بنك الإثمار
Ithmaar Bank

Resilient Transformation

ANNUAL REPORT 2023

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 corporate, 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

FINANCIAL HIGHLIGHTS

	2023	2022	2021	2020	2019	2018
Net profit [BD 000]	**12,223**	8,344	5,161	(10,969)	2,480	14,140
Net profit/(loss) attributable to shareholders [BD 000]	**3,957**	3,104	(512)	(15,294)	(1,352)	1,409
Net profit before allowance for impairment and overseas taxation [BD 000]	**47,400**	28,879	13,420	14,485	15,667	13,700
Total equity attributable to shareholders [BD 000]	**40,076**	36,119	43,730	49,831	79,171	85,385
Book value per share [Fils]	**40**	36	44	50	79	85
Earnings per share [Fils]	**3.96**	3.10	-0.51	-15.29	-1.35	1.41
Total assets [BD 000]	**2,330,798**	2,309,558	3,327,499	3,094,777	2,978,946	3,127,795
Funds under management [restricted investment accounts] [BD 000]	**15,935**	15,812	16,663	16,676	17,203	17,203
Return on average shareholders’ equity (ROAE)	**10.39%**	7.77%	-1.09%	-23.71%	-1.64%	1.17%
Return on average assets (ROAA)	**0.53%**	0.30%	0.16%	-0.36%	0.08%	0.44%
Capital adequacy ratio	**13.95%**	13.21%	12.90%	12.65%	13.52%	13.43%
Cost to operating income ratio	**58.00%**	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 to grow further since it has been transformed into a corporate Islamic bank that focuses exclusively on serving corporate clients.

Despite the challenging market conditions, the Bank continued its efforts to grow its core Islamic banking business, which focused on Corporate Banking and related services. The Bank also focused on enhancing its products and services that cater to the banking requirements of the Small and Medium Enterprises (SMEs) and Corporates as well as all other types of businesses and institutions.

The Bank further strengthened its position by capitalising on key opportunities, while consistently aiming to deliver better services for corporate customers, enhance digital innovation, and continue to meet compliance and regulatory standards with the high levels of business efficiency and quality.

Corporate Social Responsibilities (CSR) is an integral part of Ithmaar Bank's culture. We are determined to create a more sustainable environment in the community we serve by adopting policies and initiatives that value Environmental, Social and Governance (ESG) matters. In 2023, Ithmaar Bank had set goals to meet the needs of its key stakeholders and implemented initiatives that will have positive impact on the environment, community, and governance. The Bank will continue searching for opportunities to better serve its corporate customers, support its employees and the community.

In 2023, Ithmaar Bank's year-end financial results show a net profit attributable to equity holders for the year ended 31 December 2023 of BD3.96 million, a 27.74 percent increase compared to the net profit of BD3.10 million reported for 2022. Total net profit for the year ended 31 December 2023 is BD12.22 million compared to the net profit of BD8.34 million reported for 2022. This is mainly due to higher core income during the year.

The results show that the group's share of income from unrestricted investment accounts as a Mudarib increased to BD107.70 million for the year ended 31 December 2023, a 29.65 percent increase compared to BD83.07million for 2022.

The Bank's achievements in 2023 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

The Bank further strengthened its position by capitalising on key opportunities, while consistently aiming to deliver better services for corporate customers, enhance digital innovation, and continue to meet compliance and regulatory standards with the high levels of business efficiency and quality.

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

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 continued in 2023 to focus on developing its corporate customers' Islamic banking experience.

In 2023, 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

Ithmaar Bank transformation journey has only just begun, and it remains dedicated to enhancing its products and services to exceed customer expectations. Ithmaar Bank has solid foundation to build upon, and it looks forward to exploring key opportunities to meet its goals and strategy.

In 2023, Ithmaar Bank continued to deliver banking solutions for its corporate clients to diversify its customer base and strengthen its core business. Currently the Bank has one Main Corporate Branch, exclusively for SMEs, corporate and all other types of businesses and institutions, located on the ground floor of Seef Tower. 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 2023, 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

In 2023, Ithmaar Bank continued to enhance its digital capabilities and online banking services. It has invested immense time, money and effort on developing its digital infrastructure and, as a result, almost all transactions can be completed entirely online. As technology and innovation help automate manual processes, reduce costs, and increase efficiency, the Bank has integrated technology into all the Bank's operations to ensure offering an enhanced corporate customer's experience.

Ithmaar Bank continued to offer more services on its online platforms, including opening of Modaraba accounts, activate debit cards, update customers information, issue account statement and add eBanking users management. The Bank online services are fast and secure with a variety of features offered to customers.

Commercial Banking

Ithmaar Bank's Corporate 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 2023, the Corporate Banking continued to diversify its asset base and achieved good recovery of non-performing assets. Moreover, the focus in 2023 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 offers 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, foreign exchange 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 2023, 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. In addition, the Treasury unit effectively managed the foreign exchange requirements for the Bank's corporate clients, ensuring comprehensive support for their business operations.

Private Banking

In 2023, 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 2023, 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.

Asset Management

In 2023, Ithmaar Bank's Asset Management Department diligently concentrated its efforts on the strategic oversight of the Bank's real estate investment portfolio, while also delivering comprehensive investment management services for both corporate and client investments. Amidst a complex global economic landscape characterised by geopolitical instability and heightened inflation, which significantly impacted economic growth forecasts worldwide, the department prioritised safeguarding investment value and enhancing their performance. Concurrently, the Asset Management team actively sought strategic divestiture opportunities. The investment portfolio spans multiple key regions, including Bahrain, the United States of America, and Europe. Furthermore, Ithmaar Bank's Asset Management Department extends its expertise to offer specialised outsourcing services for managing investments on behalf of Ithmaar Holding and its subsidiary, IB Capital, thereby reinforcing the Bank's commitment to delivering robust and adaptive investment solutions in a dynamic and uncertain economic environment.

Training and development

In 2023 Ithmaar Bank invested in its staff with continuous training and development. This included In-house training, external training and BIBF levy training.

In March, Ithmaar Bank held in-house training sessions for employees who are members in the ESG committee to raise their knowledge in Sovereign Sustainable Instruments.

In May, Ithmaar Bank invested in their managerial level employees by enrolling them to participate in the annual conference, "Think Like a CEO", which aims to develop leaders from national cadres in the development of human resources, in light of the acceleration of technology and artificial intelligence, and the development of young leader. This in return will help embracing the managerial and leadership skills and qualifications of the Bank's employees and will enable them to gain experience as well as achieve progress in their career development. This also stresses on the importance of promoting engaged, productive, and positive work culture.

In October, the Bank held several refresher training sessions in information security to enhance the knowledge of cybersecurity and develop employees' skills to help prevent any potential attacks. In November, the Bank held a training session to introducing a new digital service in which corporate entities would be able to get onboarded digitally using the Bank's Mobile App and online banking platform.

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 2023 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 2023, 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 2023. The initiative aims to encourage youth to play sports, develop Bahraini athletes and enhance Bahrain's position on the map of international sports.

In 2023, Ithmaar Bank sponsored His Majesty The King's Cup of Endurance Ride Championship that was organised by Bahrain Royal Equestrian and endurance Federation to contribute in supporting the youth and sports sectors in general, and the endurance sport in particular.

Ithmaar Group also continued to support 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.

Integration of ESG principles

Ithmaar Bank is committed to sustainable development and growth through its core banking and implementing responsible initiatives. The Bank has begun to integrate Environmental, Social and Governance (ESG) principles into its objectives and operations. In August 2023, Ithmaar Bank has set its ESG pillars which cover employees, community, environment, technology and innovation, and governance. The Bank started to evaluate each pillar based on the Sustainable Development Goals (SGDs) which were developed by the United Nations (UN).

The objectives of each pillar include:

ESG

Employees
The most valuable assets in the Bank. We provide our employees with opportunities to grow and evolve as they contribute to our success.

Community
Supporting the community through participating in philanthropic initiatives and serving the community needs.

Environment
Increase our going green efforts and improve the Bank's positive and green impact on the environment.

Technology and innovation
The Bank aims to continue to improve integrating technology in all its operation to ensure providing innovative and efficient banking services.

Governance
Ensure our compliance with all regulations, rules and codes in the Kingdom of Bahrain.

Pillar	Objectives	SDGs
Employees	- Empower employees. - Provide employees with an adequate career progression opportunities. - Merit based environment that supports equality. - Advanced training and development need-based programs. - Ensure benefits and culture supporting the well-being of employees. - Promote sustainable performance environment. - Support and protect labour rights. - Provide a healthy, safe and secure working environment.	1. NO POVERTY 2. ZERO HUNGER 3. GOOD HEALTH AND WELL-BEING 4. QUALITY EDUCATION 8. DECENT WORK AND ECONOMIC GROWTH

Integration of ESG principles (Continued)

Pillar	Objectives	SDGs
Community	- Support welfare of individuals and families in the communities. - Bahrainisation. - Take active role in social campaigns. - Conduct financial literacy awareness campaign. - Provide financial and moral support to social and charitable initiatives. - Take active role in supporting health sector. - Provide internship opportunities and training for universities and schools' students, fresh graduates and unemployed.	1. NO POVERTY 2. ZERO HUNGER 3. GOOD HEALTH AND WELL-BEING 4. QUALITY EDUCATION 8. DECENT WORK AND ECONOMIC GROWTH
Environment	- Invest in the well-being of the environment. - Eliminate the use of plastic. - Use clean and efficient energy. - Recycling - Minimise environmental footprint by tackling emission, reducing energy and water consumption, and cutting waste. - Zero paper through adopting new technology and paperless workplace. - Eliminate food waste and encourage recycling.	2. ZERO HUNGER 7. AFFORDABLE AND CLEAN ENERGY 12. RESPONSIBLE CONSUMPTION AND PRODUCTION 13. CLIMATE ACTION
Technology and innovation	- Investing in the digital infrastructure. - Upgrade adopted systems with the latest technology. - Continuous development of financial products and services. - Encourage environment of creativity and innovation.	9. INDUSTRY, INNOVATION AND INFRASTRUCTURE
Governance	- Govern the Bank, make effective decisions, and meet the needs of all stakeholders. - Comply with laws and regulations of the Kingdom of Bahrain, the Central Bank of Bahrain (CBB) and the Ministry of Industry and Commerce (MOIC). - Combat financial crimes including AML and Cyber Crimes. - Eliminate corruption in all forms and ensure fairness among all employees, customers and all stakeholders. - Complies with Personal Data Privacy Law (PDPL) of Bahrain and ensure to adopt Data Privacy Policy within the Bank. - Ensure to adopt Whistleblowing Policy to protect employees, customers and all stakeholders from any form of violations.	16. PEACE, JUSTICE AND STRONG INSTITUTIONS

Beyond philanthropy

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

Ithmaar Bank's exceptionally high Bahrainisation level, which stood at approximately 95 percent in 2023, 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.

In 2023, Ithmaar Bank supported health sector through providing donation to hospitals, health centers, patients as well as early intervention centers and programmes. The Bank also contributed to the Kingdom's initiative, Forever Green, to reach net-zero carbon emission by 2060 through Bahrain Association of Banks (BAB).

In 2023, Ithmaar Bank focused to further support its going green efforts by recycling old documents and printed papers to reduce the amount of waste. In addition, it has transferred most of its transaction forms into electronic forms in order to eliminate and reduce printed papers and increase efficiency. These initiatives help to reduce greenhouse gas emissions of the Bank that can contribute to climate change.

Furthermore, Ithmaar Bank took steps to eliminate food waste in its events. The Bank collaborated with Bahrain Food Bank to collect and package surplus food in all the Bank's events according to the health standards and standards adopted in the Kingdom, and then redistributed it to needy families and needy individuals.

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	17	3	13	3	0	0	36
Female	6	6	8	0	0	0	20
Total	23	9	21	3	0	0	56

FINANCIAL REVIEW

Financial Performance

Ithmaar Bank reported a net profit attributable to equity holders for the year ended 31 December 2023 of BD3.96 million, a 27.74 percent increase compared to the net profit of BD3.10 million reported for 2022. Total net profit for the year ended 31 December 2023 is BD12.22 million compared to the net profit of BD8.34 million reported for 2022. This is mainly due to higher core income during the year.

