and other financings	5	578,510	1,270,306
Musharaka financing	6	573,470	537,505
Sukuk and investment securities	7	815,341	893,129
Investment in associates	8	3,204	2,456
Assets acquired for leasing	9	304	147,716
Other assets	10	67,527	63,834
Investment in real estate		4,792	2,467
Development properties	11	57,280	64,632
Fixed assets	12	59,745	55,682
Intangible assets	13	8,568	22,643
Total assets		**2,309,558**	**3,327,499**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY			
LIABILITIES			
Customers' current accounts	14	658,614	726,981
Due to banks, financial and other institutions	15	441,219	526,603
Due to investors	16	13,954	420,047
Other liabilities	17	144,781	135,544
Total liabilities		**1,258,568**	**1,809,175**
Equity of unrestricted investment accountholders	18	971,653	1,421,392
Total liabilities and equity of unrestricted investment accountholders		**2,230,221**	**3,230,567**
Share capital	20	100,000	100,000
Reserves		(53,699)	(40,120)
Accumulated losses		(10,182)	(16,150)
Total owners' equity		**36,119**	**43,730**
Non-controlling interest	19	43,218	53,202
Total Equity		**79,337**	**96,932**
Total liabilities, equity of unrestricted investment accountholders and total equity		**2,309,558**	**3,327,499**

These consolidated financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Abdulla Taleb
CEO

The notes 1 to 42 on pages 59 to 113 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Year ended	
	Notes	31 December 2022 (Audited)	31 December 2021 (Audited)
INCOME			
Income from assets financed by unrestricted investment account holders		176,985	85,843
Less: return to unrestricted investment accounts and impairment provisions		(93,914)	(38,293)
Group's share of income from unrestricted investment accounts as a Mudarib		**83,071**	**47,550**
Income from murabaha and other financings	22	19,142	31,484
Income from other investments	23	23,033	41,859
Other income	24	9,919	18,965
Total income		**135,165**	**139,858**
Less: profit paid to banks, financial and other institutions – net		(40,650)	(58,852)
Operating income		**94,515**	**81,006**
EXPENSES			
Administrative and general expenses	25	(57,873)	(55,000)
Depreciation and amortization	12,13	(7,763)	(8,920)
Total expenses		**(65,636)**	**(63,920)**
Net income before provision for impairment and overseas taxation		**28,879**	**17,086**
(Provision for)/reversal of impairment - net	26	(5,470)	3,393
Net income before overseas taxation		23,409	20,479
Overseas taxation	27	(20,680)	(10,700)
NET INCOME FROM CONTINUING OPERATIONS		**2,729**	**9,779**
Net results from discontinued operations	41	5,615	(4,618)
NET INCOME FOR THE PERIOD		**8,344**	**5,161**
Attributable to:			
Equity holders of the Bank		3,104	(512)
Non-controlling interest		5,240	5,673
		8,344	**5,161**
Basic and diluted earnings/(losses) per share attributable to equity holders of the Bank	21	**Fils 3.10**	**Fils (0.51)**
Basic and diluted (losses)/earnings per share - continuing operations attributable to equity holders of the Bank	21	**Fils (2.51)**	**Fils 4.11**

These consolidated financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Abdulla Taleb
CEO

The notes 1 to 42 on pages 59 to 113 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2022 and 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves									
	Share capital	Statutory reserve	Investments fair value reserve	Hedging reserve	Fixed Assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2022 (Audited)	**100,000**	**299**	**6,609**	**(1,350)**	**-**	**746**	**(46,424)**	**(16,150)**	**43,730**	**53,202**	**96,932**
Net income for the year	-	-	-	-	-	-	-	3,104	**3,104**	5,240	**8,344**
Movement from dividend distribution by subsidiaries	-	-	-	-	-	-	-	-	**-**	(6,540)	**(6,540)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	3,174	**3,174**	(3,174)	**-**
Transfer to statutory reserve	-	310	-	-	-	-	-	(310)	**-**	-	**-**
Movement in fair value of sukuk and investment securities	-	-	(4,743)	-	-	-	-	-	**(4,743)**	(1,550)	**(6,293)**
Movement in hedging reserve	-	-	-	1,350	-	-	-	-	**1,350**	-	**1,350**
Movement in fair value of land and building	-	-	-	-	9,981	-	-	-	**9,981**	5,013	**14,994**
Movement in fair value of investment in real estate	-	-	-	-	-	353	-	-	**353**	177	**530**
Foreign currency translation adjustments	-	-	(79)	-	-	(148)	(20,603)	-	**(20,830)**	(9,150)	**(29,980)**
At 31 December 2022 (Audited)	**100,000**	**609**	**1,787**	**-**	**9,981**	**951**	**(67,027)**	**(10,182)**	**36,119**	**43,218**	**79,337**

		Reserves								
	Share capital	Statutory reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2021 (Audited)	**100,000**	**299**	**7,309**	**(2,760)**	**721**	**(39,602)**	**(16,136)**	**49,831**	**55,049**	**104,880**
Net (loss)/income for the year	-	-	-	-	-	-	(512)	**(512)**	5,673	**5,161**
Increase in shareholding of subsidiary	-	-	-	-	-	-	498	**498**	(498)	**-**
Movement from dividend distribution by subsidiaries	-	-	-	-	-	-	-	**-**	(585)	**(585)**
Movement in fair value of sukuk and investment securities	-	-	(618)	-	-	-	-	**(618)**	(276)	**(894)**
Movement in hedging reserve	-	-	-	1,410	-	-	-	**1,410**	-	**1,410**
Foreign currency translation adjustments	-	-	(82)	-	25	(6,822)	-	**(6,879)**	(6,161)	**(13,040)**
At 31 December 2021 (Audited)	**100,000**	**299**	**6,609**	**(1,350)**	**746**	**(46,424)**	**(16,150)**	**43,730**	**53,202**	**96,932**

The notes 1 to 42 on pages 59 to 113 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2022 (Audited)	Year ended 31 December 2021 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation from:			
Continuing operations		23,409	20,479
Discontinued operations		5,615	(4,618)
Adjustments for:			
Depreciation and amortization		7,763	8,920
(Provision for)/reversal of impairment - net		5,470	(3,393)
Income from other investments		(23,033)	(41,859)
Finance cost on net ijarah liability		(2,678)	2,846
Operating income/(loss) before changes in operating assets and liabilities		16,546	(17,625)
Increase/(decrease) in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(36,406)	15,448
Changes in operating assets and liabilities:			
Murabaha and other financings		76,867	41,857
Musharaka financing		(171,548)	(236,640)
Other assets		(29,230)	(9,366)
Customers' current accounts		91,820	115,325
Due to banks, financial and other institutions		(10,906)	112,558
Due to investors		(30,347)	(51,249)
Other liabilities		51,578	12,409
Increase in equity of unrestricted investment accountholders		134,173	187,061
Taxes paid		(20,899)	(14,905)
Net cash generated from operating activities		**71,648**	**154,873**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		4,627	(2,370)
Sukuk and investment securities		(126,502)	(171,796)
Fixed assets		(15,491)	(12,056)
Net cash used in investing activities		**(137,366)**	**(186,222)**
FINANCING ACTIVITIES			
Repayment of net Iajrah liability		(5,531)	(5,959)
Net cash used in financing activities		**(5,531)**	**(5,959)**
Foreign currency translation adjustments		(28,624)	(15,443)
Net decrease in cash and cash equivalents		**(99,873)**	**(52,751)**
Cash and cash equivalents at the beginning of the year		**225,529**	**278,280**
Cash and cash equivalents at the end of the year	4	**125,656**	**225,529**

Note: For non-cash transactions, please refer note 41

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2022	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2022
Shamil Bosphorus Modaraba*	2,356	-	-	2,356
European Real Estate Placements*	4,793	(264)	(587)	3,942
US Real Estate Placements*	9,514	-	-	9,514
TOTAL	**16,663**	**(264)**	**(587)**	**15,812**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

	At 1 January 2021	Fair value movements	At 31 December 2021
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	4,806	(13)	4,793
US Real Estate Placements*	9,514	-	9,514
TOTAL	**16,676**	**(13)**	**16,663**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 42 on pages 59 to 113 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017.

Subsequent to reorganization, the transfer of the legal ownership of certain assets and liabilities from Ithmaar to the Bank are in progress.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 1 commercial branch in Bahrain and its following principal subsidiary companies:

	% Owned			
	2022	2021	Country of Incorporation	Principal business activity
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	92	91	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	50	50	Kingdom of Bahrain	Mortgage finance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

1. INCORPORATION AND ACTIVITIES (continued)

1.1 As of 31 December 2022, the consolidated equity of the Group stood at BD36.1 million, which is below the minimum regulatory capital required by the CBB of BD100 million as per LR module of Volume 2 rulebook. The Board of Directors of the immediate Parent Company has also discussed the plan to re-merge Ithmaar Holding B.S.C., Ithmaar Bank B.S.C. (c) and IB Capital B.S.C. (c) into a single entity where the surviving entity (re-merged entity) shall function as an Islamic retail bank with certain exemptions subject to the approvals of the competent authorities.

The Group's management assessed its liquidity and equity projections of the entity for the coming twelve months from the date issue of these consolidated financial statements. The management's assessment includes following assumptions:

- No change in status of sanctioned liabilities and accordingly no repayments.
- Stressing the expected outflows of the liabilities.
- Stressing the expected inflows from assets.
- Ability to maintain core deposits through increased focus on corporate customers as part of the new business model of the remaining entity (evidenced by actual cash flows till the reporting date).
- Reduction in operation expenses resulting from a leaner remaining entity post transaction with Al Salam
- Increased availability of liquid assets in the form of interbank liquidity support facility; and
- Use of ALCO approved rollover/ renewal related behavioural patterns of liabilities post the transaction.

The Board of Directors has reviewed the above assumptions and believes that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for a period of at least one year from the date of issue of these consolidated financial statements. Accordingly, this consolidated financial statements are prepared on a going concern basis.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

(i) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS) and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), CBB Rulebook (Volume 4 and applicable provisions of Volume 6).

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

The above framework of the consolidated financial statements is hereinafter referred to as 'Financial Accounting Standards.

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar (the parent) converted to an Islamic retail bank in April 2010. These are currently presented in accordance with FAS in the consolidated financial statements for the year ended 31 December 2022 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 38.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(i) Basis of preparation (continued)

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022

(i) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to shariah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

b) "product Wa'ad and Khiyar'' which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

The Group does not have any significant impact on adoption of this standard.

B. New standards, amendments, and interpretations issued but not yet effective

(i) FAS 39 Financial Reporting for Zakah

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

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

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

The Group is currently evaluating and assessing the impact of adopting this standard.

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

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

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

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

(ii) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Control is also presumed to exist if the Group has power to govern the financial and operating policies of a company with the objective of obtaining benefits from its operations. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

Intra-Group balances and non-controlling interests

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for non-controlling interests and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions are eliminated.

The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies (for group reporting purposes).

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

For group companies, items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency does not have any impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investments carried at fair value through equity are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders' equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs where it does not exercise control. In determining whether the Group exercises control over an SPE, judgements are made about the objectives of the SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to obtain benefit from the SPE's operations by having power to govern its financial and operational policies.

3. Impairment of goodwill and intangible assets

Goodwill other intangibles assets acquired through business combinations have been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The Group tests whether goodwill or intangible assets have suffered any impairment in accordance with the impairment accounting policy.

The recoverable amount of the cash-generating units are generally determined based on higher of Value-in-Use (VIU) and Fair Value Less Cost to Disposal (FVLCTD).

VIU calculations are determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units.

For FVLCTD calculations, the Comparable Companies Multiple (CCM) method is used, whereby the price to book value (P/B) multiple of the comparable listed banks operating in the region is considered. The key assumptions used in estimating the recoverable amounts of cash-generating units are assessed to ensure reasonableness of the FVLCTD.

The above methods require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

The management used the uses the higher of VIU or FVLCTD method in assessing the recoverable amount of the goodwill and other intangible assets. As a result, the management uses judgement in the percentage of the control premium and marketability discount used in the calculation of the effective P/B multiple for the FVLCTD method.

4. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with impairment policy.

The staging and ECL of related party exposures is consdered separately from the other financing assets. The ECL is assessed using the cash shortfall method since the underlying collateral can be taken over without having to apply any haircut. Furthter, the increase in credit risk is also assessed separately for related parties, given their commitment to honour the amounts due to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements(continued)

5. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets and anticipated support from major shareholder.

6. Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2. The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During 2020 and 2021, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring up to six months instalments at a time. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. The Group uses judgement to individually differentiate between a borrowers' short-term liquidity constraints taking into account of customers who requested for further deferment and a change in its lifetime credit risk.

7. Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking economic scenario which reflects the Group's view of the most likely future macro-economic conditions.

Any changes made to ECL to estimate the economic outlook post COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Many of the macroeconoic variables which were used in the ECL model are updated or published by external agencies or government agencies.

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 as per note 2.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 as per note 2.

(g) Investments

1. Investments carried at amortised cost

An Investment instruments shall be measured at amortised cost if both the following conditions are met:

a. the investment is held within a business model whose objective is to hold such investments in order to collect expected cashflows till maturity of the instrument; and

b. the investment represents either a debt type instrument or other investment instrument having reasonably determinable effective yield.