The results show that the group's share of income from unrestricted investment accounts as a Mudarib increased to BD107.70 million for the year ended 31 December 2023, a 29.65 percent increase compared to BD83.07million for 2022.

Financial Position

Total owners' equity increased to BD40.08 million as at 31 December 2023, a 11 percent increase from BD36.12 million as at 31 December 2022.

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 700 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 2023 amounted to PKR 1,348 billion (equivalent US$ 4.8 billion) and PKR 95 billion (equivalent US$ 337 million) respectively.

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 2023 amounted to US$172 million and US$149 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 31 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.

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, and Non-Executive Chairman of KNM Group Berhad. He is also a Board Member of Melewar Group Berhad, Khyra Legacy Berhad, Yayasan Khyra, Melewar Equities Sdn Bhd and several other private companies. He also sits on the Board of Directors of Altech Batteries Limited (listed in Australia) and Turiya 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.

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 33 years of experience in training, consulting and banking. Dr. Bouresli is the Vice Chairman of Kuwait Airways, and 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.

Sheikh Mohamed Abdullah Abdulkarim Elkhereiji

Non-Executive Board Member

Elected 28 September 2022

Sheikh Elkhereiji has more than 43 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.

Elham Ebrahim Abdulla Hasan

Independent Board Member

Elected 28 September 2022

Ms. Hasan, 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 well as a Board Member of Mumtalakat – Bahrain and BNP Paribas Investment Company – Saudi Arabia. A leading businesswoman in the Kingdom of Bahrain, Ms. Hasan 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. Hasan 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. Hasan worked extensively with Islamic institutions since the early eighties.

Ms. Hasan qualified as Certified Public Accountant in 1986.

Mohammed A. Rahman Bucheeri

Executive Board Member

Elected 28 September 2022 (resigned on 31 December 2023)

Mr. Bucheeri has more than 54 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 was a Member of the Ithmaar Bank Board of Directors from March 2010 to December 2023. Mr. Bucheeri was also a member of the Board of Directors of Ithmaar Holding and IB Capital, and was Group Chief Executive Officer of Dar Al-Maal Al-Islami Trust (DMIT), leaving on 31 December 2023. In addition, 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.

Mr. Bucheeri was Chairman of MFAI (Jersey) Limited, Faisal Finance Maroc S.A., Faisal Private Bureau, DMI Administrative Services and Ithmaar Development Company.

He also was 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 is currently the Chairman of Naseej Rabat.

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

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, Bahraini national with over 24 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, Business Banking Group

Mr. Almaskati is Assistant General Manager, Business Banking Group of Ithmaar Bank with over 24 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 24 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.

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.

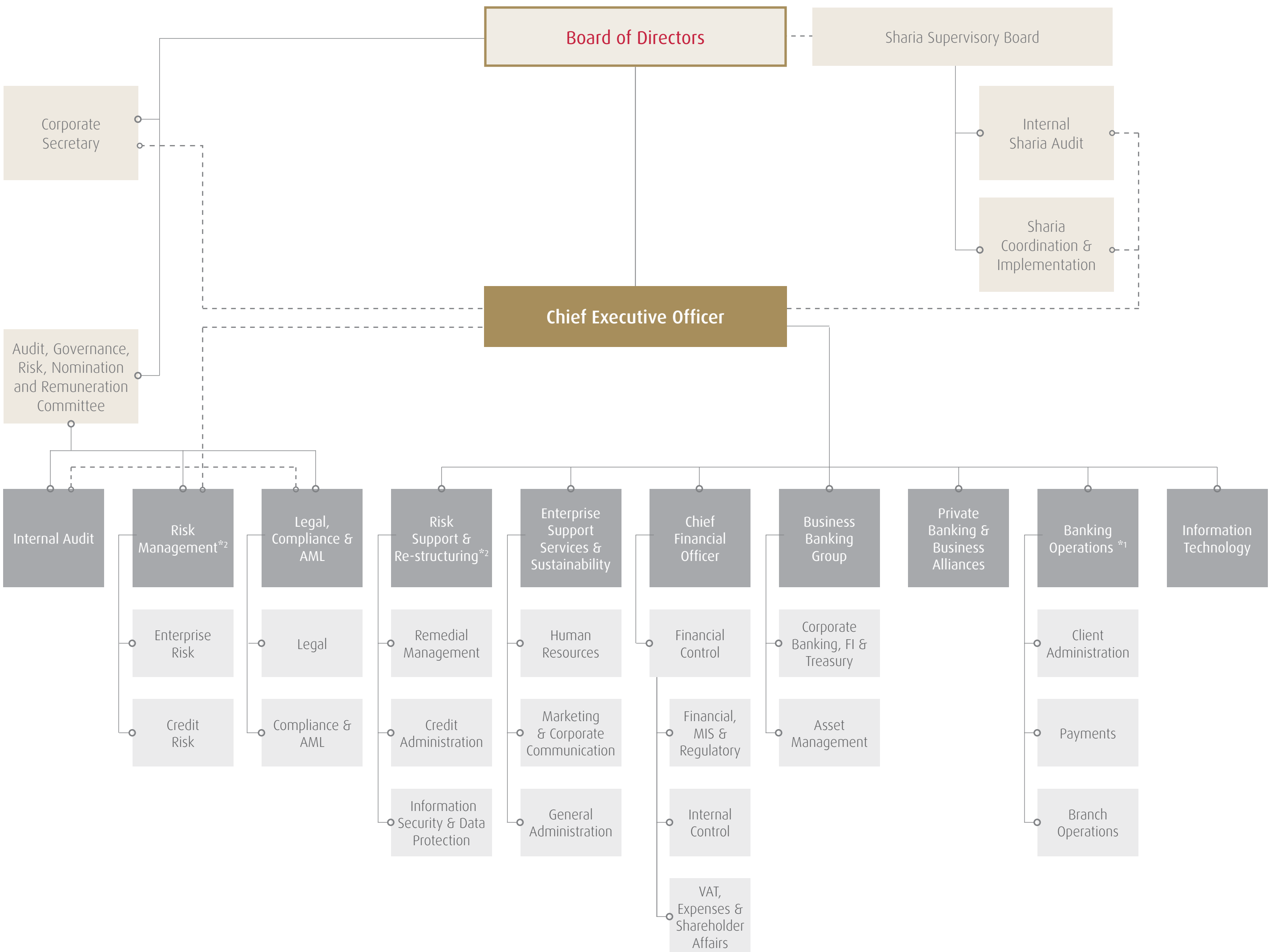
Developments in Regulations

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.

Organisation Chart



Note

1. On Interim basis, Head of Information Technology resume the Head of Banking Operations responsibilities until this position is permanently staffed.
2. On Interim basis, pending written approval from CBB.

Board of Directors

The Board of Directors (the Board) of Ithmaar Bank is comprised of six (6) members, of whom three (3) are independent (the Board is comprised of five (5) members as at 1 January 2024, following the resignation of member Mr. Mohammed Bucheeri on 31 December 2023). 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 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.

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.

Conflicted members have a duty to inform the Board of any matter which presents a conflict of interest 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.

Board Members' Conflict (continued)

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 non-conflicted 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.

Board Members' Sitting Fees

The Board members' sitting fees for Board and Board committee's meetings in 2023 amounted to BHD 81,432 (2022: BHD 107,414). 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 Audit, Governance, Risk, Nomination and Remuneration Committee of the Board (AGRNRC).

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 AGRNRC 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 AGRNRC should ensure that, where applicable, such entities comply with local rules that apply to their remuneration policies.

No external consultants' advice was sought in 2023 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.

Variable Remuneration for Employees (continued)

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 AGRNRC 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.

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 AGRNRC.

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 AGRNRC. The AGRNRC 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 AGRNRC 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.

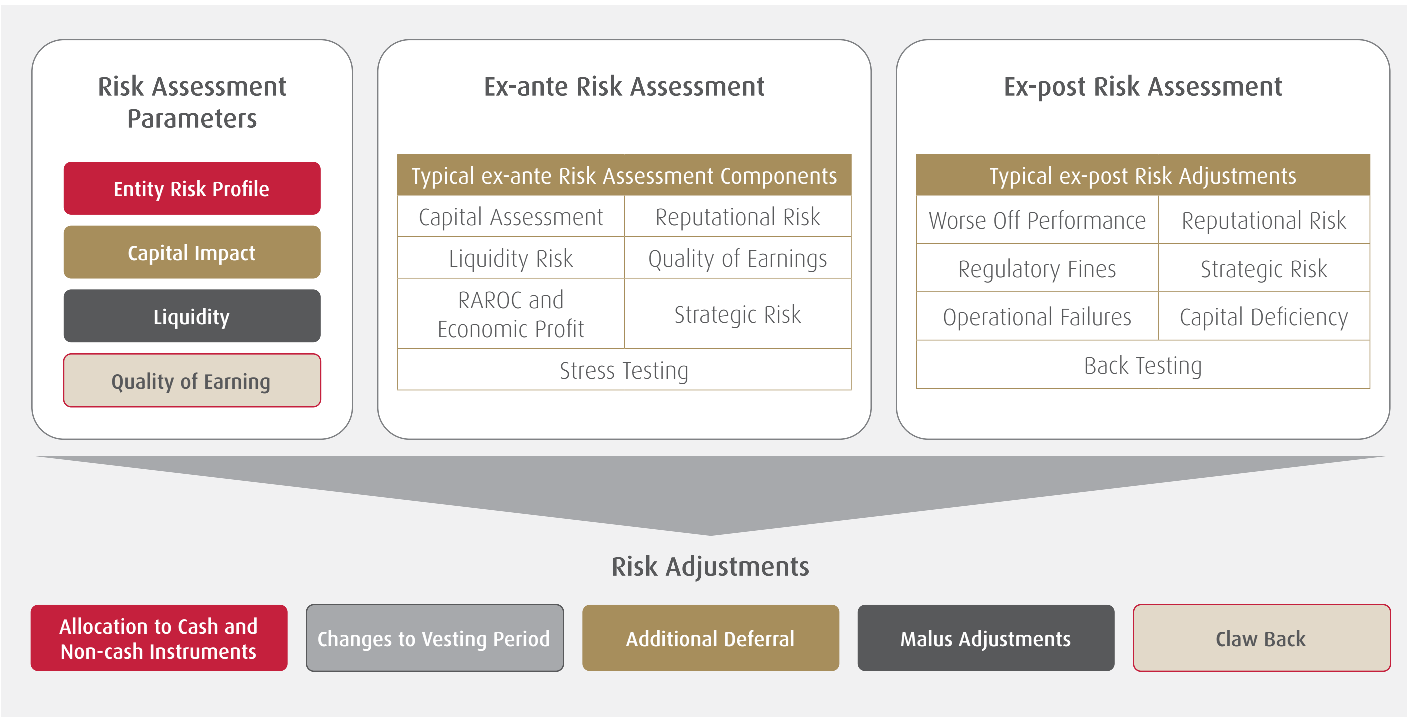
The size of the variable remuneration pool and its allocation takes into account the full range of current and potential risks, including:

- 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.

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:



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.

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)

During the year the Bank has amended the scope of application of the policy as regards the deferred compensation to staff earning total remuneration BD of 100,000 or above as per CBB regulations . Accordingly, below Is the revised scope of deferral of variable remuneration:

Element of Variable Remuneration	CEO, deputy and other 5 most highly paid business line employees	Other Covered Staff whose total remuneration exceeds BD 100,000	Deferral Period	Retention	Malus	Clawback
Upfront cash	40%	50%	Immediate	-	-	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Upfront non-cash	-	10%	Immediate	6 months	Yes	Yes
Deferred non-cash	50%	40%	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.

Employee Remuneration (Bahrain)

2023

	No. of	Fixed		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
	Staff	Remuneration				Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	4	470,534	-	99,350	-	47,149	-	8,700	43,501	-	-	**569,884**
Approved Persons Control & Support	3	330,923	-	61,149	-	30,575	6,115	-	24,460	-	-	**392,072**
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	**7**	**801,457**	**-**	**160,499**	**-**	**77,724**	**-**	**8,700**	**67,961**	**-**	**-**	**961,956**

2022

	No. of	Fixed		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	Total BHD
	Staff	Remuneration				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

Deferred Awards for Current Year (2023)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	585,361	2,675,711	120,983	706,344
Awarded During the Period	-	-	-	-
Paid Out / Released During the Period	(10,952)	(1,665,225)	(57,826)	(68,778)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	574,409	(1,010,486)	63,157	637,566

Deferred Awards for Previous 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

Notes:

- The payment of vested shares for the deferred component was completed after the reorganisation.
- 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 2023.

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, organizational structure and best practices, the Board has established the following committee and has adopted the charter setting out the matters relevant to its composition, responsibilities and administration.

Audit, Governance, Risk, Nomination and Remuneration Committee

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 Hasan – Chairperson
- Tunku Yaacob Khyra - Member
- Mohammed A. Rahman Bucheeri – Member (resigned on 31 December 2023)
- 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 BHD 30,530 for the year 2023 (2022: BHD 7,917), and have met six (6) times.

CORPORATE GOVERNANCE CONTINUED

Attendance

2023 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit, Governance, Risk, Nomination and Remuneration Committee	
		Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	4	4	-	-
2	Tunku Yaacob Khyra	4	4	6	6
3	Mohammed A. Rahman Bucheeri *(resigned effective 31 December 2023)*	4	4	6	6
4	Dr. Amani Khaled Bouresli	4	4	6	6
5	Sheikh Mohamed Abdullah Abdulkarim Elkhereiji	4	4	-	-
6	Elham Ebrahim Abdulla Hasan	4	4	6	6
	Dates of Meetings During 2023				
		20 February		30 January	
		6 June		19 February	
		13 August		5 June	
		13 November		10 August	
				9 November	
				12 November	

Notes:

- Sheikh Dr. Osama Bahar, a member of the Sharia Supervisory Board, is also a member of the Audit, Governance, Risk, Nomination and Remuneration Committee. He attended three (3) meetings. The other meetings Sheikh Dr. 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.

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.

During the year, there were no Sharia violations identified and reported.

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, Risk, Nomination and Remuneration 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 2023 was BD0.8 million (2022: BD0.9million).

Management Committees

Ithmaar Bank has the following key Management Committees:

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.

Management Committees (continued)

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 Information Security Steering Committee (ISSC) is a strategic management-level body established to oversee and guide the effective utilization, development, and governance of information security within the organization to ensure the confidentiality, integrity, availability and data privacy 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 Risk Support & Re-structuring.

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 Committee

The Committee 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 Committee is chaired by the Head of Legal, 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 Enterprise Support Services and Sustainability.

Changes in the organisational structure and reporting lines

February 2023: Corporate Banking, Financial Institutions and Treasury, Asset Management's reporting line was shifted to Head of Business Banking Group.

Changes in Management and Management Committees

Changes in Management Personnel

Senior appointments:

- February 2023: Ebrahim Abdulla Jasim was appointed as Head of Corporate Banking, Financial Institutions and Treasury Department.
- February 2023: Sara Qasim was appointed as Acting Head of Risk Management Department.
- February 2023: Mohamed Ahmed Bucheeri was appointed as Head of Asset Management Department.
- May 2023: Abdulrahman Rashed Bucheeri was appointed as Head of Information Technology Department and Acting Head of Banking Operations Department.
- June 2023: Maysan Almaskati was appointed as Head of Business Banking Group Department.
- June 2023: Enas Mohammed Rahimi was appointed as Head of Enterprise Support Services and Sustainability Department.
- June 2023: Mohamed Ali Safar was appointed as Head of Private Banking & Business Alliances Department.
- June 2023: Fatema Abdulla Mufeez was appointed as Head of Head of Legal, Compliance and AML Department.

Changes in Management and Management Committees (continued)

Other appointments, promotions and resignations:

- April 2023: Luay Yaqoob Seyadi, Executive Senior Manager, Head of Banking Operations, resigned from the Bank.
- June 2023: Balu Tiruvilandur Ramamurthy, Executive Senior Manager, Head of Compliance and AML resigned from the Bank.
- August 2023: Adel Almahmood, Manager, MLRO, Compliance and AML resigned from the Bank.
- November 2023: Nasser Abdulla Alnaqeeb, Associate, was appointed as MLRO.

Changes in Management Committees:

IT Steering Committee (ITSC):

August 2023:

- Added Assistant General Manager, Head of Business Banking Group, as the Vice Chairman.
- Added Head of Risk Support and Restructuring as a member.
- Added Head of Legal, Compliance and AML as a member.
- Removed Head of Asset Management.

Assets and Liability Committee (ALCO)

November 2023:

In view of the amended organization structure, following members were added:

- Head of Business Banking Group as the Vice Chairperson.
- Head of Risk Support and Restructuring.

Investment and Credit Committee (ICC)

In July 2023, the Board of Directors of Ithmaar Bank approved some amendments to the ICC Charter, which revised the ICC membership as follows:

New Structure

- Chief Executive Officer, Chairperson
- Head of Business Banking Group, Vice Chairperson
- Chief Financial Officer, Voting Member
- Head of Corporate Banking, Financial Institutions and Treasury, Voting Member
- Head of Private Banking and Business Alliances, Voting Member
- Head of Restructuring, Voting Member
- Head of Asset Management, Voting Member
- Head of Risk Management, Non-Voting Member
- Head of Banking Operations, Non-Voting Member

Former Structure:

- Chief Executive Officer, Chairperson
- Assistant General Manager, Business Banking Group, Vice Chairperson
- Chief Financial Officer, Voting Member
- Head of Corporate Banking, FI and Treasury, Voting Member
- Head of Private Banking and Business Development, Voting Member
- Head of Asset Management, Voting Member
- Head of Risk, Non-Voting Member
- Head of Operations, Non-Voting Member

Information Security Steering Committee (ISSC)

August 2023:

- Appointed Head of Risk Support and Restructuring as the Chairperson.
- Added Head of Financial Control as a member.
- Added Head of Enterprise Support Services and Sustainability as a member.
- Modified the Quorum as: 'The ISSC shall have a minimum quorum of 50 percent or four members, one of whom must be the Head of Risk Support and Re-structuring, who will act as Chairperson of the ISSC'.

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

May 2023:

- Removed Manager of Financial Control Department.

Changes in Management and Management Committees (continued)

Operational Risk Management Committee (ORMC):

January 2023

- Manager, Human Resources Department was appointed as a member.
- Representative from Financial Control Department was changed due to the resignation of the previous member.

July 2023

- Head of Information Technology Department and Acting Head of Banking operations Department was appointed as the Chairman.

October 2023

- Head of Corporate Banking, Financial Institutions and Treasury was appointed as the Chairman.
- Head of Risk Management was appointed as the Vice Chairman.
- Information Security Officer was appointed as a member.

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 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 Head of Risk Management 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 Audit, Governance, Risk, Nomination and Remuneration Committee.

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

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 (AGRNRC) 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.

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.

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 of controls across processes and functions. The AGRNRC actively monitors the Internal Control Framework of the Bank based on reports submitted by, Risk Management, Compliance and Internal Audit departments on a periodic basis.

Audit fees and other services provided by the external auditor

During the Annual General Meeting held on 27th March 2023, the shareholders approved the appointment of KPMG as external auditors for the year ending 31st December 2023 and authorized the Board of Directors to determine their remuneration, accordingly KPMG and its network firms has provided Ithmaar Bank and its subsidiaries with the following services:

Categories of services	Amount in USD	Example Services included in the category
(a) Audit of the group consolidated financial statements	404,750	• Audit of Ithmaar Bank Group consolidated financial statements for the year ended 31 December 2023 • Audit of the statutory financial statements of Ithmaar Bank Group's subsidiaries. • Review of condensed consolidated interim financial statements of Ithmaar Bank Group for the periods ended 31 March, 30 June, 30 September 2023. • Review of interim financial information of subsidiaries
(b) Services other than Audit		*Audit related services*
• Audit Related	135,031	• Includes, amongst others, Agreed Upon Procedures (AUPs) related to compliance requirements of various regulators for Ithmaar Bank Group and its subsidiaries.
• Tax	52,242	
• Advisory	-	*Other non-audit services* • Tax compliance services

The assessment of conflict and independence is subject to review by the Audit Committee of the Group and / or its subdiaries, as applicable.

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 activity is known as Funds Under Management (FUM).

The Bank has employed experienced portfolio managers who possess sufficient expertize and experiences to manage the funds.

There are also appropriate governance arrangements and strategies in place to manage the funds.

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 2023, 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.

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

The 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 2023 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 2023:

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 2023

Contents

www.ithmaarbank.com

بنك الإثمار
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 2023 until 31 December 2023, corresponding to the Year from 8 Jumada Al-Akhirah 1444 H until 18 Jumada Al-Akhirah 1445 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 2023:

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 2023. 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.

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

www.ithmaarbank.com

بنك الإثمار
Ithmaar Bank

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 2023 until 31 December 2023, corresponding to the Year from 8 Jumada Al-Akhirah 1444 H until 18 Jumada Al-Akhirah 1445 H

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 Sunday 1 Shaaban 1445, 11 February 2024.

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

BOARD OF DIRECTORS' REPORT

For the year ended 31 December 2023

The Directors submit their report dealing with the activities of ITHMAAR BANK B.S.C. (c) ("the Bank") for the year ended 31 December 2023, 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 2023, 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 BD3.96 million for the year ended 31 December 2023 attributable to the equity shareholders of the Group, as compared to a net income of BD3.1 million for 2022. Total assets at 31 December 2023 amounted to BD2,330.8 million (31 December 2022: BD2,309.6 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2023 was 13.95% (31 December 2022: 13.21%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 31 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2023:

HRH Prince Amr Mohammed Al-Faisal (Chairman)

Tunku Yaacob Khyra

Dr. Amani Khaled Bouresli

Sheikh Mohamed Abdullah Abdulkarim El Khereiji

Ms. Elham Ebrahim Abdulla Hassan

Mr. Mohammed A. Rahman Bucheerei (Resigned effective 31 December 2023)

BOARD OF DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2023

Board of 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 2023.

First: Board of Directors' remuneration details:

	Fixed remunerations				Variable remunerations						
Name	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors											
1. Dr. Amani Khaled Bouresli	-	15,834	-	15,834	-	-	-	-	-	15,834	-
2. Ms. Elham Ebrahim Hassan	-	15,834	-	15,834	-	-	-	-	-	15,834	-
3. Tunku Yaacob Khyra	-	15,834	-	15,834	-	-	-	-	-	15,834	-
Second: Non-Executive Directors:											
1. HRH Prince Amr Mohammed Al-Faisal	-	9,048	-	9,048	-	-	-	-	-	9,048	-
2. Sheikh Mohamed Abdullah El Khereiji	-	9,048	-	9,048	-	-	-	-	-	9,048	-
Third: Executive Directors:											
1. Mr. Mohammed A. Rahman Bucheerei (Resigned effective 31 December 2023)	-	15,834	-	15,834	-	-	-	-	-	15,834	-
Total	**-**	**81,432**	**-**	**81,432**	**-**	**-**	**-**	**-**	**-**	**81,432**	**-**

Note: All amounts are stated 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.

BOARD OF DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2023

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Remunerations for top 6 executives, including CEO and Senior Financial Officer	834,103	22,342	-	856,445

Note: All amounts are stated in Bahraini Dinars

Note:

1. The total bonus included BD8,596 as cash based remuneration and BD13,746 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 2023 (2022: Nil).

Auditors

The Board of directors recommend KPMG Fakhro Bahrain to be appointed as auditors of the Bank for the year ending 31 December 2024, subject to the regulatory and shareholder approvals.