These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

An Investment will be measured at Fair Value through equity if both the following conditions are met:

a. the investment is held within a business model whose objective is achieved by noth collecting the expected cashflows and selling the investments; and

b. the investment represents a non monetary debt type instrument or other investment instrument having reasonably determinable effective yield.

Any other investment instruments not classified as per amortised cost or fair value through equity, are classified as fair value through income statement (FVIS).

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at fair value through income statement to be classified as investments at fair value through equity.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the consolidated income statement.

4. Investment in real estate

All properties held for earning periodical income or for capital appreciation purposes or both are classified as investment in real estate (held-for-use).

Investment in real estate is initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

All properties where decision is made to sell and the sale is expected to occur within 12 months of reporting date (subject to availability of identified willing buyer) are classified as Investment in real estate Held-for-sale.

Investment in real estate Held-for-sale is measured at fair value in accordance with the fair value model.

5. Development properties

Development properties represent land held by the Group for development and sale in the ordinary course of business, and include expenditure incurred in acquiring the properties and other costs incurred in bringing them to their existing condition.

Development properties are carried at lower of cost or estimated net realisable value. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure.

6. Mudaraba

Mudaraba investments are recorded at cost.

Share of the Group's profit or loss from the Mudaraba are recognized in the consolidated income statement upon distribution or deduction from Mudaraba capital (in case of losses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

7. Fair value

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measured at cost.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 as per note 2.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation except for lands & buildings. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvement	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

During the year the management has changed the accounting policy for land and building from cost method to revaluation method' (Refer note 12). Land & buildings are initially recognised at cost. After initial recognition, these are carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by using unobservable valuation inputs. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve in equity.

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of non-controlling interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a non-controlling interests is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, taxation related to the subsidiaries incorporated in tax jurisdictions are recorded as per local regulations.

(l) Value Added Tax (VAT)

The Group is subject to VAT at 5% on certain financial services as applicable from 1 January 2019 (increased to 10% from 1 January 2021). The amount of VAT liability is determined by applying the VAT rate on eligible turnover, reduced by the VAT paid on eligible expenses (input VAT). The irrecoverable portion of input VAT is recognized as expense in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(m) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

(n) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

For share incentive based variable remuneration, provision is recognized in accordance with the CBB guidelines, based on the adjusted net asset value of the latest audited consolidated financial statements.

(o) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors

(p) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(q) Profit Equalisation Reserve (PER)

PER is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of managing rate of return risk (including displaced commercial risk).

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(r) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(s) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changed in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(t) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(u) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group's consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(v) Fixed Assets fair value reserve

The fixed assets fair value reserve is used to record increments and decrements on the revaluation of non-current assets. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings as per note 2(i).

(w) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from investments carried at amortised cost

All gains or losses from investments carried at amortised cost are recognised in consolidated statement of income.

7. Income from investments carried at fair value through income statement

All gains or losses from investments carried at fair value through income statement are recognised in consolidated statement of income.

8. Income from investments carried at fair value through equity

The realised gains or losses along with the amounts previously recognised in equity are recognised in the consolidated income statement.

Dividend income is recognised in the consolidated statement of income when right to receive payment is established.

9. Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(x) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(y) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(z) Shari'a compliant risk management instruments and hedge accounting

The Group uses certain shari'a compliant risk management instruments (similar to derivatives) to economically hedge exposures to foreign exchange and profit rate risks. Such instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. The fair value of a hedging instrument is the equivalent to its prevailing market rates or is based on broker quotes. Instruments with positive market values are disclosed as assets and instruments with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into shari'a compliant risk management instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the consolidated income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of changes in owners' equity.

Cash flow hedging attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of changes in owners' equity and presented in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

Hedges directly affected by variable profit rate benchmark reforms

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark variable profit rate is not altered as a result of global variable profit rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark variable profit rate will not be altered as a result of variable profit rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the variable profit rate benchmark cash flows designated as a hedge will not be altered as a result of variable profit rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the variable profit rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from variable profit rate benchmark reform about the timing and the amount of the variable profit rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(aa) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 “Impairment, credit losses & onerous commitments” as follows:

1. **Financings & receivables**

Financings, receivables (including off-balance sheet exposures) are measured using the Expected Credit Losses (ECL) model in accordance with the Credit Losses Approach.

FAS 30 replaces the ‘incurred loss’ model with an ‘expected credit loss’ model (“ECL”). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

Basis of Preparation - Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria for definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar receivables for the purpose of measuring ECL

ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Bank will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty’s internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(aa) Impairment (continued)

1. Financings & receivables (continued)

The Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the banks. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

In general, counterparties with facilities exceeding 90 days past due are considered in default.

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

- All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
- All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
- All or any of the facility/ies wherein 'specific provision' is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(aa) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the 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);
- 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;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Bank carries out ECL estimation on a collective basis.

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

I. Probability of default (PD);

II. Loss given default (LGD);

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, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

(aa) Impairment (continued)

1. Financings & receivables (continued)

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) and Economist Intelligence Unit (EIU) database for the relevant exposure country.

Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP, Inflation and Domestic Credit Growth.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP Inflation and Domestic Credit Growth.

Based on consideration of a variety of external actual and forecast information, The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one-year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

- Auto finance;
- Mortgage finance;
- Personal Finance; and
- Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

The PD's derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD's separately for Corporate and Retail portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

1. **Financings & receivables** (continued)

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

- All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
- Debt instruments that are measured at amortised cost or at fair value through equity.
- Financing commitments that are not measured at fair value through profit and loss (FVTPL)
- Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
- Lease receivables and contract assets
- Balances with banks
- Related party balances
- Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

1. Financings & receivables (continued)

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable events:

All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more

All or any of the facility/ies put on non-accrual status (i.e. profit suspended)

All or any of the facility/ies wherein 'specific provision' is set aside individually

Breach of financial covenants that are considered material. The Bank will determine materiality based on negative impact of breach on the credit rating of the obligor

Event driven defaults such as declaration of bankruptcy (filed by the borrower or initiated by the Bank against the borrower), death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Bank.

The Bank makes a charge-off or account-specific provision resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure;

The Bank transfers the credit obligation at less than the cash equivalent value;

The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of repayment instalments;

Distressed restructuring refers to situations when the Bank grants a concession that it would not otherwise consider, irrespective of whether the concession is at the discretion of the Bank or otherwise. Forgiveness means reduction in repayment amount or profit. Postponement could include grace periods or changes in instalments leading to delayed maturity.

The Bank considers that the obligor is unlikely to pay its credit obligations in full (i.e. principal, profit, fees or any other amount), without taking actions such as realizing security (if held).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Summary of significant accounting policies (continued)

2. Investments

Development properties

Development properties are carried at lower of cost or estimated net realisable value in accordance with the Net realisable value approach. This includes the situation when there is a possible indication of decline in the value of such properties. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure. Impairment losses are recognised in the consolidated income statements.

Intangible assets

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

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

Assets classified as Held for sale

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

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement.

Other investments

All other investments (excluding investments carried at fair value through income statement) are assessed for impairment in accordance with the Impairment approach.

Impairment loss represents the amount by which an investment's carrying value exceeds its recoverable amount.

In case of indications of possible impairment, the recoverable amount of an investment is determined as being the higher of its fair value less costs of disposal and its value-in-use.

Impairment losses are recognised in the consolidated income statement, taking into account the split between owners and unrestricted investment accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	11,119	4,069	15,188	34,836	6,790	41,626
Cash and balances with banks and central banks	21,819	85,370	107,189	84,921	70,292	155,213
	32,938	**89,439**	**122,377**	**119,757**	**77,082**	**196,839**

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	11,733	6,734	18,467	70,316	-	70,316
Less: Provision for impairment	(27)		(27)	(26)	-	(26)
	11,706	**6,734**	**18,440**	**70,290**	**-**	**70,290**

Cash and cash equivalents for the purpose of consolidated statement of cash flows are as under:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	32,938	89,439	122,377	119,757	77,082	196,839
Commodity and other placements with banks, financial and other institutions	11,733	6,734	18,467	70,316	-	70,316
Less: Placement maturing after ninety days	-	-	-	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(11,119)	(4,069)	(15,188)	(34,836)	(6,790)	(41,626)
	33,552	**92,104**	**125,656**	**155,237**	**70,292**	**225,529**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. MURABAHA AND OTHER FINANCINGS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	400,096	290,141	690,237	731,095	674,140	1,405,235
Less: Provision for impairment	(86,092)	(25,635)	(111,727)	(109,202)	(25,727)	(134,929)
	314,004	**264,506**	**578,510**	**621,893**	**648,413**	**1,270,306**

Other financings represents conventional loans and advances totalling BD33.5 million (31 December 2021: BD95.4 million) made by a subsidiary of the Bank.

The movement in provision for impairment is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	109,202	25,727	134,929	121,648	17,847	139,495
Charge for the year	6,632	447	7,079	8,691	8,700	17,391
Write back during the year	(5,599)	(405)	(6,004)	(11,303)	(199)	(11,502)
Utilised during the year	(2,252)	(52)	(2,304)	(5,610)	(251)	(5,861)
Movement due to sale of assets	(13,333)	-	(13,333)	-	-	-
Reclassification	-	949	949	(120)	-	(120)
Exchange differences and other movements	(8,558)	(1,031)	(9,589)	(4,104)	(370)	(4,474)
At 31 December	**86,092**	**25,635**	**111,727**	**109,202**	**25,727**	**134,929**

6. MUSHARAKA FINANCING

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Musharaka financing	-	579,533	579,533	43	542,684	542,727
Less: expected credit loss	-	(6,063)	(6,063)	-	(5,222)	(5,222)
	-	**573,470**	**573,470**	**43**	**537,462**	**537,505**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Debt-type instruments – listed	42	-	42	66	-	66
Debt-type instruments – unlisted	418	-	418	24,890	-	24,890
Equity-type securities – listed	746	-	746	1,853	-	1,853
	1,206	**-**	**1,206**	**26,809**	**-**	**26,809**
Investment securities at fair value through equity						
Debt-type instruments – listed	-	82,661	82,661	70,701	33,988	104,689
Debt-type instruments – unlisted	24,026	660,398	684,424	286,843	319,124	605,967
Equity-type securities – listed	-	16,424	16,424	22,154	214	22,368
Equity-type securities – unlisted	864	1,288	2,152	3,185	-	3,185
	24,890	760,771	785,661	382,883	353,326	736,209
Provision for impairment	(864)	(2,384)	(3,248)	(4,622)	-	(4,622)
	24,026	**758,387**	**782,413**	**378,261**	**353,326**	**731,587**
Investment securities carried at amortised cost						
Debt-type instruments – listed	-	15,442	15,442	-	118,125	118,125
Debt-type instruments – unlisted	-	18,727	18,727	3,929	15,932	19,861
	-	34,169	34,169	3,929	134,057	137,986
Provision for impairment	-	(2,447)	(2,447)	(3,253)	-	(3,253)
	-	**31,722**	**31,722**	**676**	**134,057**	**134,733**
	25,232	**790,109**	**815,341**	**405,746**	**487,383**	**893,129**

Sukuk and investment securities include conventional investments totalling BD25.2 million (31 December 2021: BD402.3 million) made by a subsidiary of the Bank. The movement in provision for impairment is as follows:

The movement in provision for impairment is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	7,875	-	7,875	9,255	-	9,255
Charge for the year	-	-	-	2,236	-	2,236
Write back during the year	(70)	(439)	(509)	(2,938)	-	(2,938)
Reclassification	(5,826)	5,826	-	120	-	120
Exchange differences and other movements	(1,115)	(556)	(1,671)	(798)	-	(798)
At 31 December	**864**	**4,831**	**5,695**	**7,875**	**-**	**7,875**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

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

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

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2022				
Investment securities at fair value through income statement				
Debt-type instruments	460	-	-	460
Equity-type securities – listed	746	-	-	746
Investment securities at fair value through equity				
Debt-type instruments – listed	82,233	-	-	82,233
Debt-type instruments – unlisted	-	684,626	-	684,626
Equity securities	13,364	2,190	-	15,554
	96,803	**686,816**	**-**	**783,619**

	Level 1	Level 2	Level 3	Total
At 31 December 2021				
Investment securities at fair value through income statement				
Debt-type instruments	66	24,890	-	24,956
Equity-type securities – listed	1,853	-	-	1,853
Investment securities at fair value through equity				
Debt-type instruments – listed	104,484	-	-	104,484
Debt-type instruments – unlisted	-	605,681	-	605,681
Equity securities	17,500	3,922	-	21,422
	123,903	**634,493**	**-**	**758,396**

There was no movement between level 1 and level 2 during the year

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT IN ASSOCIATES

Investment in associated entities, as adjusted for the Group's share of their results comprise:

Name of entity	31 December 2022	% of Shareholding	31 December 2021	% of Shareholding	Country	Activity
Unlisted:						
Faysal Stock Fund	440	32	-	-	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	1,405	32	-	-	Pakistan	Mutual funds
Faysal Islamic Stock Fund	160	21	-	-	Pakistan	Mutual funds
Faysal Saving Growth Fund (B)	1,199	29	-	-	Pakistan	Mutual funds
Faysal Saving Growth Fund	-	-	2,301	35	Pakistan	Mutual funds
Faysal Asset Allocation Fund	-	-	155	23	Pakistan	Mutual funds
	3,204	-	**2,456**			

During the period, the Group's subsidiary increased its shareholding in these funds, thereby classiying them as associates.