By order of the Board of Directors

HRH Prince Amr Mohammed Al-Faisal
Chairman

Elham Hassan
Director

13 February 2024

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Audit
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Kingdom of Bahrain

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CR No. 6220 - 2

Independent auditors' report

To the Shareholders of

Ithmaar Bank B.S.C. (c)
Seef Tower
Kingdom of Bahrain

Opinion

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (c) (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, changes in owner's equity, cash flows and changes in restricted investment accounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and consolidated results of its operations, changes in owners' equity, its cash flows and 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").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2023.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (together "the Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of going concern and significant subsequent event

We draw attention to Notes 1.1 and 1.2 to the consolidated financial statements, which describes significant judgments and assumptions relevant to the Board of Directors assessment of the appropriateness of the going concern assumption for preparation of the consolidated financial statements. Furthermore, subsequent to the reporting period ended 31 December 2023, the Board of Directors has accepted, in-principle, an overall framework of terms from a prospective third-party buyer to acquire certain assets and liabilities of the Group's corporate banking business and investment assets. Our opinion is not modified in respect of these matters.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 20 February 2023.

KPMG

Independent auditors' report (continued)
Ithmaar Bank B.S.C. (c)

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the 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 have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Group's Shariah Supervisory Board.

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

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

Auditors' 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 auditors' 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 ASIFIs 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 ASIFIs, we exercise professional judgement and maintain professional scepticism 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 auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank 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.

KPMG

Independent auditors' report (continued)
Ithmaar Bank B.S.C. (c)

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

As required by the Commercial Companies Law 2001 (as amended) and Volume 2 of the Rulebook issued by the Central Bank of Bahrain (CBB) , we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
c) the Group's total owners' equity as at 31 December 2023 stood at less than BD 100 million, the minimum regulatory total owner's equity required by CBB. Except for this, we are not aware of any other violations during the year of the Commercial Companies Law 20021 (as amended), the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

KPMG

KPMG Fakhro
Partner Registration Number 137
14 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	**At 31 December 2023 (Audited)**	At 31 December 2022 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	135,403	122,377
Commodity placements with banks, financial and other institutions	4	4,908	18,440
Financing assets	5	1,163,742	1,152,284
Investment securities	6	860,688	815,341
Investment in associates	7	2,396	3,204
Other assets	8	38,106	67,527
Investment in real estate		3,989	4,792
Development properties	9	57,280	57,280
Property and equipment	10	57,669	59,745
Intangible assets	11	6,617	8,568
Total assets		**2,330,798**	2,309,558
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY			
LIABILITIES			
Customers' current accounts	12	654,158	658,614
Due to banks, financial and other institutions	13	450,303	419,454
Due to investors		3,260	13,954
Other liabilities	14	100,198	144,781
Total liabilities		**1,207,919**	1,236,803
Equity of unrestricted investment accountholders	15	1,029,941	993,418
Total liabilities and equity of unrestricted investment accountholders		**2,237,860**	2,230,221
OWNERS' EQUITY			
Share capital	16	100,000	100,000
Reserves	17	(53,304)	(53,699)
Accumulated losses		(6,620)	(10,182)
Total owners' equity		**40,076**	36,119
Non-controlling interest	18	52,862	43,218
Total Equity		**92,938**	79,337
Total liabilities, equity of unrestricted investment accountholders and total equity		**2,330,798**	2,309,558

These consolidated financial statements were approved by the Board of Directors on 13 February 2024 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Abdulla Taleb
CEO

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2023 (Audited)	31 December 2022 (Audited)
INCOME			(Refer Note 37)
Income from financing contracts	19	137,978	115,693
Income from investments	20	137,161	95,888
Other income - net	21	13,785	17,498
Total income		**288,924**	229,079
Less: profit on placements from banks, financial and other institutions – net		(6,776)	(40,650)
Return on equity of investment accountholders before Group's share as a Mudarib		(276,999)	(176,985)
Group's share as a Mudarib		107,698	83,071
Share of profit of unrestricted investment accountholders		**(169,301)**	(93,914)
Net income		**112,847**	94,515
EXPENSES			
General and administrative expenses	22	(58,675)	(57,873)
Depreciation and amortization		(6,772)	(7,763)
Total expenses		**(65,447)**	(65,636)
Profit before impairment allowances and overseas taxation		**47,400**	28,879
Impairment allowance - net	23	(8,849)	(5,470)
Profit before overseas taxation		**38,551**	23,409
Tax expense	24	(26,328)	(20,680)
PROFIT FROM CONTINUING OPERATIONS		**12,223**	2,729
Net results from discontinued operations	36	-	5,615
PROFIT FOR THE YEAR		**12,223**	8,344
Attributable to:			
Equity holders of Ithmaar		3,957	3,104
Non-controlling interest		8,266	5,240
		12,223	8,344

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Abdulla Taleb
CEO

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

for the year ended 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Share capital	Reserves	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2023	**100,000**	**(53,699)**	**(10,182)**	**36,119**	**43,218**	**79,337**
Profit for the year	-	-	3,957	**3,957**	8,266	**12,223**
Movement from dividend distribution by subsidiaries	-	-	-	**-**	(2,058)	**(2,058)**
Increase in shareholding of subsidiary	-	-	-	**-**	7,187	**7,187**
Transfer to statutory reserve (i)	-	395	(395)	**-**	-	**-**
Movement in fair value of investment securities (i)	-	-	-	**-**	2,493	**2,493**
Movement in fair value of land and building (i)	-	-	-	**-**	42	**42**
Movement in fair value of investment in real estate (i)	-	-	-	**-**	82	**82**
Foreign currency translation adjustments (i)	-	-	-	**-**	(6,368)	**(6,368)**
At 31 December 2023 (Audited)	**100,000**	**(53,304)**	**(6,620)**	**40,076**	**52,862**	**92,938**

	Share capital	Reserves	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2022	100,000	(40,120)	(16,150)	43,730	53,202	96,932
Profit 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 (i)	-	310	(310)	-		-
Movement in fair value of investment securities (i)	-	(4,743)	-	(4,743)	(1,550)	(6,293)
Movement in fair value of investment in real estate (i)	-	353	-	353	177	530
Movement in fair value of land and building (i)	-	9,981	-	9,981	5,013	14,994
Movement in hedging reserve (i)	-	1,350	-	1,350	-	1,350
Foreign currency translation adjustments (i)	-	(20,830)	-	(20,830)	(9,150)	(29,980)
At 31 December 2022 (Audited)	100,000	(53,699)	(10,182)	36,119	43,218	79,337

(i) Please refer note 15 for allocation of investment in a subsidiary to equity of unrestricted investment accountholders and note 17 for details of reserves.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	**Year ended 31 December 2023 (Audited)**	Year ended 31 December 2022 (Audited)
OPERATING ACTIVITIES			
Net profit/(loss) before overseas taxation from:			
Continuing operations		38,551	23,409
Discontinued operations		-	5,615
Adjustments for:			
Depreciation and amortization		6,772	7,763
(Provision for)/reversal of impairment - net		8,849	5,470
Income from other investments		(137,161)	(95,888)
Loss on sale of fixed assets		(30)	-
Finance cost on net ijarah liability		1,821	(2,678)
Operating income/(loss) before changes in operating assets and liabilities		(81,198)	(56,309)
Balances with banks maturing after 90 days and including with central banks relating to minimum reserve requirement		(5,406)	(36,406)
Changes in operating assets and liabilities:			
Financing assets		(165,273)	(94,681)
Assets acquired for leasing		-	4,627
Other assets		28,569	(29,230)
Customers' current accounts		91,391	91,820
Due to banks, financial and other institutions		58,430	(10,906)
Due to investors		(8,056)	(30,347)
Other liabilities		(22,871)	51,578
Increase in equity of unrestricted investment accountholders		215,251	134,173
Taxes paid		(23,585)	(20,899)
Net cash generated from operating activities		**87,252**	3,420
INVESTING ACTIVITIES			
Investment securities		(67,227)	(53,647)
Property and equipment		(12,486)	(15,491)
Net cash used in investing activities		**(79,713)**	(69,138)
FINANCING ACTIVITIES			
Repayment of net Iajrah liability		(4,158)	(5,531)
Net cash used in financing activities		**(4,158)**	(5,531)
Foreign currency translation adjustments		(6,196)	(28,624)
Net decrease in cash and cash equivalents		**(2,815)**	(99,873)
Cash and cash equivalents at the beginning of the year		**125,656**	225,529
Cash and cash equivalents at the end of the year		**122,841**	125,656
Details of cash and cash equivalents:			
Cash and balances with banks and central banks		135,403	122,377
Commodity placements with banks, financial and other institutions		4,935	18,467
Less: Placements with original maturing after 90 days and balances with central banks relating to minimum reserve requirement		(17,497)	(15,188)
		122,841	125,656

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2023	**Foreign exchange movements**	**Net Deposits / (Redemptions)**	**At 31 December 2023**
Shamil Bosphorus Modaraba*	2,356	-	-	2,356
European Real Estate Placements*	3,942	123	-	4,065
US Real Estate Placements*	9,514	-	-	9,514
Total (Audited)	**15,812**	**123**	**-**	**15,935**

	At 1 January 2022	Foreign exchange 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 (Audited)	16,663	(264)	(587)	15,812

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

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

1. REPORTING ENTITY

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 and Commerce (MOIC) under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain ("CBB") on 14 August 2016.

The Company's registered office is at Building 2080, Road 2825, Block 428, Al Seef, Kingdom of Bahrain.

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.

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 accountholders authorise the Group to commingle and 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 subsidiaries:

	% Owned			
	2023	**2022**	**Country of Incorporation**	**Principal business activities**
Faysal Bank Limited (FBL) (Note 1)	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	92	92	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (c) (Sakana) [under Voluntary Liquidation]	50	50	Kingdom of Bahrain	Mortgage finance

Note 1: The Group owns 67% stake in FBL, through a direct legal ownership of 57% and 10% of indirect ownership of DMIT, held for the beneficial interest of the Bank.

1. REPORTING ENTITY (continued)

1.1 Going Concern

As of 31 December 2023, the consolidated equity of the Group stood at BD40.1 million (2022: BD36.1 million), which is below the minimum regulatory shareholder equity of BD100 million required by the CBB as per LR module of Volume 2 and CBB Rule Book.

The Group's management has assessed liquidity and equity projections of the Group for the next twelve months from reporting date of this consolidated financial statements. Management's assessment includes the following significant assumptions:

- No change in status of sanctioned liabilities and accordingly no repayments;
- Use of ALCO approved rollover/ renewal related behavioral patterns of liabilities;
- Ability to maintain core deposits through increased focus on corporate customers as part of the new business model of the remaining entity post the sale of consumer business (evidenced by actual cash flows till the reporting date);
- Reduction in operating expenses resulting from a leaner entity post sale of consumer business;
- Positive progress in key aspects of the Equity Strengthening Plans;
- Stressing the expected behavioral outflows of the liabilities and expected behavioral inflows from assets; and
- Putting in place the necessary liquidity lines in the form of medium term interbank liquidity support facilities.

The Board of Directors has reviewed the above assumptions and events, along with mitigating factors and concluded that there are no material uncertainties related to these events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly, the Board of Directors believe that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for the next twelve months from the date of reporting of these consolidated financial statements. In addition to the above assessment, the Board of Directors are also pursuing an active exit strategy for certain assets of the Group. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

1.2 Subsequent event – Transfer of business and sale of assets

During February 2024, the Board of Ithmaar Holding, as part of its strategy of sale of core and non-core assets, provided an in-principle approval to an overall framework of terms with an interested buyer regarding sale of certain assets and liabilities of its corporate banking business and investment assets. The proposed transaction will be subject to final regulatory and shareholder approvals of affected group entities and signing of definitive agreements.

At the date of authorization of these financial statements, final transfer values and carrying values of assets and liabilities subject to the proposed transaction has not been finalized and will be mutually agreed as per contractual terms after completion of applicable regulatory and legal formalities and shareholders' approval. Hence, it is not possible to determine the financial impact of the proposed transaction with certainty at the date of authorization of these financial statements. The proposed transaction is expected to be significant to the overall consolidated financial position of the Group and is expected to yield positive outcomes for all stakeholders of the Group.

The assets and disposal group subject to the transaction were not classified as held for sale in the consolidated financial statements as at 31 December 2023, based on the Group's assessment of the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". The Group's assessment was mainly based on the fact that assets subject to the proposed transaction were not available for immediate sale in present condition and the sale was not highly probable as at 31 December 2023. The proposed transaction will also subject to certain conditions, the finalization of tentative and definitive agreements and obtaining substantive shareholder and regulatory approvals.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements comprise the financial statements and are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Bank and in conformity with the Bahrain Commercial Companies Law 2001 (as amended) and the guidelines of CBB and Financial Institutions Law.

The consolidated financial statements are prepared on a historical cost basis, except for certain investment securities and investment properties which are carried at fair value.

The consolidated financial statements are presented in Bahraini Dinars (BD), being the presentation currency of the Bank. All values are rounded to nearest thousand [BD '000] unless otherwise indicated. The functional currency of the Bank is Bahraini Dinars and that of one subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards, the Group takes guidance from the relevant IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

2.2 BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. The Group controls a business if, and only if, it has a) power over the business b) exposure, or rights, to variable returns from its involvement with the business; and c) the ability to use its power over the business to affect the amount of the institution's returns.

Power is presumed when an entity directly, or indirectly through its subsidiaries, holds more than 50% of the voting rights. Where the Group has less than majority voting rights, control may exist through a) agreement with other shareholders or the business itself; b) rights arising from other contractual arrangements; c) the institution's voting rights (de facto power); d) potential voting rights; or e) a combination thereof.

The Group considers only substantive voting rights in its assessment of whether it has power over a business. In order to be substantive, rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. When making an assessment of whether the Group controls a business, it considers the voting and other rights emanating from the investment in the business duly funded by the Group itself and its equity of investment accountholders.

The Group in its ordinary course of business may manage an asset or a business for the benefit of stakeholders other than its equity holders through an agency (usually investment agency) or similar arrangement. Control does not include situations whereby the institution has the power, but such power is exercisable in a fiduciary capacity, and not for the variable returns to the institution itself. Performance incentives receivable by an agent are in a fiduciary capacity, and hence not considered to be variable returns for the purpose of control assessment.

(ii) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Assets under management

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in consolidated statement of changes in RIA.

2. ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(iv) Loss of control

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's profit in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through consolidated income statement" are directly recognised in the consolidated income statement as part of fair value changes.

(c) Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is different from presentation currency are translated into the presentaion currency at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

Foreign exchange translation arising from consolidation of a foreign operation attributable to unrestricted investment accountholders (URIA) is attributed to the equity of the investment accountholders.

2. ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions 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. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant use of judgements and estimates are as follows:

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to note 2.4 (ah) for detailed policy.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of the cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for three years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience.

Impairment of investment securities at fair value through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 12 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

In the extra-ordinary market conditions, for the purpose of determination of what constitutes significant or prolonged decline in fair value of investments, the management takes into account the following additional factors:

- Their intention relating to the respective holding years of such investments i.e. for trading purposes, or with intention for strategic investment, or for long-term dividends and capital gains etc.;
- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition;
- Forecasts of expected recovery of market values within the expected holding years; and/ or
- Forecasts of the expected recovery of the core business of the investee entity within the expected holding years and consequential cash flows to the institution.

2. ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value of unquoted equity

The Group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cash flows, income approaches and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies and based on the latest available audited and un-audited financial statements. The basis of valuation has been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Valuation of investments in private equity and joint ventures in real estate measured at fair value through profit and loss involve judgment and is normally based on one of the following:

a. valuation by independent external valuers for underlying properties / projects;

b. recent arm's length market transactions;

c. current fair value of another contract that is substantially similar;

d. present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or

e. application of other valuation models.

Estimating fair value of investment property and net realisable value of development property

Investment properties are carried at their fair values. Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

The Group appoints experienced external valuers to determine the market value of the investment and development properties at the statement of financial position date. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. The management has forecasted the cost of completion of development properties and has engaged independent valuers to estimate the residual value of the development properties based on estimated / forecasted market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property.

The Group calibrates the valuation techniques yearly and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Deferred tax asset / liability

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2. ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgments

Going concern

The management has made an assessment of the Group's ability to continue on a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Investment classification

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. 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.

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

2.4 SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

Financial assets consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, placements with financial institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, non-trading investments in equity securities, and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts, murabaha term financing and other payables.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value Through Profit and Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

The Group segregates its investment into following categories:

i) Equity-type instruments - instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in accordance with AAOIFI FAS.

ii) Debt-type instruments - Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

iii) Other investment instruments - Investment instruments which do not meet the definition of either debt-type or equity-type instruments.

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVTPL").

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 FVTPL. Factors considered by the Group 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.

(b) Trade date accounting

Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay. Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

(d) Financing assets

Financing assets comprise of Sharia'a complaint financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba contracts and credit card-based receivables. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

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.

Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Musharaka financing

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio, but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

(e) 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.

(f) Finance lease assets

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement with the customers whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third-party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / years, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease years and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties and commercial real estate.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Finance lease assets (continued)

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependent on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the consolidated income statement.

Modification of finance lease assets

If the terms of the finance lease assets are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original finance lease assets are deemed to have expired. In this case, the original finance lease assets is derecognised and a new finance lease assets is recognised at fair value plus any eligible transaction cost.

If the modification of a finance lease assets measured at amortized cost does not result in the derecognition of the finance lease assets then the Group first recalculates the gross carrying amount of the finance lease assets using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

(g) Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Commodity Murabaha receivables and Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

(h) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual profit in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTE investments, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Non-trading investments (continued)

Subsequent to initial recognition, equity-type investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTPL are recognised in the consolidated income statement in the year which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

(i) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus postacquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. 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 equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the profit in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

(j) Investments in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is heldfor-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate (held-for-sale) is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimates costs of completion and the estimated costs necessary to make the sale.

(l) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

In limited circumstances where the Group is unable to determine reliable measure of fair value of equity type instruments, the cost of the instruments may be deemed as an approximation of fair value. If on a subsequent date, a reliable measure of fair value is determinable, the instrument is fair valued in accordance with the policy.

(m) Property and equipment

Property and equipment 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 improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Right-of-use assets	life of lease

In 2022 the management has changed the accounting policy for land and building from cost method to revaluation method' (refer note 10). 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.

The property and equipment fair value reserve is used to record increments and decrements on the revaluation of property and equipment. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and other intangible assets

a. 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. 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.

Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format"

b. Intangible assets

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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and other intangible assets (continued)

b. Intangible assets (continued)

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.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient ceases control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement.

(o) Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

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.

(p) 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.

(q) 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.

(r) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with AAOIFI Sharia Standard FAS 35 "Zakah" using the net assets method. Zakah is calculated based on the eligible reserve and retained earnings balances at the end of the year. The calculation of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders. Zakah is not required to be paid by law or by virtue of its constitution documents of the Group.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Deferred share-based annual incentives

In line with its variable remuneration policy, the Group awards a component of its annual bonuses for certain covered employees (material risk-takers and approved persons) in the form of deferred incentives that are released proportionately over a period of three years. The deferred incentives include a cash component and a share component. The share component is converted to phantom shares of the Bank based on the book value per share at the award date. The deferred incentives are cash-settled on each release date based on the most recent book value per share of the Bank. The deferred incentive liability is carried at their settlement amounts at each reporting date and any changes in the carrying value of the liability is recognized as an expense or release in the income statement of the reporting period. All deferred incentives are subject to malus and clawback provisions.

(t) Due to investors

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

(u) Customers' current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Bank. The transaction is measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Equity of unrestricted investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Group to invest the accountholder's funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms agreed with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Group in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Bank does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

(w) 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 changes 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.

(x) 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.

(y) 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.

(z) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(ab) URIA Protection Scheme

Funds held with the Group in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010. An annual contribution is made to the scheme and is recognised as an expense when due.

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(ac) Repossessed assets

In certain circumstance, properties are repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying value and fair value less cost to sell in accordance with IFRS 5 "Non-current assets held-for-sale and discontinued operation".

(ad) 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 income 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 financing assets

   Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the contract 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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Revenue recognition (continued)

6. Income from Sukuk

Income on debt-type sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income on equity-type sukuk is recognized when the group's right to receive dividends is established.

7. Dividend income

Dividend income is recognised when the Group's right to receive the dividend is established.

8.. Gain on sale of investment in equity securities

It is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

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.

(ae) 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.

(af) 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 agreed values.

(ag) 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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

(ah) Impairment

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

1. Financings and receivables

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

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

The Group measures loss allowances at an amount equal to lifetime ECL, except for 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.

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.

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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

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- 12 month ECL: 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 - lifetime ECL-not credit impaired: 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 - lifetime ECL-credit impaired: 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).

Its subsidiary, FBL has incorporated an additional criterion of days past due for determining SICR, which requires that all financing facilities in which any installment or part thereof is outstanding for 60 days or more at the reporting date shall be marked as stage 2, irrespective of the credit risk rating.

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).

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (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);

• financing 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;

• financing guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

• undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive.

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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (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.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

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.

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).

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ah) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and ijarah assets are deducted from the gross carrying amount of the assets. Loss on undrawn commitments and financial guarantees are disclosed in other liabilities.

Write-off

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.

(ai) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(aj) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.

- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ak) 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 Group's risk management policies.

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

(al) 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 Group's risk management policies.

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2023:

(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.

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. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) FAS 39 Financial Reporting for Zakah (continued)

An institution obliged to pay Zakah by law or by virtue of its constitution documents shall recognise current Zakah due for the period as an expense in its financial statements. Where Zakah is not required to be paid by law or by virtue of its constitution documents, and where the institution is considered as an agent to pay Zakah on behalf of certain stakeholders, any amount paid in respect of Zakah shall be adjusted with the equity of the relevant stakeholders.

The Group does not have any obligation to pay Zakah as per its constitutional documents. The Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer note 26).

(ii) FAS 41 Interim financial reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard is also applicable to the institutions which prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard is effective for financial statements for the period beginning on or after 1 January 2023. The Group has adopted this standard for the basis of preparation of its condensed consolidated interim financial information. The adoption of this standard did not have any significant impact on the Group's condensed consolidated interim financial information.

(iii) FAS 44 Determining control of assets and business

AAOIFI has issued FAS 44 "Determining Control of Assets and Business" on 31 December 2023, applicable with immediate effect. The objective of this standard is to establish clear and consistent principles for assessing whether and when an institution controls an asset or a business, both in the context of participatory structures and for consolidation purposes.

This standard is applicable to all Islamic financial institutions ("IFIs") and entities who are party to the Sharia compliant transactions and structures (as allowed by the respective regulatory and reporting framework). This standard covers both on-balance sheet and off-balance sheet arrangements, including participatory structures like mudaraba, musharaka, and sukuk. The assessment of control is relevant across various accounting policies of the Group, including but not limited to consolidation of subsidiaries, recognition and de-recognition of various financial assets and participatory investment structures.

The Group has assessed the revised framework for control assessment provided by FAS 44 and does not expect any significant impact on its previously assessed control conclusions on the adoption of this standard. However, the Groups accounting policies and disclosures have been revised to be consistent with the revised definitions and principles clarified under FAS 44.

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

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2024 with an option to early adopt. However, the Group has not early adopted any of these standards.

(i) 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 2024 with an option to early adopt.

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;

b) Definition of Quassi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

f) Disclosure of Zakah and Charity have been relocated to the notes to the financial statements;

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; and

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.

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

(ii) FAS 45: Quasi-Equity (Including Investment Accounts)

AAOIFI has issued Financial Accounting Standard (FAS) 45 "Quasi-Equity (Including Investment Accounts)" during 2023. The objective of this standard is to establish the principles for identifying, measuring, and presenting "quasi-equity" instruments in the financial statements of Islamic Financial Institutions "IFIs".