9. ASSETS ACQUIRED FOR LEASING

	31 December 2022			31 December 2021		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	**304**	**-**	**304**	**172,524**	**(24,808)**	**147,716**

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2022	31 December 2021
Relating to owners	304	348
Relating to unrestricted investment accounts	-	147,368
	304	**147,716**

10. OTHER ASSETS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	27,517	40,897	68,414	34,507	31,640	66,147
Due from related parties (note 35)	5,401	-	5,401	7,319	-	7,319
Taxes – deferred	294	1,214	1,508	3,516	439	3,955
Taxes – current	2,605	2,265	4,870	34	-	34
Assets acquired against claims	-	1,747	1,747	2,137	-	2,137
	35,817	46,123	81,940	47,513	32,079	79,592
Provision for impairment	(10,865)	(3,548)	(14,413)	(11,195)	(4,563)	(15,758)
	24,952	**42,575**	**67,527**	**36,318**	**27,516**	**63,834**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. OTHER ASSETS (continued)

The movement in provision for impairment is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	11,195	4,563	15,758	11,355	4,501	15,856
Charge for the year	-	-	-	534	69	603
Write back during the year	(76)	(55)	(131)	(104)	-	(104)
Utilised during the year	-		-	(359)	-	(359)
Reclassification	-	(949)	(949)	-	-	-
Exchange differences and other movements	(254)	(11)	(265)	(231)	(7)	(238)
At 31 December	**10,865**	**3,548**	**14,413**	**11,195**	**4,563**	**15,758**

11. DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2022	31 December 2021
Land	51,340	47,118
Development costs	5,940	17,514
	57,280	**64,632**

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

12. FIXED ASSETS

	Relating to owners					
	31 December 2022			31 December 2021		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	26,210	(24)	26,186	15,678	(3,475)	12,203
Leasehold improvements	10,711	(6,178)	4,533	13,444	(8,794)	4,650
Furniture and equipment	24,041	(16,477)	7,564	28,338	(20,973)	7,365
Motor vehicles	966	(638)	328	1,160	(683)	477
Right-of-use assets	22,954	(1,820)	21,134	36,334	(5,347)	30,987
	84,882	**(25,137)**	**59,745**	**94,954**	**(39,272)**	**55,682**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. FIXED ASSETS (continued)

The movement in land and building is as follows:

	31 December 2022	31 December 2021
At 1 January	12,203	10,556
Additions	110	2,721
Depreciation	(110)	(114)
Movement in fair value	14,994	-
Exchange differences and other movements	(1,011)	(960)
At 31 December	**26,186**	**12,203**

Depreciation charge for the year ended 31 December 2022 amounted to BD3.5 million (31 December 2021: BD4 million).

Due to change in its business model post the transaction with Al Salam and in order to provide more reliable and relevant information, on 31 December 2022, the Group has changed its accounting policy in respect of the measurement of the carrying amount of its freehold land, leasehold land, buildings on freehold land and buildings on leasehold land subsequent to initial recognition. In this respect the Group has decided to follow the revaluation model as allowed under International Accounting Standard 16: 'Property, Plant and Equipment', which lays down that 'Items of property, plant and equipment under the revaluation model are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and any subsequent accumulated impairment losses'.

Had there been no revaluation, the carrying amount of land and building would have been BD11.2 million.

13. INTANGIBLE ASSETS

	Relating to owners					
						31 December 2022
	Cost	Accumulated amortisation	Provision for impairment	Movement due to sale of assets	Exchange differences	Net book amount
Goodwill	34,223	-	(26,794)	-	(5,266)	2,163
Customer relations	42,814	(32,361)	-	(4,871)	(4,525)	1,057
Core deposits	58,641	(46,783)	-	(5,698)	(5,169)	991
Others	15,939	(11,582)	-	-		4,357
	151,617	**(90,726)**	**(26,794)**	**(10,569)**	**(14,960)**	**8,568**

	Relating to owners					
						31 December 2021
	Cost	Accumulated amortisation	Provision for impairment	Movement due to sale of assets	Exchange differences	Net book amount
Goodwill	34,223	-	(26,794)	-	(4,757)	2,672
Customer relations	42,814	(31,481)	-	-	(4,490)	6,843
Core deposits	58,641	(45,084)	-	-	(5,169)	8,388
Others	18,933	(14,193)	-	-	-	4,740
	154,611	**(90,758)**	**(26,794)**	**-**	**(14,416)**	**22,643**

Amortisation charge for the year ended 31 December 2022 amounted to BD4.8 million (31 December 2021: BD5.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2022
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13. INTANGIBLE ASSETS (continued)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2022	31 December 2021
Faysal Bank Limited	2,163	2,672
	2,163	**2,672**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

14. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to BD72.2 million which is subject to sanctions under US measures (31 December 2021: BD76.9 million).

15. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	147,656	241,168	388,824	321,087	161,238	482,325
Due to financial and other institutions	28,234	24,161	52,395	24,091	20,187	44,278
	175,890	**265,329**	**441,219**	**345,178**	**181,425**	**526,603**

Due to banks, financial and other institutions include balances totalling BD158.9 million from two counterparties which are subject to sanctions under US measures (31 December 2021: BD161.2 million).

Due to banks, financial and other institutions include conventional deposits totalling BD9.8 million (31 December 2021: BD76.7 million), accepted by a subsidiary of the Bank.

At 31 December 2022, there were collateralized borrowings of BD Nil (31 December 2021: BD55.3 million).

16. DUE TO INVESTORS

	Relating to owners	
	31 December 2022	31 December 2021
Due to corporate institutions	5,521	265,866
Due to individuals	8,433	74,481
Due to financial institutions	-	79,700
	13,954	**420,047**

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

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17. OTHER LIABILITIES

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	60,246	84,519	144,765	65,132	70,407	135,539
Due to related parties (note 35)	16	-	16	5	-	5
	60,262	**84,519**	**144,781**	**65,137**	**70,407**	**135,544**

18. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group. The statement of financial position of URIA is as follows:

	Notes	31 December 2022	31 December 2021
Cash and balances with banks and central banks	3	89,439	77,082
Commodity and other placements with banks, financial and other institutions	4	6,734	-
Murabaha and other financings	5	264,506	648,413
Musharaka financing	6	573,470	537,462
Sukuk and investment securities	7	790,109	487,383
Assets acquired for leasing	9	-	147,368
Other assets	10	42,575	27,516
Investment in real estate		2,815	-
Fixed assets		19,284	21,450
Intangible assets		751	-
Due from the Group (net)		15,339	208,665
		1,805,022	2,155,339
Customers' current accounts		(483,521)	(482,115)
Due to banks, financial and other institutions	15	(265,329)	(181,425)
Other liabilities	17	(84,519)	(70,407)
Equity of unrestricted investment accountholders		**971,653**	**1,421,392**

Due from the Group represents amount invested by URIA with owners. This amount is eliminated on consolidated and reflected as URIA's share of jointly financed assets on the the consolidated financial position.

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provision amounting to BD40.1 million (31 December 2021: BD35.5 million). The movement of impairment provision relating to unrestricted investment accountholders has been disclosed in note 26.

Other liabilities include the profit equalization reserve and the movement is as follows:

	31 December 2022	31 December 2021
At 1 January	1,568	4,335
Net utilisation during the year	(979)	(2,767)
At 31 December	**589**	**1,568**

The average gross rate of return in respect of unrestricted investment accounts was 4.8% per annum for 2022 (2021: 3.9%) of which 3.2% per annum (2021: 2.4%) was distributed to the investors and the balance was either set aside as provision for impairment, management fee of BD0.5 million (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

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19. NON-CONTROLLING INTERESTS

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called non-controlling interests.

The following table summarises the non-controlling shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2022		31 December 2021	
	Non-controlling %		Non-controlling %	
Faysal Bank Limited	33	38,206	33	44,485
Dilmunia Development Fund I L.P.	8	4,402	9	8,123
Sakana Holistic Housing Solutions B.S.C. (C)	50	610	50	594
		43,218		**53,202**

Non-controlling interests in the consolidated income statement of BD5.2 million (31 December 2021: BD5.7 million) represents the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

20. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 1 January 2021	1,000,000	100,000
At 31 December 2021 (Audited)	**1,000,000**	**100,000**
Issued and fully paid		
Total outstanding as at 1 January 2022	1,000,000	100,000
At 31 December 2022 (Audited)	**1,000,000**	**100,000**

The Bank's total issued and fully paid share capital at 31 December 2022 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. the Chief Executive Officer owns 1 share and remaining shares are held by Ithmaar Holding B.S.C. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2022 was 15.5 million shares (31 December 2021: 15.5 million shares) of which the unvested shadow shares amount to 2.7 million shares (31 December 2021: 5.7 million shares).

21. BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

Earnings/(losses) per share (Basic & Diluted) are calculated by dividing the net income/(loss) attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	Year ended 31 December 2022	Year ended 31 December 2021
Net income/(loss) attributable to shareholders (BD '000)	3,104	(512)
Weighted average number of issued and fully paid up ordinary shares ('000)	1,000,000	1,000,000
Earnings/(losses) per share (Basic & Diluted) - Fils	**3.10**	**(0.51)**

Earnings per share on non-sharia compliant income and expenses is included under note 38.

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21. BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (continued)

BASIC AND DILUTED EARNINGS PER SHARE FOR CONTINUING OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

	Year ended 31 December 2022	Year ended 31 December 2021
Net (loss)/income attributable to shareholders (BD '000)	(2,511)	4,106
Weighted average number of issued and fully paid up ordinary shares ('000)	1,000,000	1,000,000
(Losses)/earnings per share (Basic & Diluted) - Fils	**(2.51)**	**4.11**

BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE FOR DISCONTINUED OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

	Year ended 31 December 2022	Year ended 31 December 2021
Net income/(loss) attributable to shareholders (BD '000)	5,615	(4,618)
Weighted average number of issued and fully paid up ordinary shares ('000)	1,000,000	1,000,000
Earnings/(losses) per share (Basic & Diluted) - Fils	**5.62**	**(4.62)**

22. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners Year ended 31 December 2022	Relating to owners Year ended 31 December 2021
Income from Islamic financings	7,668	9,710
Income from other financings	11,474	21,774
	19,142	**31,484**

23. INCOME FROM OTHER INVESTMENTS

	Relating to owners Year ended 31 December 2022	Relating to owners Year ended 31 December 2021
Income from investment securities at amortised cost	69	77
Income from investment securities at fair value through equity	18,808	37,143
Income from investment securities at fair value through income statement	4,387	7,886
Loss from investment in real estate	(231)	(3,247)
	23,033	**41,859**

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24. OTHER INCOME

	Relating to owners Year ended 31 December 2022	Relating to owners Year ended 31 December 2021
Income from banking services	8,257	14,563
Income from commodity placements	1,834	2,464
Foreign exchange (loss)/income	(269)	1,343
Other income	97	595
	9,919	**18,965**

25. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners Year ended 31 December 2022	Relating to owners Year ended 31 December 2021
Salaries and other benefits	23,008	22,639
Office expenses	25,397	20,918
Professional fees	2,382	2,294
Other administrative expenses	7,086	9,149
	57,873	**55,000**

26. PROVISION FOR IMPAIRMENT

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	158,682	35,512	194,194	174,267	26,347	200,614
Charge for the year	11,215	4,845	16,060	11,462	12,424	23,886
Write back during the year	(5,745)	(3,087)	(8,832)	(14,855)	(2,141)	(16,996)
Utilised during the year	(2,252)	(53)	(2,305)	(5,968)	(251)	(6,219)
Movement due to sale of assets	(13,333)	-	(13,333)	-	-	-
Reclassification	(5,826)	5,826	-	-	-	-
Exchange differences	(9,928)	(2,966)	(12,894)	(6,224)	(867)	(7,091)
At 31 December	**132,813**	**40,077**	**172,890**	**158,682**	**35,512**	**194,194**

Provision utilised during the year represents write-offs during the period, which pertains to stage 3.

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26. PROVISION FOR IMPAIRMENT (continued)

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	86,092	25,635	111,727	109,202	25,727	134,929
Commodity and other placements with banks, financial and other institutions	27	-	27	26	-	26
Musharaka financing	-	6,063	6,063	-	5,222	5,222
Sukuk and investment securities	864	4,831	5,695	7,875	-	7,875
Other assets	10,599	3,548	14,147	10,492	4,563	15,055
Off-balance sheet related	266	-	266	703	-	703
Investment in real estate	8,171	-	8,171	3,590	-	3,590
Intangible assets	26,794	-	26,794	26,794	-	26,794
	132,813	**40,077**	**172,890**	**158,682**	**35,512**	**194,194**

The CBB issued a regulatory directive in June 2022 to discontinue the installments deferral program after the 5th deferral which ended on 30 June 2022 and the Covid 19 pandemic concessionary measures that were issued in 2020.