The standard prescribes the principles of financial reporting to participatory investment instruments (including investment accounts) in which an IFI controls underlying assets (mostly, as working partner), on behalf of the stakeholders other than owner's equity. This standard provides the overall criteria for on-balance sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity.

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt.

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

2. ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) FAS 46: Off-Balance-Sheet Assets Under Management

AAOIFI has issued Financial Accounting Standard ("FAS") 46 "Off-Balance-Sheet Assets Under Management" during 2023. The objective of this standard is to establish principles and rules for recognition, measurement, disclosure, and derecognition of off-balance-sheet assets under management, based on Shari'a and international best practices. The standard aims to improve transparency, comparability, accountability, and governance of financial reporting related to off-balance-sheet assets under management.

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:

• The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and

• An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS."

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi-Equity (including investment accounts)".

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

(iv) FAS 47: Transfer of Assets Between Investment Pools

AAOIFI has issued Financial Accounting Standard ("FAS") 47 "Transfer of Assets Between Investment Pools" during 2023. The objective of this standard is to establish guidance on the accounting treatment and disclosures for transfers of assets between investment pools that are managed by the same institution or its related parties. The standard applies to transfers of assets that are not part of a business combination, a disposal of a business, or a restructuring of an institution.

The standard defines an investment pool as a group of assets that are managed together to achieve a common investment objective, such as a fund, a portfolio, or a trust. The standard also defines a transfer of assets as a transaction or event that results in a change in the legal ownership or economic substance of the assets, such as a sale, a contribution, a distribution, or a reclassification.

The transfer of assets between investment pools should be accounted for based on the substance of the transaction and the terms and conditions of the transfer agreement. The standard classifies transfers of assets into three categories: transfers at fair value, transfers at carrying amount, and transfers at other than fair value or carrying amount. The standard also specifies the disclosure requirements for transfers of assets between investment pools.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt.

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2023	31 December 2022
Cash reserve with central banks	17,497	15,188
Cash and balances with banks and central banks	117,906	107,189
	135,403	122,377

4. COMMODITY PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2023	31 December 2022
Commodity placements/contracts	4,935	18,467
Less: Allowance for impairment	(27)	(27)
	4,908	18,440

5. FINANCING ASSETS

	31 December 2023	31 December 2022
Murabaha and tawarruq financings	747,772	628,864
Musharaka financing	426,675	579,533
Istisna financings	69,927	61,374
Ijarah financing	591	591
	1,244,965	1,270,362
Less: Allowance for impairment	(81,223)	(118,078)
	1,163,742	1,152,284

Murabaha financings include conventional loans and advances totalling BD21.4 million (31 December 2022: BD33.5 million) made by a subsidiary of the Bank.

The movement on allowance for impairment is as follows:

	31 December 2023	31 December 2022
At 1 January	118,078	141,386
Charge for the year	12,652	11,478
Write back during the year	(7,184)	(8,193)
Utilised during the year	(35,051)	(2,304)
Movement due to sale of assets	-	(13,333)
Exchange differences	(7,272)	(10,956)
At 31 December	**81,223**	118,078

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. INVESTMENT SECURITIES

	31 December 2023	31 December 2022
Investment securities at fair value through income statement		
Debt-type instruments – listed	-	42
Debt-type instruments – unlisted	6,259	418
Equity-type securities – listed	1,935	746
	8,194	1,206
Investment securities at fair value through equity		
Debt-type instruments – listed	55,494	82,661
Debt-type instruments – unlisted	745,558	684,424
Equity-type securities – listed	7,510	16,424
Equity-type securities – unlisted	2,440	2,152
	811,002	785,661
Less: Allowance for impairment	(4,155)	(3,248)
	806,847	782,413
Investment securities carried at amortised cost		
Debt-type instruments – listed	36,332	15,442
Debt-type instruments – unlisted	11,205	18,727
	47,537	34,169
Less: Allowance for impairment	(1,890)	(2,447)
	45,647	31,722
	860,688	815,341

Investment securities include BD36.3 million Sukuk which have been repoed with another counterparty.

Sovereign Sukuk comprises 90% of the total debt-type instruments (31 December 2022: 90%).

Investment securities include conventional investments totalling BD12.4 million (31 December 2022: BD25.2 million) made by a subsidiary of the Bank.

The movement in allowance for impairment is as follows:

	31 December 2023	31 December 2022
At 1 January	5,695	7,875
Charge for the year	3,306	-
Write back during the year	(1,837)	(509)
Exchange differences and other movements	(1,119)	(1,671)
At 31 December	**6,045**	5,695

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. INVESTMENT SECURITIES (continued)

FAS 33 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 assets and liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. 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 2023				
Investment securities at fair value through income statement				
Debt-type instruments	6,259	-	-	6,259
Equity-type securities	1,935	-	-	1,935
Investment securities at fair value through equity				
Debt-type instruments	-	800,149	-	800,149
Equity securities	5,849	144	705	6,698
	14,043	**800,293**	**705**	**815,041**
Investments not measured at fair value				
Investment securities carried at amortised cost				
Debt-type instruments	**33,653**	**9,330**	**-**	**42,983**

	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	746	-	-	746
Investment securities at fair value through equity				
Debt-type instruments	82,233	684,626	-	766,859
Equity securities	13,364	2,190	-	15,554
	96,803	686,816	-	783,619
Investments not measured at fair value				
Investment securities carried at amortised cost				
Debt-type instruments	13,476	16,514	-	29,990

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. INVESTMENT IN ASSOCIATES

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

Name of entity	31 December 2023	% holding	31 December 2022	% of Shareholding	Country of incorporation	Nature of business
Unlisted:						
Faysal Stock Fund	9	11	440	32	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	-	-	1,405	32	Pakistan	Mutual funds
Faysal Islamic Stock Fund	168	29	160	21	Pakistan	Mutual funds
Faysal Saving Growth Fund (B)	-	-	1,199	29	Pakistan	Mutual funds
Faysal Halal Amdani Fund	2,062	4	-	-	Pakistan	Mutual funds
Faysal Islamic Financial Growth Fund FISP-1	151	29	-	-	Pakistan	Mutual funds
Faysal Islamic Sovereign Fund FISIP-1	4	0	-	-	Pakistan	Mutual funds
Faysal Islamic Special Income Fund FIFGP-I	2	5	-	-	Pakistan	Mutual funds
	2,396		3,204			

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

8. OTHER ASSETS

	31 December 2023	31 December 2022
Accounts receivable	48,975	68,414
Due from related parties (note 30)	5,231	5,401
Taxes – deferred	-	1,508
Taxes – current	21	4,870
Assets acquired against claims	316	1,747
	54,543	81,940
Less: Allowance for impairment	(16,437)	(14,413)
	38,106	67,527

The movement in provision for impairment is as follows:

	31 December 2023	31 December 2022
At 1 January	14,413	15,758
Charge for the year	1,508	-
Write back during the year	(53)	(131)
Reclassification	-	(949)
Exchange differences and other movements	569	(265)
At 31 December	**16,437**	14,413

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9. DEVELOPMENT PROPERTIES

	31 December 2023	31 December 2022
Land	51,340	51,340
Development costs	5,940	5,940
	57,280	57,280

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs. 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 not lower than the net realisable value, and accordingly, no impairment has been considered necessary.

10. PROPERTY AND EQUIPMENT

	31 December 2023			31 December 2022		
	Cost	**Accumulated depreciation**	**Net book amount**	Cost	Accumulated depreciation	Net book amount
Land and building	27,107	(480)	26,627	26,210	(24)	26,186
Leasehold improvements	10,396	(5,969)	4,427	10,711	(6,178)	4,533
Furniture and equipment	25,651	(15,423)	10,228	24,041	(16,477)	7,564
Motor vehicles	1,048	(586)	462	966	(638)	328
Right-of-use assets	17,981	(2,056)	15,925	22,954	(1,820)	21,134
	82,183	**(24,514)**	**57,669**	84,882	(25,137)	59,745

The movement in land and building is as follows:

	31 December 2023	31 December 2022
At 1 January	26,186	12,203
Additions	1,995	110
Depreciation	(476)	(110)
Movement in fair value	42	14,994
Exchange differences and other movements	(1,120)	(1,011)
At 31 December	**26,627**	26,186

Depreciation charge for the year ended 31 December 2023 amounted to BD3.3 million (31 December 2022: BD3.5 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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. INTANGIBLE ASSETS

	31 December 2023	31 December 2022
Goodwill	1,358	2,163
Customer relations	790	1,057
Core deposits	958	991
Others	3,511	4,357
	6,617	8,568

Amortisation charge for the year ended 31 December 2023 amounted to BD3.5 million (31 December 2022: BD4.8 million).

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

	31 December 2023	31 December 2022
Faysal Bank Limited	1,358	2,163
	1,358	2,163

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.

12. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include relating to a customer to BD74.5 million who is subject to sanctions under US measures (31 December 2022: BD72.2 million).

13. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2023	31 December 2022
Due to banks	417,507	388,824
Due to financial and other institutions	32,796	30,630
	450,303	419,454

Due to banks, financial and other institutions include balances totalling BD160.2 million from two counterparties which are subject to sanctions under US measures (31 December 2022: BD158.9 million).

Due to banks, financial and other institutions include BD36.3 million which have been repoed with another counterparty.

Due to banks as of 31 December 2022 included certain wakala deposits amounting to BD21.4 million which have been reclassified to Equity of unrestricted investment accountholders during the year and the comparatives have been restated.

Due to banks, financial and other institutions include conventional deposits totalling BDNil million (31 December 2022: BD9.8 million), accepted by a subsidiary of the Bank.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. OTHER LIABILITIES

	31 December 2023	31 December 2022
Accounts payable	68,363	108,768
Lease liabilities related to Right-of-use assets	18,901	23,083
Accrued expenses	12,925	12,914
Due to related parties (note 30)	9	16
	100,198	144,781

15. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

Equity of unrestricted investment accountholders comprise:

	31 December 2023	31 December 2022
Modaraba accounts - corporates	534,521	477,238
Modaraba accounts - financial institutions	237,202	200,075
Modaraba accounts - individuals	246,555	294,340
Wakala from financial institutions	21,825	21,765
Fair value & foreign exchange translation movement from investments attributable to unrestricted investment accountholders (i)	(10,162)	-
	1,029,941	993,418

The Group utilizes the above funds to invest in the following assets:

	31 December 2023	31 December 2022
Cash and balances with banks and central banks	117,279	89,438
Placements with banks, financial and other institutions	-	6,736
Financing assets	822,668	813,892
Investment securities	-	15,442
Other assets	9,013	9,472
Due from the Group	-	58,438
Investments in equity (i)	80,981	-
	1,029,941	993,418

(i) Effective 1 January 2023, the unrestricted Modaraba pool of the parent includes an allocation to its investment in subsidiaries as they form part of the income generating pool of assets that support the Modaraba investment accounts. In line with the requirements of Financial Accounting Standards, at the time of preparation of the condensed consolidated interim financial information, foreign exchange translation & fair value reserves arising from consolidation of a foreign subsidiary is attributed to the equity of the investment accountholders. While this attribution is at a consolidated level, the URIA pool considers the net asset value of the investment in subsidiary for the purpose of allocation of assets to Modaraba pools. Any subsequent changes in the value of the net investments is recognised respectively in income statement and equity of the investment accountholders.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

15. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

At 1 January 2023	Investments fair value reserve	Fixed assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation reserve	Total
Movement in fair value of Investment securities	4,624	-	-	-	**4,624**
Movement in fair value of land and building	-	1,869	-	-	**1,869**
Foreign currency translation adjustments	340	(1,953)	(167)	(14,875)	**(16,655)**
At 31 December 2023	**4,964**	**(84)**	**(167)**	**(14,875)**	**(10,162)**

The average gross rate of return in respect of unrestricted investment accounts was 5.5% per annum for 2023 (2022: 4.8%) of which 6.1% per annum (2022: 3.2%) 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.

16. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
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
Issued and fully paid		
Total outstanding as at 1 January 2023	1,000,000	100,000
At 31 December 2023 (Audited)	**1,000,000**	100,000

The Bank's total issued and fully paid share capital at 31 December 2023 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 2023 was 15.5 million shares (31 December 2022: 15.5 million shares) of which the unvested shadow shares amount to 1 million shares (31 December 2022: 2.7 million shares).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17. RESERVES

31 December 2023

	Statutory reserve	**Investments fair value reserve**	**Hedging reserve**	**Fixed Assets fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation reserve**	**Total**
At 1 January 2023	609	1,787	-	9,981	951	(67,027)	(53,699)
Transfer to statutory reserve	395	-	-	-	-	-	395
At 31 December 2023	**1,004**	**1,787**	**-**	**9,981**	**951**	**(67,027)**	**(53,304)**

31 December 2022

	Statutory reserve	Investments fair value reserve	Hedging reserve	Fixed Assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation reserve	Total
At 1 January 2022	299	6,609	(1,350)	-	746	(46,424)	(40,120)
Transfer to statutory reserve	310	-	-	-	-	-	310
Movement in fair value of Investment securities	-	(4,743)	-	-	-	-	(4,743)
Movement in hedging reserve	-	-	1,350	-	-	-	1,350
Movement in fair value of land and building	-	-	-	9,981	-	-	9,981
Movement in fair value of investment in real estate	-	-	-	-	353	-	353
Foreign currency translation adjustments	-	(79)	-	-	(148)	(20,603)	(20,830)
At 31 December 2022	609	1,787	-	9,981	951	(67,027)	(53,699)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. 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 2023		31 December 2022	
	Non-controlling %		Non-controlling %	
Faysal Bank Limited	33	47,947	33	38,206
Dilmunia Development Fund I L.P.	8	4,305	8	4,402
Sakana Holistic Housing Solutions B.S.C. (c)	50	610	50	610
		52,862		43,218

Non-controlling interests in the consolidated income statement of BD8.3 million (31 December 2022: BD5.2 million) represents the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

19. INCOME FROM FINANCING CONTRACTS

	Year ended 31 December 2023	Year ended 31 December 2022
Income from Murabaha and tawarruq financings	41,592	43,297
Income from Istisna financings	7,491	4,763
Income from Musharaka financing	88,895	67,633
	137,978	115,693

20. INCOME FROM INVESTMENTS

	Year ended 31 December 2023	Year ended 31 December 2022
Income from investment securities at amortised cost	3,210	1,871
Income from investment securities at fair value through equity	125,026	87,503
Income from investment securities at fair value through income statement	8,583	6,396
Income from investment in real estate	342	118
	137,161	95,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

21. OTHER INCOME - NET

	Year ended 31 December 2023	Year ended 31 December 2022
Income from banking services	11,457	15,072
Income from commodity placements	3,285	2,599
Foreign exchange loss	(988)	(269)
Other income	31	96
	13,785	17,498

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2023	Year ended 31 December 2022
Salaries and other benefits	23,660	23,008
Office expenses	24,587	25,397
Professional fees	2,265	2,382
Other administrative expenses	8,163	7,086
	58,675	57,873

23. IMPAIRMENT ALLOWANCE

	31 December 2023	31 December 2022
At 1 January	173,178	194,481
Charge for the year	17,922	14,276
Write back during the year	(9,073)	(8,806)
Utilised during the year	(35,051)	(2,305)
Movement due to sale of assets	-	(13,333)
Exchange differences	(7,819)	(11,135)
At 31 December	**139,157**	173,178

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

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

	31 December 2023	31 December 2022
Financing assets	81,223	118,078
Commodity placements with banks, financial and other institutions	27	27
Investment securities	6,045	5,695
Other assets	16,437	14,413
Investment in real estate	8,630	8,171
Intangible assets	26,795	26,794
	139,157	173,178

23. IMPAIRMENT ALLOWANCE (continued)

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 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commodity placements with banks, financial and other institutions				
Gross exposure	4,935	-	-	**4,935**
Less: expected credit loss	(27)	-	-	**(27)**
Net exposure	**4,908**	**-**	**-**	**4,908**
Financing assets				
Gross exposure	1,053,280	117,266	74,419	**1,244,965**
Less: expected credit loss	(28,477)	(10,175)	(42,571)	**(81,223)**
Net exposure	**1,024,803**	**107,091**	**31,848**	**1,163,742**
Other assets				
Gross exposure	13,210	25,649	15,684	**54,543**
Less: expected credit loss	(678)	(75)	(15,684)	**(16,437)**
Net exposure	**12,532**	**25,574**	**-**	**38,106**
Total gross exposure	1,071,425	142,915	90,103	1,304,443
Less: Total expected credit loss	(29,182)	(10,250)	(58,255)	(97,687)
Total Net exposure	**1,042,243**	**132,665**	**31,848**	**1,206,756**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Commodity 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
Financing assets				
Gross exposure	795,500	361,058	113,804	1,270,362
Less: expected credit loss	(30,031)	(8,276)	(79,771)	(118,078)
Net exposure	765,469	352,782	34,033	1,152,284
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	862,932	381,157	126,680	1,370,769
Less: Total expected credit loss	(31,556)	(8,315)	(92,647)	(132,518)
Total Net exposure	831,376	372,842	34,033	1,238,251

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23. IMPAIRMENT ALLOWANCE (continued)

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 2023.

24. OVERSEAS TAXATION

	Year ended	
	31 December 2023	31 December 2022
Current taxes	30,131	18,706
Deferred taxes	(3,803)	1,974
	26,328	20,680

The Group is subject to income taxes in some foreign 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 2023	31 December 2022
At 1 January	11,110	34
Charge for the year	(30,131)	(18,706)
Payments made	23,585	20,899
Exchange differences and other movements	(8,647)	8,883
At 31 December	**(4,083)**	11,110

Deferred tax asset/(liability)

	31 December 2023	31 December 2022
At 1 January	1,508	3,955
Charge for the year	3,803	(1,974)
Charges due to fair value reserve	(6,547)	235
Exchange differences and other movements	(270)	(708)
At 31 December	**(1,506)**	1,508

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. SEGMENT REPORTING

The Group constitutes of two 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 2023			31 December 2022		
	Retail & Corporate banking	Asset Management / Investment Banking	Total	Retail & Corporate banking	Asset Management / Investment Banking	Total
Operating income/(loss)	112,927	(80)	**112,847**	93,783	732	94,515
Total expenses	(62,163)	(3,284)	**(65,447)**	(62,402)	(3,234)	(65,636)
Net income/(loss) before provision and overseas taxation	**50,764**	**(3,364)**	**47,400**	31,381	(2,502)	28,879
Provision and overseas taxation	(32,885)	(2,292)	**(35,177)**	(25,783)	(367)	(26,150)
Net income/(loss) from continuing operations	**17,879**	**(5,656)**	**12,223**	5,598	(2,869)	2,729
Net results for the period from discontinued operations	-	-	-	5,615	-	5,615
Net income/(losses) for the period	**17,879**	**(5,656)**	**12,223**	11,213	(2,869)	8,344
Attributable to:						
Equity holders of the Bank	9,114	(5,157)	**3,957**	4,966	(1,862)	3,104
Non-controlling interests	8,765	(499)	**8,266**	6,247	(1,007)	5,240
	17,879	**(5,656)**	**12,223**	11,213	(2,869)	8,344
Total assets	**2,256,529**	**74,269**	**2,330,798**	2,241,531	68,027	2,309,558
Total liabilities and equity of unrestricted investment account holders	**2,222,916**	**14,944**	**2,237,860**	2,221,116	9,105	2,230,221

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

	31 December 2023			31 December 2022		
	Middle East & Africa	Rest of Asia and others	Total	Middle East & Africa	Rest of Asia and others	Total
Operating income/(loss)	(2,704)	115,551	**112,847**	6,013	88,502	94,515
Total expenses	(9,592)	(55,855)	**(65,447)**	(14,028)	(51,608)	(65,636)
Net (loss)/income before provision and overseas taxation	(12,296)	59,696	**47,400**	(8,015)	36,894	28,879
Provision and overseas taxation	(1,923)	(33,254)	**(35,177)**	(8,352)	(17,798)	(26,150)
Net income/(loss) from continuing operations	(14,219)	26,442	**12,223**	(16,367)	19,096	2,729
Net results for the period from discontinued operations	-	-	-	5,615	-	5,615
Net income/(losses) for the period	**(14,219)**	**26,442**	**12,223**	(10,752)	19,096	8,344
Attributable to:						
Equity holders of the Bank	(13,379)	17,336	**3,957**	(9,605)	12,709	3,104
Non-controlling interests	(840)	9,106	**8,266**	(1,147)	6,387	5,240
	(14,219)	**26,442**	**12,223**	(10,752)	19,096	8,344
Total assets	**514,147**	**1,816,651**	**2,330,798**	515,241	1,794,317	2,309,558
Total liabilities and equity of unrestricted investment account holders	**452,274**	**1,785,586**	**2,237,860**	566,282	1,663,939	2,230,221

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26. 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.

27. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2023	31 December 2022
Acceptances and endorsements	17,638	11,530
Guarantees and irrevocable letters of credit	175,890	172,813
Customer and other claims	39,316	52,871
	232,844	237,214

Commitments

	31 December 2023	31 December 2022
Undrawn facilities, financing lines and other commitments to finance	**457,687**	488,187

As at 31 December 2023, there are legal suits pending against the Group in the normal course. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28. 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 2023	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Government & Services	Individuals	Textile	Other	Total
Cash and balances with banks and central banks	135,403	-	-	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	-	4,908
Financing assets	324,686	318,275	38,527	346,132	62,096	67,821	6,205	1,163,742
Investment securities	1,119	6,831	79	852,245	-	231	183	860,688
Investment in associates	2,396	-	-	-	-	-	-	2,396
Other assets	10,673	-	11,544	-	15,889	-	-	38,106
Investment in real estate	2,269	-	1,720	-	-	-	-	3,989
Development properties	-	-	57,280	-	-	-		57,280
Fixed assets	57,245	-	424	-	-	-	-	57,669
Intangible assets	3,316	2,381	-	-	-	-	920	6,617
Total assets	**542,015**	**327,487**	**109,574**	**1,198,377**	**77,985**	**68,052**	**7,308**	**2,330,798**
Customer current accounts	137,825	238,497	33,036	89,739	117,357	4,212	33,492	654,158
Due to banks, financial and other institutions	445,409	-	-	-	-	-	4,894	450,303
Due to investors	-	646	27	1,038	1,538	11	-	3,260
Other liabilities	46,647	957	8,753	17,828	2,061	-	23,952	100,198
Total liabilities	**629,881**	**240,100**	**41,816**	**108,605**	**120,956**	**4,223**	**62,338**	**1,207,919**
Equity of unrestricted investment accountholders	98,399	372,670	42,885	163,738	347,298	4,951	-	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**728,280**	**612,770**	**84,701**	**272,343**	**468,254**	**9,174**	**62,338**	**2,237,860**
Contingent liabilities and commitments	**194,664**	**383,411**	**1,595**	**48,054**	**1,289**	**13,827**	**47,691**	**690,531**
31 December 2022								
Total assets	568,308	432,209	116,119	991,401	84,709	59,325	57,487	2,309,558
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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

31 December 2023	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	117,279	18,124	-	-	135,403
Commodity placements with banks, financial and other institutions	-	4,908	-	-	4,908
Financing assets	782,967	380,058	717	-	1,163,742
Investment securities	823,650	36,855	183	-	860,688
Investment in associates	2,396	-	-	-	2,396
Other assets	26,613	11,477	16	-	38,106
Investment in real estate	2,269	1,720	-	-	3,989
Development properties	-	57,280	-	-	57,280
Fixed assets	57,245	424	-	-	57,669
Intangible assets	3,316	3,301	-	-	6,617
Total assets	**1,815,735**	**514,147**	**916**	**-**	**2,330,798**
Customer current accounts	479,285	91,184	75,714	7,975	654,158
Due to banks, financial and other institutions	227,400	222,599	304	-	450,303
Due to investors	3,260	-	-	-	3,260
Other liabilities	81,058	19,140	-	-	100,198
Total liabilities	**791,003**	**332,923**	**76,018**	**7,975**	**1,207,919**
Equity of unrestricted investment accountholders	901,313	119,351	7,297	1,980	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**1,692,316**	**452,274**	**83,315**	**9,955**	**2,237,860**
Contingent liabilities and commitments	**675,254**	**15,277**	**-**	**-**	**690,531**
31 December 2022					
Total assets	1,794,317	504,775	10,466	-	2,309,558
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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL 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.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the challenging business environment 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 2023, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 31 December 2023, the Group had NSFR ratio of 123%.