Loss allowance

The following table sets out information about the credit quality of financings and receivables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Commodity and other placements with banks, financial and other institutions				
Gross exposure	18,467	-	-	18,467
Less: expected credit loss	(27)	-	-	(27)
Net exposure	**18,440**	**-**	**-**	**18,440**
Murabaha and other financings				
Gross exposure	504,858	75,920	109,459	690,237
Less: expected credit loss	(28,748)	(5,619)	(77,360)	(111,727)
Net exposure	**476,110**	**70,301**	**32,099**	**578,510**
Musharaka financing				
Gross exposure	290,641	284,547	4,345	579,533
Less: expected credit loss	(1,282)	(2,370)	(2,411)	(6,063)
Net exposure	**289,359**	**282,177**	**1,934**	**573,470**
Assets acquired for leasing				
Gross exposure	-	591	-	591
Less: expected credit loss	-	(287)	-	(287)
Net exposure	**-**	**304**	**-**	**304**
Other assets				
Gross exposure	48,965	20,099	12,876	81,940
Less: expected credit loss	(1,498)	(39)	(12,876)	(14,413)
Net exposure	**47,467**	**20,060**	**-**	**67,527**
Total gross exposure	**862,931**	**381,157**	**126,680**	**1,370,768**
Less: Total expected credit loss	**(31,555)**	**(8,315)**	**(92,647)**	**(132,517)**
Total Net exposure	**831,376**	**372,842**	**34,033**	**1,238,251**

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26. PROVISION FOR IMPAIRMENT (continued)

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Commodity and other placements with banks, financial and other institutions				
Gross exposure	70,316	-	-	70,316
Less: expected credit loss	(26)	-	-	(26)
Net exposure	**70,290**	**-**	**-**	**70,290**
Murabaha and other financings				
Gross exposure	1,142,676	125,316	137,243	1,405,235
Less: expected credit loss	(35,304)	(5,149)	(94,476)	(134,929)
Net exposure	**1,107,372**	**120,167**	**42,767**	**1,270,306**
Musharaka financing				
Gross exposure	521,521	17,629	3,577	542,727
Less: expected credit loss	(2,256)	(1,535)	(1,431)	(5,222)
Net exposure	**519,265**	**16,094**	**2,146**	**537,505**
Assets acquired for leasing				
Gross exposure	164,774	1,101	327	166,202
Less: expected credit loss	(611)	(11)	(327)	(949)
Net exposure	**164,163**	**1,090**	**-**	**165,253**
Other assets				
Gross exposure	43,680	4,192	13,235	61,107
Less: expected credit loss	(1,512)	(63)	(13,235)	(14,810)
Net exposure	**42,168**	**4,129**	**-**	**46,297**
Total gross exposure	**1,942,967**	**148,238**	**154,382**	**2,245,587**
Less: Total expected credit loss	**(39,709)**	**(6,758)**	**(109,469)**	**(155,936)**
Total Net exposure	**1,903,258**	**141,480**	**44,913**	**2,089,651**

Included in Stage 1 under "Acceptable risks (4-6)" is the financing extended to the Group's affiliate, IB Capital, amounting to BD319.3 million. This financing originated on 2 January 2017 as part of the reorganization pursuant to the Extraordinary General Meeting (EGM) held on 28 March 2016 where the shareholders approved to restructure the erstwhile Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets with IB Capital holding the non-core assets. The financing is collateralized by the underlying assets of IB Capital and the recovery is based on the sale of these underlying assets through an asset sale plan approved by the Board of Directors of the Group.

As part of the Group's staging policy to determine whether credit risk has significantly increased since initial recognition, the Group compared the risk of default at the assessment date with the risk of default at initial recognition.Following factors were analyzed as part of this assessment:

- The recovery of the financing at initial recognition was based on the sale of the underlying assets by IB Capital.
- the delays in the sale of underlying assets were mainly due to the COVID-19 pandemic. All principal and profit payments are current.
- The ECL has been calculated under various stressed scenarios and the resulting impairment is within the existing ECL range.

Accordingly, the Group concluded that there has been no significant increase in credit risk of the exposure since initial recognition and classification of the above financing in Stage 1 is appropriate as of 31 December 2022.

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27. OVERSEAS TAXATION

	Relating to owners Year ended	
	31 December 2022	**31 December 2021**
Current taxes	18,706	12,015
Deferred taxes	1,974	(1,315)
	20,680	**10,700**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2022	**31 December 2021**
At 1 January	34	66
Charge for the year	(18,706)	(12,015)
Payments made	20,899	14,905
Exchange differences and other movements	8,883	(2,922)
At 31 December	**11,110**	**34**

Deferred tax asset/(liability)

	31 December 2022	**31 December 2021**
At 1 January	3,955	521
Charge for the year	(1,974)	1,315
Charges due to fair value reserve	235	-
Exchange differences and other movements	(708)	2,119
At 31 December	**1,508**	**3,955**

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28. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail & Corporate banking business, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2022			31 December 2021		
	Retail & Corporate banking	Asset Management / Investment Banking	Total	Retail & Corporate banking	Asset Management / Investment Banking	Total
Operating income/(loss)	93,783	732	**94,515**	83,963	(2,957)	**81,006**
Total expenses	(62,402)	(3,234)	**(65,636)**	(60,832)	(3,088)	**(63,920)**
Net income/(loss) before provision and overseas taxation	**31,381**	**(2,502)**	**28,879**	**23,131**	**(6,045)**	**17,086**
Provision and overseas taxation	(25,783)	(367)	**(26,150)**	(6,702)	(605)	**(7,307)**
Net income/(loss) from continuing operations	**5,598**	**(2,869)**	**2,729**	**16,429**	**(6,650)**	**9,779**
Net results for the period from discontinued operations	5,615	-	**5,615**	(4,618)	-	**(4,618)**
Net income/(losses) for the period	**11,213**	**(2,869)**	**8,344**	**11,811**	**(6,650)**	**5,161**
Attributable to:						
Equity holders of the Bank	4,966	(1,862)	**3,104**	5,133	(5,645)	**(512)**
Non-controlling interests	6,247	(1,007)	**5,240**	6,678	(1,005)	**5,673**
	11,213	**(2,869)**	**8,344**	**11,811**	**(6,650)**	**5,161**
Total assets	**2,241,531**	**68,027**	**2,309,558**	**3,252,653**	**74,846**	**3,327,499**
Total liabilities and equity of unrestricted investment account holders	**2,221,116**	**9,105**	**2,230,221**	**3,219,016**	**11,551**	**3,230,567**

The Group constitutes of two geographical segments which are Middle East & Asia

	31 December 2022			31 December 2021		
	Middle East & Africa	Rest of Asia	Total	Middle East & Africa	Rest of Asia	Total
Operating income/(loss)	6,013	88,502	**94,515**	4,373	76,633	**81,006**
Total expenses	(14,028)	(51,608)	**(65,636)**	(14,964)	(48,956)	**(63,920)**
Net (loss)/income before provision and overseas taxation	**(8,015)**	**36,894**	**28,879**	**(10,591)**	**27,677**	**17,086**
Provision and overseas taxation	(8,352)	(17,798)	**(26,150)**	(135)	(7,172)	**(7,307)**
Net income/(loss) from continuing operations	**(16,367)**	**19,096**	**2,729**	**(10,726)**	**20,505**	**9,779**
Net results for the period from discontinued operations	5,615	-	**5,615**	(4,618)	-	**(4,618)**
Net income/(losses) for the period	**(10,752)**	**19,096**	**8,344**	**(15,344)**	**20,505**	**5,161**
Attributable to:						
Equity holders of the Bank	(9,605)	12,709	**3,104**	(14,163)	13,651	**(512)**
Non-controlling interests	(1,147)	6,387	**5,240**	(1,181)	6,854	**5,673**
	(10,752)	**19,096**	**8,344**	**(15,344)**	**20,505**	**5,161**
Total assets	**504,775**	**1,804,783**	**2,309,558**	**1,480,494**	**1,847,005**	**3,327,499**
Total liabilities and equity of unrestricted investment account holders	**489,173**	**1,741,048**	**2,230,221**	**1,532,984**	**1,697,583**	**3,230,567**

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29. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2022	31 December 2021
Acceptances and endorsements	11,530	17,830
Guarantees and irrevocable letters of credit	172,813	261,352
Customer and other claims	52,871	71,696
	237,214	**350,878**

Commitments

	31 December 2022	31 December 2021
Undrawn facilities, financing lines and other commitments to finance	**488,187**	**582,907**

31. CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD
As at 31 December 2022			
Total currency exposure	181,515	34,611	103,791
Reasonable shift	4.02%	2.01%	0.61%
Total effect on income/equity	**7,297**	**696**	**633**

	PKR	EUR	USD
As at 31 December 2021			
Total currency exposure	222,605	8,950	175,969
Reasonable shift	8.38%	1.57%	0.61%
Total effect on income/equity	**18,654**	**141**	**1,073**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as compared to the one year forward rate for the same period.

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31. CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2022	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	10,698	84,142	20,439	1,993	600	4,505	122,377
Commodity and other placements with banks, financial and other institutions	11,709	6,731	-	-	-	-	18,440
Murabaha and other financings	211,172	185,201	76,536	81,374	-	24,227	578,510
Musharaka financing	-	573,470	-	-	-	-	573,470
Sukuk and investment securities	15,442	799,007	-	264	-	628	815,341
Investment in associates	-	3,204	-	-	-	-	3,204
Assets acquired for leasing	-	-	304	-	-	-	304
Other assets	24,020	35,518	7,199	-	-	790	67,527
Investment in real estate	-	2,815	1,977	-	-	-	4,792
Development properties	-	-	57,280	-	-	-	57,280
Fixed assets	-	57,894	1,851	-	-	-	59,745
Intangible assets	1,415	3,924	3,229	-	-	-	8,568
Total assets	**274,456**	**1,751,906**	**168,815**	**83,631**	**600**	**30,150**	**2,309,558**
Customer current accounts	60,234	446,354	65,460	78,663	248	7,655	658,614
Due to banks, financial and other institutions	3,986	250,622	26,324	36,014	123,438	835	441,219
Due to investors	836	12,970	-	65	-	83	13,954
Other liabilities	-	101,485	41,787	1,509	-	-	144,781
Total liabilities	**65,056**	**811,431**	**133,571**	**116,251**	**123,686**	**8,573**	**1,258,568**
Equity of unrestricted investment accountholders	69,490	758,960	137,929	1,991	-	3,283	971,653
Total liabilities and equity of unrestricted investment accountholders	**134,546**	**1,570,391**	**271,500**	**118,242**	**123,686**	**11,856**	**2,230,221**
Contingent liabilities and commitments	213,004	446,860	19,880	19,382	306	25,969	**725,401**
31 December 2021							
Total assets	579,020	1,803,727	800,459	114,972	933	28,388	3,327,499
Total liabilities and equity of unrestricted investment accountholders	359,321	1,581,122	997,905	123,922	124,863	43,434	3,230,567
Contingent liabilities and commitments	303,825	534,053	25,613	20,695	1,216	48,383	933,785

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32. MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2022	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	122,377	-		-	-	122,377
Commodity and other placements with banks, financial and other institutions	18,440	-	-	-	-	18,440
Murabaha and other financings	78,090	66,795	358,894	57,955	16,776	578,510
Musharaka financing	205,654	22,408	59,222	205,763	80,423	573,470
Sukuk and investment securities	7,907	-	29,100	673,967	104,367	815,341
Investment in associates	-	-	-	-	3,204	3,204
Assets acquired for leasing	-	-	-	304	-	304
Other assets	37,165	277	18,228	6,740	5,117	67,527
Investment in real estate	-	-	4,792	-	-	4,792
Development properties	-	-	-	57,280	-	57,280
Fixed assets	-	5,604	308	9,870	43,963	59,745
Intangible assets	-	-	-	-	8,568	8,568
Total assets	**469,633**	**95,084**	**470,544**	**1,011,879**	**262,418**	**2,309,558**
Customer current accounts	658,614	-	-	-	-	658,614
Due to banks, financial and other institutions	211,451	75,532	66,659	10,289	77,288	441,219
Due to investors	12,838	352	560	204	-	13,954
Other liabilities	30,457	28	59,739	6,403	48,154	144,781
Total liabilities	**913,360**	**75,912**	**126,958**	**16,896**	**125,442**	**1,258,568**
Equity of unrestricted investment accountholders	667,686	146,466	138,039	19,462	-	971,653
Total liabilities and equity of unrestricted investment accountholders	**1,581,046**	**222,378**	**264,997**	**36,358**	**125,442**	**2,230,221**
Net position	(1,111,413)	(127,294)	205,547	975,521	136,976	**79,337**
Contingent liabilities and commitments	422,425	126,257	108,899	64,331	3,489	**725,401**
31 December 2021						
Total assets	**557,236**	**309,404**	**806,451**	**975,818**	**678,590**	**3,327,499**
Total liabilities and equity of unrestricted investment accountholders	**2,082,787**	**377,329**	**512,629**	**165,525**	**92,297**	**3,230,567**
Net position	**(1,525,551)**	**(67,925)**	**293,822**	**810,293**	**586,293**	**96,932**
Contingent liabilities and commitments	**420,258**	**107,648**	**288,407**	**37,852**	**79,620**	**933,785**

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33. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2022	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	individuals	Textile	Other	Total
Cash and balances with banks and central banks	122,377	-	-	-	-	-	-	122,377
Commodity and other placements with banks, financial and other institutions	18,440	-	-	-	-	-	-	18,440
Murabaha and other financings	281,753	152,142	34,811	27,434	8,634	24,719	49,017	578,510
Musharaka financing	507	263,631	12,106	195,580	59,986	34,606	7,054	573,470
Sukuk and investment securities	36,011	13,208	-	766,122	-	-	-	815,341
Investment in associates	3,204	-	-	-	-	-	-	3,204
Assets acquired for leasing	-	-	304	-	-	-	-	304
Other assets	41,383	-	7,790	2,265	16,089	-	-	67,527
Investment in real estate	2,815	-	1,977	-	-	-	-	4,792
Development properties	-	-	57,280	-	-	-		57,280
Fixed assets	57,894	-	1,851	-	-	-	-	59,745
Intangible assets	3,924	3,228	-	-	-	-	1,416	8,568
Total assets	**568,308**	**432,209**	**116,119**	**991,401**	**84,709**	**59,325**	**57,487**	**2,309,558**
Customer current accounts	129,500	253,964	47,644	79,799	130,828	3,264	13,615	658,614
Due to banks, financial and other institutions	412,985	-	-	1,549	-	-	26,685	441,219
Due to investors	-	4,360	589	2,435	4,147	53	2,370	13,954
Other liabilities	127,551	1,875	8,610	391	6,354	-	-	144,781
Total liabilities	**670,036**	**260,199**	**56,843**	**84,174**	**141,329**	**3,317**	**42,670**	**1,258,568**
Equity of unrestricted investment accountholders	7,033	366,363	60,609	185,806	349,464	2,378	-	971,653
Total liabilities and equity of unrestricted investment accountholders	**677,069**	**626,562**	**117,452**	**269,980**	**490,793**	**5,695**	**42,670**	**2,230,221**
Contingent liabilities and commitments	**165,594**	**345,936**	**27,602**	**97,071**	**974**	**19,866**	**68,358**	**725,401**
31 December 2021								
Total assets	**1,781,522**	**709,573**	**141,190**	**72,471**	**501,121**	**72,321**	**49,301**	**3,327,499**
Total liabilities and equity of unrestricted investment accountholders	**704,965**	**811,800**	**67,188**	**360,274**	**974,681**	**7,493**	**304,166**	**3,230,567**
Contingent liabilities and commitments	**258,323**	**363,580**	**22,167**	**9,916**	**2,458**	**58,934**	**218,407**	**933,785**

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33. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2022	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	96,400	25,977	-	-	122,377
Commodity and other placements with banks, financial and other institutions	16,553	1,887	-	-	18,440
Murabaha and other financings	204,641	363,421	10,448	-	578,510
Musharaka financing	573,470	-	-	-	573,470
Sukuk and investment securities	799,898	15,443	-	-	815,341
Investment in associates	3,204	-	-	-	3,204
Assets acquired for leasing	-	304	-	-	304
Other assets	35,518	31,991	18	-	67,527
Investment in real estate	2,815	1,977	-	-	4,792
Development properties	-	57,280	-	-	57,280
Fixed assets	57,894	1,851	-	-	59,745
Intangible assets	3,924	4,644	-	-	8,568
Total assets	**1,794,317**	**504,775**	**10,466**	**-**	**2,309,558**
Customer current accounts	490,513	91,350	73,285	3,466	658,614
Due to banks, financial and other institutions	253,399	187,482	338	-	441,219
Due to investors	13,954	-	-	-	13,954
Other liabilities	107,768	36,993	20	-	144,781
Total liabilities	**865,634**	**315,825**	**73,643**	**3,466**	**1,258,568**
Equity of unrestricted investment accountholders	798,305	173,348	-	-	971,653
Total liabilities and equity of unrestricted investment accountholders	**1,663,939**	**489,173**	**73,643**	**3,466**	**2,230,221**
Contingent liabilities and commitments	**705,520**	**19,881**	**-**	**-**	**725,401**
31 December 2021					
Total assets	**1,847,005**	**1,454,645**	**13,582**	**12,267**	**3,327,499**
Total liabilities and equity of unrestricted investment accountholders	**1,697,583**	**1,433,462**	**92,105**	**7,417**	**3,230,567**
Contingent liabilities and commitments	**908,172**	**25,613**	**-**	**-**	**933,785**

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34. RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Bank's financing and off-balance sheet financial instruments.

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant increase in Credit Risk (SICR).

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 2).

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVlD-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 December 2022, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2022, the Group had NSFR ratio of 135%.

Credit Risk Mitigation

Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While the existence of collateral is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collateral valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Bank prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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34. RISK MANAGEMENT (continued)

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at quarterly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.Collaterals associated with exposures classified in stage 2 and stage 3 shall be valued annually.

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

Bank has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

Liquidity risk

Liquidity risk is the risk that Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The CBB has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019. The Bank maintains LCR of 131% (31 December 2021: 135%) and NSFR of 135% (31 December 2021: 125%) which are above regulatory minimum of 100%.The 90 day average LCR as of 31 December 2021 is 107% (31 December 2021: 150%) .

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the Group companies with oversight by the Asset-Liability Committee (ALCO).

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34. RISK MANAGEMENT (continued)

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Bank is able to manage the operational risks to an acceptable level.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted.

Reputational Risk

The Reputational Risk Management is defined as the risk arising risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems.

Credit risk

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	14,773	280,632	295,405	2,715	132,718	135,433
Non performing financing exposures	43,603	70,201	113,804	57,199	83,210	140,409
	58,376	**350,833**	**409,209**	**59,914**	**215,928**	**275,842**
Fair value of collateral						
Past due but performing financing exposures	20,406	229,125	249,531	9,236	152,933	162,169
Non performing financing exposures	3,351	34,808	38,159	7,571	67,199	74,770
	23,757	**263,933**	**287,690**	**16,807**	**220,132**	**236,939**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	-	15,854	**15,854**	353	59,945	**60,298**

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34. RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2022	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	122,377	122,377
Commodity and other placements with banks, financial and other institutions	18,440						18,440
Murabaha and other financings	10,586	36,989	70,513	386,062	74,360	-	578,510
Musharaka financing	157,066	17,608	54,556	306,129	38,111		573,470
Sukuk and investment securities	94,333	241,082	29,116	63,046	364,453	23,311	815,341
Assets acquired for leasing	-	-	-	-	304	-	304
Other assets	-	-	-	-	-	67,527	67,527
Total financial assets	**280,425**	**295,679**	**154,185**	**755,237**	**477,228**	**213,215**	**2,175,969**
Customer current accounts						658,614	658,614
Due to banks, financial and other institutions	203,409	79,756	71,119	10,274	76,661	-	441,219
Due to investors	-	-	-	-	13,954	-	13,954
Other liabilities	-	-	-	-	-	144,781	144,781
Total financial liabilities	**203,409**	**79,756**	**71,119**	**10,274**	**90,615**	**803,395**	**1,258,568**
Equity of unrestricted investment accountholders	140,113	152,988	173,734	217,763	287,055	-	971,653
Total financial liabilities and equity of unrestricted investment accountholders	**343,522**	**232,744**	**244,853**	**228,037**	**377,670**	**803,395**	**2,230,221**
Total repricing gap	**(63,097)**	**62,935**	**(90,668)**	**527,200**	**99,558**	**(590,180)**	**(54,252)**
31 December 2021							
Total financial assets	**404,836**	**354,055**	**719,290**	**650,225**	**714,527**	**336,686**	**3,179,619**
Total financial liabilities and equity of unrestricted investment accountholders	**1,238,040**	**244,092**	**573,549**	**312,361**	**-**	**862,525**	**3,230,567**
Total repricing gap	**(833,204)**	**109,963**	**145,741**	**337,864**	**714,527**	**(525,839)**	**(50,948)**

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34. RISK MANAGEMENT (continued)

Profit rate risk (continued)

	USD	PKR	AED
As at 31 December 2022			
Total profit rate exposure	138,495	116,882	123,086
Reasonable shift	4.98%	5.55%	3.40%
Total effect on income	**6,897**	**6,487**	**4,185**

	USD	PKR	AED
As at 31 December 2021			
Total profit rate exposure	201,582	169,797	123,930
Reasonable shift	0.13%	3.95%	0.11%
Total effect on income	**262**	**6,707**	**136**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023.

As of 31 December 2022, the Group did not have any significant exposure to contracts linked to benchmark rates, except a long term borrowing, and it continues to enhance its systems and processes to cope with the change in benchmark rates.

35. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.

(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).

(c) Associated companies of the Bank.

(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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35. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant balances with related parties comprise:

	31 December 2022				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	324,056	-	-	-	324,056
Other assets (note 10)	5,347	-	-	54	5,401
Liabilities					
Customers' current accounts	4,603	1,178	-	-	5,781
Due to banks, financial and other institutions	19,959	-	-	-	19,959
Other liabilities (note 17)	16	-	-	-	16
Equity of unrestricted investment accounts	5,527	-	-	-	5,527

	31 December 2022				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(167)	-	-	-	(167)
Income from murabaha and other financings	7,627	-	-	-	7,627
Profit paid to banks, financial and other institutions	(672)	-	-	-	(672)
Other income - Management fees expenses	(326)	-	-	-	(326)
Expenses					
Administrative and general expenses	(206)	-	(19)	-	(225)

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35. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2021				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	585,901	-	-	-	585,901
Sukuk and investment securities	331	-	-	-	331
Other assets (note 10)	7,076	-	-	243	7,319
Liabilities					
Customers' current accounts	10,773	2,657	-	369	13,799
Due to banks, financial and other institutions	5,556	1,960	-	8,485	16,001
Other liabilities (note 17)	5	-	-	-	5
Equity of unrestricted investment accounts	14,189	-	-	1,892	16,081
Commitments	1,281	-	-	-	1,281

	31 December 2021				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(269)	-	-	(57)	(326)
Income from murabaha and other financings	9,722	-	-	43	9,765
Sukuk and investment securities	-	101	-	-	101
Profit paid to banks, financial and other institutions	(300)	(109)	-	-	(409)
Other income - Management fees expenses	(340)	-	-	-	(340)
Expenses					
Administrative and general expenses	(353)	-	(19)	-	(372)

Certain collaterals amounting to BD32.4 million (31 December 2021: BD32.8 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

36. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The subsidiaries comply with the directives of the respective local regulators for their capital management.

	31 December 2022	31 December 2021
Tier 1	105,876	127,696
Tier 2	-	-
Total Capital Base	**105,876**	**127,696**
Total Risk-Weighted Exposures	801,711	989,590
Capital Adequacy Ratio	**13.21%**	**12.90%**

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37. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2022 (31 December 2021: Nil).

38. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2022	**31 December 2021**
INCOME		
Income from other financings	11,474	21,774
Income from investments	22,921	45,511
Other income	6,685	8,920
Gross income	**41,080**	**76,205**
Less: profit paid to banks, financial and other institutions - note (ii)	(29,674)	(39,075)
Total income	**11,406**	**37,130**
EXPENSES		
Administrative and general expenses - note (i)	(10,829)	(22,270)
Depreciation and amortisation	(4,801)	(5,493)
Total expenses	**(15,630)**	**(27,763)**
Net (loss)/income before provision for impairment and overseas taxation	**(4,224)**	**9,367**
Reversal of impairment - net	1,095	3,597
Net (loss)/income before overseas taxation	**(3,129)**	**12,964**
Overseas taxation	599	(4,502)
NET (LOSS)/INCOME FOR THE YEAR	**(2,530)**	**8,462**
Attributable to:		
Equity holders of the Bank	(1,789)	5,634
Non-controlling interests	(741)	2,828
	(2,530)	**8,462**
Basic and diluted (losses)/earnings per share	**Fils (1.79)**	**Fils 5.63**

Note (i) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (ii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 698 branches (2021: 595 branches) out of total 698 branches (2021: 606 branches).

39. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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40. NET STABLE FUNDING RATIO (NSFR)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 100% . The NSFR as at 31 December 2022 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**99,288**	**-**	**-**	**6,588**	**105,876**
2	Regulatory Capital	99,288	-	-	-	99,288
3	Other Capital Instruments	-	-	-	6,588	6,588
4	**Retail deposits and deposits from small business customers:**	**-**	**672,469**	**55,730**	**3,213**	**660,470**
5	Stable deposits	-	37,018	537	43	35,720
6	Less stable deposits	-	635,451	55,193	3,170	624,750
7	**Wholesale funding:**	**-**	**603,020**	**261,369**	**330,670**	**631,712**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	603,020	261,369	330,670	631,712
10	**Other liabilities:**	**-**	**281,799**	**-**	**3,022**	**3,022**
11	NSFR Shari'a-compliant hedging contract liabilities	-	10,731	-	-	-
12	All other liabilities not included in the above categories	-	271,068	-	3,022	3,022
13	**Total ASF**					**1,401,080**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	31,640
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**320,754**	**44,411**	**654,137**	**713,385**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	14,211	5,536	168,722	173,622
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	306,543	38,875	255,227	389,652
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	203,789	132,463
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	25,003	16,252
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,396	1,396
24	**Other assets:**	**-**	**258,549**	**-**	**-**	**258,549**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-		-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	2,146	-	-	2,146
29	All other assets not included in the above categories	-	256,403	-		256,403
30	OBS items	-	654,709	-	-	32,735
31	**Total RSF**	**-**	**-**	**-**	**-**	**1,036,309**
32	NSFR (%)	-	-	-	-	135%

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40. NET STABLE FUNDING RATIO (NSFR) (continued)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 100% . The NSFR as at 31 December 2021 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	**Capital:**	**118,144**	**-**	**-**	**9,552**	**127,696**
2	Regulatory Capital	118,144	-	-	-	118,144
3	Other Capital Instruments	-	-	-	9,552	9,552
4	**Retail deposits and deposits from small business customers:**	**-**	**1,364,699**	**276,297**	**75,295**	**1,567,119**
5	Stable deposits	-	276,970	21,591	8,107	291,740
6	Less stable deposits	-	1,087,729	254,706	67,188	1,275,379
7	**Wholesale funding:**	**-**	**542,257**	**334,400**	**358,537**	**698,295**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	542,257	334,400	358,537	698,295
10	**Other liabilities::**	**-**	**299,731**	**-**	**5,129**	**5,129**
11	NSFR Shari'a-compliant hedging contract liabilities	-	16,768	-	-	-
12	All other liabilities not included in the above categories	-	282,963	-	5,129	5,129
13	**Total ASF**					**2,398,239**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	16,028
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**490,446**	**107,947**	**1,441,652**	**1,545,980**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	81,213	13,895	581,956	601,085
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	409,233	94,052	669,448	820,673
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	167,745	109,034
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	20,900	13,585
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,603	1,603
24	**Other assets:**	**-**	**327,293**	**-**	**1,603**	**327,293**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	270	-	-	270
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	3,084	-	-	3,084
29	All other assets not included in the above categories	-	323,939	-	1,603	323,939
30	OBS items	-	688,054	-	-	34,403
31	**Total RSF**		**-**	**-**	**-**	**1,923,704**
32	NSFR (%)		-	-	-	125%

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41. DISCONTINUED OPERATIONS

During January 2022, Ithmaar Holding agreed in-principle with Al Salam Bank B.S.C. (Al Salam) of the acquisition of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C, and Solidarity Group Holding (the "transaction"). This announcement followed the execution of a non-legally binding Memorandum of Understanding (MoU) between the two entities in October 2021. The transaction was approved by Ithmaar Holding's shareholders during its Extraordinary General Meeting on 17 March 2022. The transaction was completed on 7 July 2022 after obtaining requisite regulatory and corporate approvals and signing of definitive agreements.

The BBK shares and the Solidarity shares were beneficially owned by IB Capital. Pursuant to the Assets Pledge Agreement between Ithmaar Bank and IB Capital dated 21 January 2019, IB Capital had pledged their entire direct and/or indirect shareholding in Bank of Bahrain and Kuwait B.S.C. and Solidarity Group Holding B.S.C. against the Murabaha Facility from the Bank. As per the agreement signed on 7 July 2022, IB Capital transferred these pledged Shares to the Bank for the partial in-kind settlement of their Murabaha Facility, for a total value of BD243 million .

Subsequent to the completion of the above transfer, the beneficial ownership of the shares in BBK and Solidary were then transferred by the Bank to Al Salam as part of the Transaction.

The consideration for sale of the group of assets was settled through transfer of certain liabilities and equity of investment account holders of the consumer banking business of Ithmaar Bank BSC (c), resulting in a gain of BD29 million based on the agreed values of assets and liabilities (the "operations") as of 7 July 2022:

Assets transferred	**As of 7 July 2022**
Consumer business	
Cash and balances with banks and central banks	63,240
Murabaha and other financings	295,312
Sukuk and investment securities	31,578
Assets acquired for leasing	142,785
Other assets	31,244
Fixed assets	5,449
Total	**569,608**
Investment in subsidiary (Takaful business)	38,865
Investment in associate (investment assets)	188,516
Total assets transferred - A	**796,989**
Consumer business	
Customers' current accounts	35,272
Due to banks, financial and other institutions	14,368
Other liabilities	19,339
Total liabilities	68,979
Equity of unrestricted investment accountholders	754,655
Net movement in consolidated income statement relating to the above assets & liabilities from 1 to 7 July 2022	156
Total liabilities transferred - B	823,790
Estimated balancing payment - C	2,211
Gain recongised on transfer (B+C-A)	**29,012**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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41. DISCONTINUED OPERATIONS (continued)

The gain on the transaction of BD29 million was assessed initially on fair values as of 30 September 2021. Accordingly, the movement in carrying values of the transferred assets and liabilities associated with the transaction from 1 October 2021 till 30 June 2022 have been reflected as part of discontinued operations for the period. The net results of the above operations included in the consolidated financial statements are as follows:

	Year ended	
Current taxes	**31 December 2022**	**31 December 2021**
Total income	4,944	6,804
Total expenses	(5,132)	(10,913)
	(188)	**(4,109)**
Provision for impairment - net	(111)	(509)
	(299)	**(4,618)**
Write off of intangible assets directly associated with consumer business	(9,426)	-
Movement in carrying values from 1 October 2021 to 7 July 2022 for investment & Takaful business	(15,898)	-
Transfer of fair value and foreign exchange translation reserves to consolidated income statement for investment assets	2,226	-
	(23,397)	(4,618)
Gain recongised on transfer	29,012	-
Net results from discontinued operations	**5,615**	**(4,618)**

The comparative period balances in the consolidated income statement have been reclassified to include those operations that have been classified as discontinued in the current period presentation.

The net cash flows of the above operations included in the consolidated statement of cash flows, are as follows:

	Year ended	
Cash flow lines	**31 December 2022**	**31 December 2021**
Net cash from operating activities	12,897	27,877
Net cash used by investing activities	(24,726)	(33,520)
Net cash movement	**(11,829)**	**(5,643)**

42. SUBSEQUENT EVENT

Subsequent to the reporting date, the foreign exchange rate of Pakistani Rupee, the functional currency of the Group's subsidiary incorporated in Pakistan, has significantly deteriorated against United States Dollars. Any adverse movement of the foreign exchange rate will have an accounting impact on the Group's consolidated equity.

Public Disclosures

At 31 December 2022

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PUBLIC DISCLOSURES

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1. Background

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), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (C)'s (Ithmaar Bank/Bank/Group) consolidated financial statements for the year ended 31 December 2022, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Bank's Internal Capital Adequacy Assessment Process (ICAAP) policy provides the required guidelines and methodologies to assess the Bank's capital requirements for Pillar 1 and Pillar 2 risks and thereby ensures that the Bank meets the capital requirements as mandated by the CBB in line with the Capital Adequacy (CA) module for Pillar 1 risks and the ICAAP Module for all pillar 2 risks. Capital management also ensures that shareholders' value is protected and enhanced.

The Bank adopts a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines. Under this approach, the Bank calculates the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's capital adequacy guidelines as prescribed in the CA module of the CBB rulebook. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements as per CBB guidelines. To ensure that the business model is thoroughly examined and subject to sufficient analysis, ICAAP is supported with comprehensive Stress Testing in line with the Stress Testing Module of CBB rulebook.

A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar Bank supporting both current and future activities. Ithmaar Bank's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit, Governance, Risk, Nomination and Remuneration Committee (AGRNRC) and the Board of Directors.

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted at 800%.

PUBLIC DISCLOSURES CONTINUED

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4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Regulatory Capital components

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,775,752	111,995	67%	Pakistan	Banking	Aggregation
Dilmunia Development Fund I L.P.	66,145	57,540	92%	Cayman Islands	Real estate	Risk weight

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	2,309,558
FAS 30 Transitional impact	21,630
Modification loss & ECL transitional impact	18,403
Aggregation	29,784
Balance sheet as in Regulatory Return	**2,379,375**

PUBLIC DISCLOSURES CONTINUED

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5. Regulatory Capital components (Continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2022

Assets	As per published financial statements	As per Consolidated PIRI
Cash and balances with banks and central banks	122,377	122,377
Commodity and other placements with banks, financial and other institutions	18,440	18,440
Murabaha and other financings	578,510	578,510
Musharaka financing	573,470	573,470
Sukuk and investment securities	815,341	815,341
Investment in associates	3,204	3,204
Assets acquired for leasing	304	304
Other assets	67,527	67,527
Investment in real estate	4,792	4,792
Development Properties	57,280	57,280
Fixed assets	59,745	59,745
Intangible assets	8,568	8,568
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	29,784
Total Assets	**2,309,558**	**2,379,375**
Liabilities & Unrestricted Investment Accounts (URIA)		
Unrestricted Investment Accounts	971,653	971,653
Other liabilities	1,258,568	1,258,568
Total Liabilities & URIA	**2,230,221**	**2,230,221**
Minority Interest	43,218	43,218
Owners' Equity		
Share capital	100,000	100,000
Reserves	(53,699)	(53,699)
of which eligible for CET1	-	(37,097)
Accumulated losses	(10,182)	(10,182)
of which eligible for CET1	-	(46,822)
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	29,784
Total Owners' Equity	**36,119**	**105,936**
Total Liabilities + Owners' Equity	**2,309,558**	**2,379,375**

PUBLIC DISCLOSURES CONTINUED

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5. Regulatory Capital components (Continued)

Step 3: Common disclosure template as at 31 December 2022

Common Equity Tier 1 capital: instruments and reserves:	Amount
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	100,000
Retained earnings	(46,822)
of which Modification loss including ECL provisions relating to stage 1 & 2	18,403
Expected Credit Losses (ECL) Stages 1 & 2	(52,762)
of which FAS 30 Transitional impact	21,630
Reserves	(37,097)
Aggregation & deductions	95,996
Common Equity Tier 1 capital before regulatory adjustments	**99,348**
Total regulatory adjustments to Common equity Tier 1	**99,348**
Tier 1 capital (T1 = CET1 + AT1)	**99,348**
Tier 2 capital: instruments and provisions:	
FAS 30 Transitional impact	6,588
Tier 2 capital (T2)	**6,588**
Total capital (TC = T1 + T2)	**105,936**
Total Risk Weighted Assets (RWA)	**801,711**
Capital ratios and buffers:	
Common Equity Tier 1 (as a percentage of risk weighted assets)	**12.39%**
Tier 1 (as a percentage of risk weighted assets)	**12.39%**
Capital Adequacy Ratio (CaR)	**13.21%**
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)	
of which: capital conservation buffer requirement	2.5
of which: bank specific countercyclical buffer requirement	N/A
of which: D-SIB buffer requirement	N/A
National minimum including CCB (where different from Basel III)	
CBB Common Equity Tier 1 minimum ratio	9.0
CBB Tier 1 minimum ratio	10.5
CBB total capital minimum ratio	12.5

PUBLIC DISCLOSURES CONTINUED

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6. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio (including conservation buffer)	Total Capital Ratio (including conservation buffer)
Bank's consolidated	12.39%	13.21%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	13.14%	15.72%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Ithmaar Bank's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar Bank and seek to minimize the potential adverse effects on its financial performance. Ithmaar Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the CBB, sound principles of risk management issued by Bank of International Settlements, international best practices and AAOIFI wherever applicable.

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

Ithmaar Bank's Risk Management Charter lays the foundations for a risk governance structure. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the ICAAP report of Ithmaar Bank. The risk strategy is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the AGRNRC. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for all transactions. Furthermore, the culture of risk is embedded in the business through a rigorous set of controls, checks and balances. As part of Ithmaar Bank's continuous improvement initiatives, Ithmaar Bank reviews existing risk policies and procedures and develops new policies and procedures by benchmarking the same to changes or new requirements in the regulatory and external environment. The Board reviews and approves the Business Discretionary Powers policy which establishes the approval authorities and limits for specific transactions.

7.2.2 Equity Risk in Banking Book

Ithmaar Bank's exposure to equity risk in the Banking book relates to its investment exposures. Ithmaar Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management committee or Board level committees depending on the asset value.

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7. Risk Management (Continued)

7.2.3 Material Transactions- Board Approval

All financing and investment exposures above a defined value requires the approval of the Board. Additionally, all related party transactions and irrespective of their value require the approval of the Board.

7.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank and to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies are in place. The risk policies set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

7.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. Ithmaar Bank has established a General Financing Policy which details the core business principles, which are central to the Bank's Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

7.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

Ithmaar Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a internal credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The internal credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers. The Bank has in place policy guidelines to map the external ratings to internal ratings.

A centralized credit risk management system is in place where all corporate credit and financial institutions proposals are independently reviewed by the Risk Management Department (RMD) before the same are approved by appropriate approval authorities.

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7. Risk Management (Continued)

7.4.1.1 Corporate credit risk (including financial institutions) (Continued)

All credits exposures are at least reviewed and rated periodically and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

In respect of corporate performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application for the computation of ECL based on risk parameters configured in the application.

All provisoning requirements for financing and investment exposures are discussed and approved by the Provisioning Committee of the Bank.

Unrestricted FUM assets

The Funds under Management Policy provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. The Risk Appetite Framework is in place, this policy provides guidelines on the threshold limits. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any proposed exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit risk management process that enables Ithmaar Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. The Risk Management Department is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. The Risk Management Department seeks information from different business and support units on a regular basis to perform this function. The Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Risk Appetite Framework provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the AGRNRC at quarterly intervals.

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7. Risk Management (Continued)

7.4.5 Credit Risk Mitigation

Ithmaar Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Ithmaar Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

In case of assets pledged as part of financing contracts, the Bank considers the pledged assets as collateral at a value determined post the valuation of the assets. The valuation guidelines and the haircuts applied on the pledged assets are as per the Credit Risk Mitigation Policy of the Bank.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charges over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets;
- Pledge of unlisted securities such as shares, bonds and debentures;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks;
- Assignment of contract proceeds, lease, or rent;
- Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures.

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7. Risk Management (Continued)

7.4.5 Credit Risk Mitigation (Continued)

7.4.5.1 Collateral valuation

Collaterals when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at quarterly intervals, unlisted securities are valued at annual intervals, Real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collaterals are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

7.4.5.2 Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional, If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, further the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

7.4.5.3 Collateral Concentration

Ithmaar Bank has established internal limits to avoid over concentration on certain class of collaterals. Prudent maximum limits have been set for the acceptance of collaterals as credit risk mitigation.

7.4.5.4 Collateral Management

Documents related to collaterals provided to Ithmaar Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. An adequate MIS supporting the management of the collateral is in place.

The Bank has defined practices for disposal or enforecement of collateral. On the Debtors default, the Bank (i.e. the secured party) can either take possession of the collateral or file a case against the debtor for enforcement of security. The Bank sends a reasonable authenticated notification of disposal through the court. The notice is intended to provide the debtor and other interested parties , an opportunity to monitor the disposition of the collateral. A specific amount of time is normally given to the borrowers during which they can pay off the debt or the property will be sold through the court. The final settlement of the matter will be in line with the decision taken by the court/judge.

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any installment is past due for 90-days or more. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. Ithmaar Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

In respect of General Provisions, the Bank has subscribed to the provisions of FAS30 for the computation of Expected Credit Losses (ECL), as per the directives of Central Bank of Bahrain. In order to enable the computation of the ECL, a detailed policy FAS30 Expected Credit Policy' is in place. The Bank has automated the computation of the ECL by implementing a software application called the Loan Impairment Calculator with effect from 1 January 2018.

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7. Risk Management (Continued)

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar Bank. Definition also includes Issuer of securities held as collateral by Ithmaar Bank. The Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. The Credit Risk Mitigation Policy provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

Policy guidelines for expected credit losses is enumerated in the 'FAS30 – Expected Credit Losses' policy of the Bank.

7.4.8 ECAI Ratings

Ithmaar Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Moodys and Fitch ratings are considered while assigning the corresponding risk weights for the exposures. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy. ECAI ratings are applied, where applicable, to all credit and investment exposures.

7.4.9 Related party transactions

As per the Bank's policies, connected counterparties' includes legal and natural persons connected with the Bank, including, in particular; controllers of the Bank (and Board members, senior management and key staff of the controller, the controller's appointed Board representatives, subsidiaries and associated companies of controllers including their Board members, senior management and key staff), approved persons of the licensee, as defined by Module LR-1A, and their close family members (as defined by IFRS – IAS 24); associated companies not mentioned hereinabove, unconsolidated subsidiaries and members of the Shari'a Supervisory Board ('SSB'), if any.

The erstwhile Ithmaar Bank B.S.C. (now Ithmaar Holding B.S.C.) has undergone major reorganization in 2017. As part of this reorganization, Ithmaar Holding B.S.C. and its wholly owned subsidiaries Ithmaar Bank B.S.C. (C) and IB Capital B.S.C.(C) have executed certain contracts between three entities and as most of the Directors are common for all three entities, there is an apparent conflict of interest as these contracts were approved by Directors who represented both entities who were party to the contracts. Given the reorganization requirements, ownership structure and Directors being common, contracts between these entities are considered as related party transactions but the conflict of interest is not considered to be applicable to ensure minimum quorum for voting.

Declarations of Interest:

On taking office, Members of the Board of Directors of the Bank are required to disclose all interests and relationships which could or might be seen to affect their ability to perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit. This declaration of interest is updated on an annual basis.

Approval of Related Party Transactions:

- All related party transactions are approved by the Board of Directors.
- Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.
- Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.
- Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per CBB rulebook and the Limit Management Policy of the Bank.
- In particular, Members of the Board of Directors of the Bank disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors inform the Bank when there are changes in his / her interests, and the Shareholders affairs unit update the Register of Interests at least on an annual basis.

During 2022, Directors having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.

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8. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on banks	2,001	250
Claims on corporate portfolio	9,122	1,140
Regulatory retail portfolio	43	5
Other assets	12,658	1,582
Aggregation	498,788	62,349
Total	**522,612**	**65,326**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	3,613	452
Regulatory retail portfolio	3	-
Past due facilities	835	104
Total	**4,451**	**556**

URIA assets are risk weighted as per the counterparty classification in line with CBB regulations using alpha factor of 30% in accordance with CA module CA-1.1.11.

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9. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	122,377	159,608
Commodity and other placements with banks, financial and other institutions	18,440	44,365
Murabaha and other financings	578,510	924,408
Musharaka financing	573,470	555,488
Assets acquired for leasing	304	74,010
Investments	823,337	860,695
Other assets	67,527	65,681
Development Properties	57,280	60,956
Fixed assets	59,745	57,714
Intangible assets	8,568	15,606
Total on balance sheet credit exposure	**2,309,558**	**2,818,531**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	184,343	231,763
Financing commitments, Undrawn facilities and other credit related liabilities	541,058	597,831
Total off balance sheet credit exposure	**725,401**	**829,594**
Total credit exposure	**3,034,959**	**3,648,125**
Total credit exposure financed by URIA	**1,805,022**	**1,980,181**
Total credit exposure financed by URIA (%)	**59.47%**	**54.28%**

The average gross credit exposure represent average balances for 2021 and 2022
Exposures amounting to BD4.7 million are covered by guarantee.

10. Geographical distribution of credit exposures:

	Asia	Middle East	Europe	Total
On-balance sheet items				
Cash and balances with banks and central banks	96,400	25,977	-	122,377
Commodity and other placements with banks, financial and other institutions	16,553	1,887	-	18,440
Murabaha and other financings	204,641	363,421	10,448	578,510
Musharaka financing	573,470	-	-	573,470
Assets acquired for leasing	-	304	-	304
Investments	805,917	17,420	-	823,337
Other assets	35,518	31,991	18	67,527
Development Properties	-	57,280	-	57,280
Fixed assets	57,894	1,851	-	59,745
Intangible assets	3,924	4,644	-	8,568
Total on balance sheet items	**1,794,317**	**504,775**	**10,466**	**2,309,558**
Off balance sheet items	**705,520**	**19,881**	**-**	**725,401**
Total credit exposure	**2,499,837**	**524,656**	**10,466**	**3,034,959**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

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11. Industrial distribution of credit exposures:

	Banks and Financial Institutions	Trading and manufacturing	Property and construction	Services	Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	122,377	-	-	-	-	-	-	122,377
Commodity and other placements with banks, financial and other institutions	18,440	-	-	-	-	-	-	18,440
Murabaha and other financings	281,753	152,142	34,811	27,434	8,634	24,719	49,017	578,510
Musharaka financing	507	263,631	12,106	195,580	59,986	34,606	7,054	573,470
Assets acquired for leasing	-	-	304	-	-	-	-	304
Investments	42,030	13,208	1,977	766,122	-	-	-	823,337
Other assets	41,383	-	7,790	2,265	16,089	-	-	67,527
Development Properties	-	-	57,280	-	-	-		57,280
Fixed assets	57,894	-	1,851	-	-	-	-	59,745
Intangible assets	3,924	3,228	-	-	-	-	1,416	8,568
Total on balance sheet items	**568,308**	**432,209**	**116,119**	**991,401**	**84,709**	**59,325**	**57,487**	**2,309,558**
Off balance sheet items	**165,594**	**345,936**	**27,602**	**97,071**	**974**	**19,866**	**68,358**	**725,401**
Total credit exposure	**733,902**	**778,145**	**143,721**	**1,088,472**	**85,683**	**79,191**	**125,845**	**3,034,959**

12. Contractual Maturity breakdown of credit exposures & funding liabilities:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	122,377	-		-	-	-	-	122,377
Commodity and other placements with banks, financial and other institutions	18,440	-	-	-	-	-	-	18,440
Murabaha and other financings	78,090	66,795	358,894	57,955	10,475	6,301	-	578,510
Musharaka financing	205,654	22,408	59,222	205,763	45,193	15,379	19,851	573,470
Assets acquired for leasing	-	-	-	304	-	-	-	304
Investments	7,907	-	33,892	673,967	107,571	-	-	823,337
Other assets	37,165	277	18,228	6,740	5,117	-	-	67,527
Development Properties	-	-	-	57,280	-	-	-	57,280
Fixed assets	-	5,604	308	9,870	43,963	-	-	59,745
Intangible assets	-	-	-	-	3,963	2,046	2,559	8,568
Total on balance sheet items	**469,633**	**95,084**	**470,544**	**1,011,879**	**216,282**	**23,726**	**22,410**	**2,309,558**
Off balance sheet items	**422,425**	**126,257**	**108,899**	**64,331**	**3,489**	**-**	**-**	**725,401**
Total credit exposure	**892,058**	**221,341**	**579,443**	**1,076,210**	**219,771**	**23,726**	**22,410**	**3,034,959**
Customers' current accounts	658,614	-	-	-	-	-	-	658,614
Due to banks, financial and other institutions	211,451	75,532	66,659	10,289	77,288	-	-	441,219
Due to investors	12,838	352	560	204	-	-	-	13,954
Equity of unrestricted investment accountholders	667,686	146,466	138,039	19,462	-	-	-	971,653
	1,550,589	**222,350**	**205,258**	**29,955**	**77,288**	**-**	**-**	**2,085,440**

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13. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2022 were as follows:

Affiliated companies	329,403
Directors & key management	54
Total	**329,457**

14. Past due and impaired financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	28,774	25,055	3,719
Agriculture	2,267	1,916	351
Construction	24,372	9,267	15,105
Finance	85	84	1
Trade	32,693	28,472	4,221
Personal	1,671	518	1,153
Other sectors	20,012	13,668	6,344
Total	**109,874**	**78,980**	**30,894**
Ageing analysis			
Over 3 months up to 1 year	26,435	23,335	3,100
Over 1 year up to 3 years	15,114	11,376	3,738
Over 3 years	68,325	44,269	24,056
Total	**109,874**	**78,980**	**30,894**

Details of impairment provisions at 31 December 2022	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	83,893	14,732	98,625
Charge for the year	1,822	3,483	5,305
Write back during the year	(3,060)	(1,363)	(4,423)
Movement due to sale of assets	(19,753)	-	(19,753)
Exchange differences and other movements	(22,329)	21,555	(774)
At 31 December	**40,573**	**38,407**	**78,980**

PUBLIC DISCLOSURES CONTINUED

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15. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	54,708	49,438	5,270
Middle East	55,166	29,542	25,624
Total	**109,874**	**78,980**	**30,894**

16. Details of credit facilities outstanding that have been restructured during the year

Restructured financings during the year ended 31 December 2022 aggregated to BD15.9 million (31 December 2021: BD60.3 million). This restructuring had an impact of BD2.6 million (31 December 2021: BD0.8 million) on present earnings during the year ended 31 December 2022. Further, this restructuring is expected to have positive impact of BD1 million (31 December 2021: BD3.6 million).on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

17. Credit exposures which are covered by eligible financial collateral:

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	339,289	5,068
Regulatory retail portfolio	58	-
Total	**339,347**	**5,068**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	72,491	6,080
Regulatory retail portfolio	111	-
Past due financings	27,847	8
Total	**100,449**	**6,088**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Foreign Exchange Contracts	1,445	-	-	1,445	1,438
Total	**1,445**	**-**	**-**	**1,445**	**1,438**

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18. Market Risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Market Risk Management Policy address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the AGRNRC.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below

18.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department. Foreign exchange risk management in Ithmaar Bank is ensured through regular measurement and monitoring of open foreign exchange positions.

18.1.2 Profit rate risk:

Profit rate risk is the risk that Ithmaar Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar Bank's results may not allow Ithmaar to distribute profits in line with the market rates.

18.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of Ithmaar Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk:

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy is approved by the Board and amendments to the policies are approved by the Board. The senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1. The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.
2. A limit structure has been established to monitor and control the market risk in its portfolio.
3. Each new product/process is reviewed to manage the market risk.
4. Appropriate measurement techniques are in place to proactively measure and monitor market risk.
5. Stress testing is conducted regularly to assess the impact of changes in the market variables.
6. Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

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18. Market Risk (Continued)

18.3 Market risk management measurement and monitoring

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight forex open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management Department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar Bank's overall exposure to market risk. Reports of such review is submitted to the ALCO and the AGRNRC.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the ALCO and AGRNRC. The reports provide Ithmaar Bank's ALCO and AGRNRC an update on the market risk exposure in the books.

18.7 Stress Testing

Ithmaar Bank conduct stress testing of its portfolio as part of the ICAAP process in accordance with stress testing module of the CBB

The Bank's stress testing framework is embedded in the overall risk management process. The Bank has established an adequate governance process for effective oversight and implementation of the stress testing framework.

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted assets			Capital requirement		
	31 December 2022	Maximum Value	Minimum Value	31 December 2022	Maximum Value	Minimum Value
Foreign exchange risk	37,645	37,645	21,661	4,706	4,706	2,708
Aggregation						
Foreign exchange risk	1,461	1,461	2,792	183	183	349
Profit Rate Risk (Trading Book)	56,008	56,008	34,020	7,001	7,001	4,253
Equity Position Risk	28,138	28,138	24,101	3,517	3,517	3,013
Total	**123,252**	**123,252**	**82,574**	**15,407**	**15,407**	**10,323**

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20. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2022 amounted to BD67 million (31 December 2021: BD46.4 million) (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2022 were as follows:

	Long/(Short)
Pakistani Rupee	181,515
United States Dollars	103,791

21. Equity position in Banking book

At 31 December 2022, the Group's sukuk and investment securities aggregated to BD817 million (31 December 2021: BD866.3 million). Out of the total investment securities, BD121.6 million (31 December 2021: BD253.5 million) were listed investment securities and the remaining BD695.4 million (31 December 2021: BD612.8 million) represented unlisted investment securities.

Cumulative realized loss from sale of investment securities during the year ended 31 December 2021 amounted to BD21 million (31 December 2021: BD36 million). Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD1.8 million (31 December 2021: BD6.6 million).

At 31 December 2022, capital requirements using standardized approach aggregated to BD0.2 million (31 December 2021: BD0.6 million) for listed investment securities and BD0.03 million (31 December 2021: BD0.1 million) for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

22. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk:

- Maturity mismatch: The non-alignment of maturities/re-pricing dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar Bank in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar Bank's counterparties, to make prepayments or early withdrawals can leave Ithmaar Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

22.2. Profit rate risk strategy

The Board of Ithmaar Bank approves and reviews the profit rate risk strategy and amendments to the Market risk policies. The ALCO is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch gap between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar Bank wishes to engage in

PUBLIC DISCLOSURES CONTINUED

At 31 December 2022
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22. Profit Rate Risk in the Banking Book (Continued)

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs).
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar Bank will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. Ithmaar Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.
MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the AGRNRC.

22.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. The impact of every 200 basis point change is as follows:

	USD	PKR	AED
Total profit rate exposure	138,495	116,882	123,086
Rate shock (assumed) (+/-)	2.00%	2.00%	2.00%
Total estimated impact (+/-)	**2,770**	**2,338**	**2,462**

23. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.
Ithmaar Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar Bank is able to manage the operational risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar Bank.
All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.
The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

23.2 Operational risk monitoring and reporting

Report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar Bank's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process are identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile.

The Bank has an Operational Risk Management Committee (ORMC) which supervises the effective implementation of the Operational Risk across all banking activities. Results of all Operational Risk monitoring and management activites and initiatives are presented to the ORMC

The AGRNRC is periodically updated on the operational risk profile which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

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23. Operational Risk (Continued)

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associated activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile.

23.4 Business Continuity Plan

Ithmaar Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

Disaster Recovery site is well equipped with the required infrastructure. A Business Continuity Steering Committee has been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar Bank.

23.5 Information Security

Ithmaar Bank's Information Security and compliance function within RMD role is to prevent disruptions and protect data stored in the Information Security systems as it would impact Bank's business objective, its operations and also impede the main pillars of Information Security (Confidentiality, Integrity, Availability and Privacy).

The function continually strengthens and improves the overall capabilities of the information security management system by ensuring that Ithmaar Bank's Information Security process is complete, reliable and adhering to international standards.

It is also ensured that information security related operations continue to be carried out in line with international standards such as (IEC/ISO 27001 and PCI-DSS). It is also ensured that on-going training and awareness on information security is provided to the employees of the Bank. Towards this end on-line training and awareness sessions on information security is provided to the employees of the Bank.

The Bank is IEC/ISO 27001 and PCI-DSS certified, this reflects the importance assigned to information security by the Bank.

The Information Security Function actively preforms various task in terms of:

- Cyber and Information security training
- Security Certification compliance and assurance
- Review and preparation of Information security policies and procedures
- Incident response management
- Active monitoring and auditing of Applications and systems
- Provides reports and assistance to the information security steering committee
- Engagement in Bank's on-going projects
- Bank's compliance with Bahrain Information security laws and Regulatory requirements

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At 31 December 2022
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23. Operational Risk (Continued)

23.6 Reputation Risk

The Reputational Risk Management is defined as the risk arising risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organization and exposure to reputational risk is essentially a function of the adequacy of the bank's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on bank-related transactions. Reputational risk also may affect a bank's liabilities, since market confidence and a bank's ability to fund its business are closely related to its reputation.

The Bank has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/ nonfiduciary clients.

The Bank also adopts risk mitigation approaches that refer to shaping products, business transactions and other processes that may result in a reputational risk.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 31 December 2022 aggregated to BD19 million (31 December 2021: BD19.1 million).

25. Liquidity Risk

Liquidity risk is the risk that Ithmaar Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO. ALCO is responsible for setting the framework and for effective monitoring of Ithmaar Bank's liquidity risk. Ithmaar Bank's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. The Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified. The Bank monitors and manages the funding from each of the funding sources such as current accounts and URIA accounts and has established appropriate limits to prevent concentration of funding sources and ensure diversification of funding.

The Liquidity Risk Management Policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and various other liquidity ratios as required under the provisions of the LM Module and the funding maturity profile on a regular basis. Risk Management Department submits a quarterly report to the AGRNRC which includes an analysis of Ithmaar Bank's adherence to various liquidity risk metrics established in the Risk Appetite Framework of the Bank.

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25. Liquidity Risk (Continued)

25.2. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar Bank based on certain Board approved parameters is also performed and presented to the AGRNRC on a quarterly basis.

25.3. Liquidity Contingency Management

Ithmaar Bank has also a Liquidity Contingency Policy which provides guidelines to manage either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

25.4. Liquidity ratios:

	31 December 2022
Liquid assets to total assets	6.10%
Short term assets to short term liabilities	50.05%

25.5. Liquidity ratios:

The Liquidity Coverage Ratio (LCR) of Ithmaar Bank as of 31 December was 102%. The average 90 day LCR as of 31st December 2022 was 107%. The detailed breakdown of the average 90 day LCR as of 31st December 2022 is detailed below.

	Description	Total Unweighted Value (average)	Total Weighted Value (average)
HIGH-QUALITY LIQUID ASSETS (HQLA)			
1	Total HQLA	-	451,565
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	717	21
4	Less stable deposits	683,983	67,035
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	34,077	8,519
7	Non-operational deposits (all counterparties)	582,032	338,142
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	2,582	2,582
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	128,118	10,913
14	Other contractual funding obligations	58,005	58,005
15	Other contingent funding obligations	454,518	22,726
16	**TOTAL CASH OUTFLOWS**	**-**	**507,943**
CASH INFLOWS			
17	Secured lending (eg reverse repos)	12,540	-
18	Inflows from fully performing exposures	159,773	86,059
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	**172,313**	**86,059**
21	**TOTAL HQLA**	**-**	**451,565**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**421,884**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**107%**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2022
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25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio:

The Net stable Funding Ratio (NSFR) of the Bank as of 31 December 2022 was 135%. The detailed breakdown of the NSFR as of 31 December 2022 is detailed below.

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	Nov specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
	Available Stable Funding (ASF):					
1	**Capital:**	**99,288**	**-**	**-**	**6,588**	**105,876**
2	Regulatory Capital	99,288	-	-	-	99,288
3	Other Capital Instruments	-	-	-	6,588	6,588
4	**Retail deposits and deposits from small business customers:**	**-**	**672,469**	**55,730**	**3,213**	**660,470**
5	Stable deposits	-	37,018	537	43	35,720
6	Less stable deposits	-	635,451	55,193	3,170	624,750
7	**Wholesale funding:**	**-**	**603,020**	**261,369**	**330,670**	**631,712**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	603,020	261,369	330,670	631,712
10	**Other liabilities:**	**-**	**281,799**	**-**	**3,022**	**3,022**
11	NSFR Shari'a-compliant hedging contract liabilities	-	10,731	-	-	-
12	All other liabilities not included in the above categories	-	271,068	-	3,022	3,022
13	**Total Available Stable Funding (ASF):**	-	-	-	-	**1,401,080**
	Required Stable Funding (RSF):					
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	31,640
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**320,754**	**44,411**	**654,137**	**713,385**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	14,211	5,536	168,722	173,622
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	306,543	38,875	255,227	389,652
20	'- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	203,789	132,463

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25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio (Continued)

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	Nov specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
21	Performing residential mortgages, of which:	-	-	-	-	-
22	'- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	25,003	16,252
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,396	1,396
24	**Other assets:**	**-**	**258,549**	**-**	**-**	**258,549**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-		-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	2,146	-	-	2,146
29	All other assets not included in the above categories	-	256,403	-	-	256,403
30	Off Balance Sheet items	-	654,709	-	-	32,735
31	**Total RSF**					**1,036,309**
32	**Net Stable Funding Ratio (%)**					**135%**

25.7. Leverage Ratio

S No.	Description	Amount
1	**Tier 1 Capital**	**99,288**
	On Balance Sheet Assets	
2	Self Finance	470,719
3	URIA	1,838,838
4	Off Balance (with conversion CCFs)	289,389
5	**Total Assets (2+3*(0.3)+4)**	**1,311,760**
6	**Leverage Ratio (1/5)**	**7.57%**

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26. Legal contingencies

At 31 December 2022, the Group had contingent liabilities towards customer and other claims aggregating to BD52.9 million (31 December 2021: BD71.7 million). The management is of the view that these claims are not likely to result into potential liabilities.

During the period, the Bank was subject to one financial penalty of BD50,000 (31 December 2021: Nil) relating to certain breaches related to the Bank's AML/CFT framework.

27. Displaced Commercial Risk

Ithmaar Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. As per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are borne by the IAHs, Ithmaar Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar Bank may forgo its share of profits as modareb to match the IAHs.

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank:

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar Bank. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risk.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	31 December 2022		31 December 2021		31 December 2020		31 December 2019		31 December 2018	
	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount
Income from unrestricted investment accounts	9.7%	176,985	5.3%	113,495	5.6%	91,603	6.4%	82,551	5.9%	67,949
Less: return to unrestricted investment accounts & provisions	-5.2%	(93,914)	-2.8%	(60,011)	-3.4%	(55,655)	-4.2%	(54,359)	-3.6%	(40,959)
Group's share of income from unrestricted investment accounts as a Mudarib	4.6%	**83,071**	3.3%	**53,484**	2.2%	**35,948**	2.2%	**28,192**	2.4%	**26,990**

For the year ended 31 December 2022 the return generated from unrestricted investment accountholders based on the average balance outstanding during the year stood at 4.8% per annum (2021: 3.9%). The return paid to unrestricted investment accountholders based on the average balance outstanding during the year at 3.2% per annum (31 December 2021: 2.4%).

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29. Average declared rate of return on General Mudaraba deposits:

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
30 Days	1.45	1.25	1.27	1.41	1.20
90 Days	1.70	1.50	1.55	1.81	1.60
180 Days	1.85	1.68	1.80	2.06	1.85
360 Days	2.50	2.33	2.45	2.80	2.50
3 Years	2.80	2.58	2.75	3.04	2.70

30. Movement in Profit Equalization Reserve and Investment Risk Reserve:

	31 December 2022
Profit Equalization Reserve	1,568
Net utilisation during the year	(979)
As at 31 December 2022	**589**
Investment Risk Reserve	**-**
As at 31 December 2022	Nil

At 31 December 2022, the ratio of profit equalization reserve and provisions against equity of unrestricted investment accountholders stood at 0.06% and 4.12% respectively.

31 December 2022, the ratio of financings to URIA stood at 86%.

31 December 2022, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	31.56%
Musharaka financing	68.44%

The following table summarizes the breakdown of URIA and impairment provisions

	31 December 2022
Exposure : Banks	879,548
Exposure : Non-Banks	925,474
Provisions : Non-Banks	(40,077)

31. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

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

CORPORATE INFORMATION

Name of Company	Ithmaar Bank B.S.C. (Closed)
Legal Form	Ithmaar Bank B.S.C. (Closed) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain and provides retail, commercial, treasury and financial institutions, and other banking services.
Company Registration Number	CR 99336
Registered Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 17585000
Facsimile	+973 17585151
Email	info@ithmaarbank.com
Website	www.ithmaarbank.com
Accounting Year End	31 December
Compliance Officer	Balu Tiruvilandur Ramamurthy – Head, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Board Secretary
Auditors	PricewaterhouseCoopers ME Limited, P.O. Box 60771, Manama, Kingdom of Bahrain