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).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK

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

31 December 2023	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	10,745	103,179	18,624	754	84	2,017	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	4,908
Financing assets	221,060	782,967	78,341	81,374	-	-	1,163,742
Investment securities	36,855	823,650	-	-	-	183	860,688
Investment in associates	-	2,396	-	-	-	-	2,396
Other assets	6,151	28,064	3,106	785	-	-	38,106
Investment in real estate	-	2,269	1,720	-	-	-	3,989
Development properties	-	-	57,280	-	-	-	57,280
Fixed assets	-	57,245	424	-	-	-	57,669
Intangible assets	230	3,316	3,071	-	-	-	6,617
Total assets	**279,949**	**1,803,086**	**162,566**	**82,913**	**84**	**2,200**	**2,330,798**
Customer current accounts	68,611	438,048	58,715	81,459	61	7,264	654,158
Due to banks, financial and other institutions	53,175	224,544	12,044	36,984	123,377	179	450,303
Due to investors	339	2,868	-	23	-	30	3,260
Other liabilities	-	81,324	15,653	3,221	-	-	100,198
Total liabilities	**122,125**	**746,784**	**86,412**	**121,687**	**123,438**	**7,473**	**1,207,919**
Equity of unrestricted investment accountholders	37,954	867,786	119,380	1,840	-	2,981	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**160,079**	**1,614,570**	**205,792**	**123,527**	**123,438**	**10,454**	**2,237,860**
Contingent liabilities and commitments	**259,290**	**370,568**	**15,277**	**13,215**	**2,911**	**29,270**	**690,531**
31 December 2022							
Total assets	274,456	1,751,906	168,815	83,631	600	30,150	2,309,558
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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT (continued)

CURRENCY RISK (continued)

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 2023			
Total currency exposure	188,516	40,614	79,794
Reasonable shift	4.71%	1.56%	0.47%
Total effect on income/equity	**8,879**	**634**	**375**

	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**

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.

Credit Risk Mitigation

The 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.

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. Real Estate Collaterals associated with exposures classified in stage 2 and stage 3 shall be valued annually.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT (continued)

Collateral Concentration

The 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.

Reputational Risk

The Reputational Risk Management is defined as the 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 Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Group has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems.

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, Ithmaar is able to manage the operational risks to an acceptable level.

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). The 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.

LCR is computed as a ratio of Stock of HQLA over the net cash outflows. The average consolidated LCR for 90 days calculated as per the requirements of the CBB rulebook and guidelines applicable for the Bank, as of 31 December 2023 and 31 December 2022, is as follows:

	31 December 2023	31 December 2022
Stock of HQLA	517,767	451,358
Net cashflows	510,513	421,885
LCR %	101%	107%
Minimum required by CBB	100%	100%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

The contractual maturity profile (based on the repayment schedule) of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2023	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	135,403	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	4,908
Financing assets	439,303	132,958	73,924	465,794	51,763	1,163,742
Investment securities	484	-	71,904	695,956	92,344	860,688
Investment in associates	-	-	2,396	-	-	2,396
Other assets	3,310	3,283	11,227	14,295	5,991	38,106
Investment in real estate	-	-	-	2,269	1,720	3,989
Development properties	-	-	-	57,280	-	57,280
Fixed assets	-	6,095	292	8,483	42,799	57,669
Intangible assets	1,383	2	23	1,620	3,589	6,617
Total assets	**584,791**	**142,338**	**159,766**	**1,245,697**	**198,206**	**2,330,798**
Customer current accounts	654,158	-	-	-	-	654,158
Due to banks, financial and other institutions	291,470	39,620	8,879	49,605	60,729	450,303
Due to investors	2,917	69	246	28	-	3,260
Other liabilities	15,145	3,370	3,510	6,259	71,914	100,198
Total liabilities	**963,690**	**43,059**	**12,635**	**55,892**	**132,643**	**1,207,919**
Equity of unrestricted investment accountholders	676,234	162,718	171,919	19,070	-	1,029,941
Total liabilities and equity of unrestricted investment accountholders	**1,639,924**	**205,777**	**184,554**	**74,962**	**132,643**	**2,237,860**
Net position	**(1,055,133)**	**(63,439)**	**(24,788)**	**1,170,735**	**65,563**	**92,938**
Contingent liabilities and commitments	**430,593**	**139,515**	**72,914**	**46,289**	**1,220**	**690,531**
31 December 2022						
Total assets	469,633	95,084	470,544	1,011,879	262,418	2,309,558
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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT (continued)

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 2023	31 December 2022
Gross exposure		
Past due but performing financing exposures	360,919	295,405
Non performing financing exposures	74,419	113,804
	435,338	409,209
Fair value of collateral		
Past due but performing financing exposures	300,569	249,531
Non performing financing exposures	43,582	38,159
	344,151	287,690

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2023	31 December 2022
Restructured financings	**7,698**	15,854

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. FINANCIAL 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 2023	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	-	-	-	-	-	135,403	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	4,908
Financing assets	316,561	102,221	166,030	499,467	73,945	5,518	1,163,742
Investment securities	60,444	89,013	567,260	118,158	16,027	9,786	860,688
Other assets						38,106	38,106
Total financial assets	**381,913**	**191,234**	**733,290**	**617,625**	**89,972**	**188,813**	**2,202,847**
Customer current accounts	-	-	-	-	-	654,158	654,158
Due to banks, financial and other institutions	327,953	40,970	11,437	11,662	58,281	-	450,303
Due to investors	-	-	-	-	3,260	-	3,260
Other liabilities	-	-	-	-	-	100,198	100,198
Total financial liabilities	**327,953**	**40,970**	**11,437**	**11,662**	**61,541**	**754,356**	**1,207,919**
Equity of unrestricted investment accountholders	253,907	146,951	208,965	284,848	135,270	-	1,029,941
Total financial liabilities and equity of unrestricted investment accountholders	**581,860**	**187,921**	**220,402**	**296,510**	**196,811**	**754,356**	**2,237,860**
Total repricing gap	**(199,947)**	**3,313**	**512,888**	**321,115**	**(106,839)**	**(565,543)**	**(35,013)**
31 December 2022							
Total financial assets	280,425	295,679	154,185	755,237	477,228	213,215	2,175,969
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)

	USD	**PKR**	**AED**
As at 31 December 2023			
Total profit rate exposure	119,640	125,686	123,522
Reasonable shift	0.19%	6.70%	0.00%
Total effect on income	**227**	**8,421**	**-**

	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

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 2023, 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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30. 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. Related party transactions are annually approved by the Board of Directors and are conducted at agreed terms approved by the Board of Directors of respective Group entities.

Significant balances with related parties comprise:

					31 December 2023
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Financing assets	322,550	-	-	-	322,550
Other assets	5,176	-	-	55	5,231
Liabilities					
Customers' current accounts	9,092	314	-	-	9,406
Due to banks, financial and other institutions	15,484	4,904	-	-	20,388
Other liabilities	9	-	-	-	9
Equity of unrestricted investment accounts	3,351	-	-	-	3,351

					31 December 2023
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(250)	-	-	-	(250)
Income from financing assets	5,360	-	-	-	5,360
Profit paid to banks, financial and other institutions	(605)	(310)	-	-	(915)
Other income - Management fees expenses	(336)	-	-	-	(336)
Expenses					
Administrative and general expenses	(170)	-	(85)	-	(255)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

31 December 2022	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Financing assets	324,056	-	-	-	324,056
Other assets	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	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 financing assets	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)	-	(115)	-	(321)

Certain collaterals against financing facilities amounting to BD27.8 million (31 December 2022: BD32.4 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

19% of the Bank's ownership in Faysal Bank Limited is held by DMIT, for the beneficial interest of the Group.

31. 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 operate for the benefits for shareholders and other stakeholders; and
- To maintain a robust capital base to support the development of its business.

Refer note 1 for capital structuring process.

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 applicable for the Bank, incorporating credit risk, operational risk and market risk. The banking subsidiaries comply with the directives of the respective local regulators for their capital management and their capital and risk-weighted assets are aggregated for the purpose of reporting the Group's CAR.

	31 December 2023	31 December 2022
Tier 1	108,330	99,288
Tier 2	7,205	6,588
Total Capital Base	**115,535**	105,876
Total Risk-Weighted Exposures	827,935	801,711
Capital Adequacy Ratio	**13.95%**	13.21%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2023 (31 December 2022: Nil).

33. 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 2023	31 December 2022
INCOME		
Income from other financings	2,109	11,474
Income from investments	3,683	22,921
Other income	395	6,685
Gross income	**6,187**	41,080
Less: profit paid to banks, financial and other institutions - note (ii)	(1,205)	(29,674)
Total income	**4,982**	11,406
EXPENSES		
Administrative and general expenses - note (i)	(104)	(10,829)
Depreciation and amortisation	(2,844)	(4,801)
Total expenses	**(2,948)**	(15,630)
Net (loss)/income before provision for impairment and overseas taxation	**2,034**	(4,224)
Reversal of impairment - net	-	1,095
Net (loss)/income before overseas taxation	**2,034**	(3,129)
Overseas taxation	(1,332)	599
NET (LOSS)/INCOME FOR THE YEAR	**702**	(2,530)
Attributable to:		
Equity holders of the Bank	1,446	(1,789)
Non-controlling interests	(744)	(741)
	702	(2,530)
Basic and diluted (losses)/earnings per share	**Fils 1.45**	Fils (1.79)

Note (i) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (ii) – One of the subsidiaries which was previously operating as a conventional bank till 2022 completed its Islamic conversion by surrendering its conventional banking license on 31 December 2022 and starting operations as an Islamic Retail bank effective 1 January 2023 and has increased the number of its Islamic branches during the year to 722 branches (2022: 698 branches). Accordingly only the residual non-Sharia compliant income is included in the above.

34. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35. NET STABLE FUNDING RATIO (NSFR)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and guideline set for the Bank. The minimum NSFR ratio as per CBB is 100% . The NSFR as at 31 December 2023 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:**	**108,330**	**-**	**-**	**7,205**	**115,535**
2	Regulatory Capital	108,330	-	-	-	108,330
3	Other Capital Instruments	-	-	-	7,205	7,205
4	**Retail deposits and deposits from small business customers:**	**-**	**598,126**	**54,289**	**2,456**	**591,311**
5	Stable deposits	-	32,919	718	18	31,973
6	Less stable deposits	-	565,207	53,571	2,438	559,338
7	**Wholesale funding:**	**-**	**632,948**	**335,690**	**318,671**	**656,738**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	632,948	335,690	318,671	656,738
10	**Other liabilities::**	**-**	**280,702**	**-**	**7,654**	**7,654**
11	NSFR Shari'a-compliant hedging contract liabilities	-	7,876	-	-	-
12	All other liabilities not included in the above categories	-	272,826	-	7,654	7,654
13	**Total ASF**					**1,371,238**
	Available Stable Funding (ASF):					
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	42,791
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**439,782**	**72,584**	**620,110**	**788,751**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	9,120	4,848	259,844	263,636
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	430,662	67,736	206,774	424,957
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:	-	-	-	129,397	84,108
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	22,985	14,940
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	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,110	1,110
24	**Other assets:**	**-**	**252,640**	**-**	**-**	**252,640**
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	-	1,575	-	-	1,575
29	All other assets not included in the above categories	-	251,065	-		251,065
30	OBS items	-	527,703	-	-	26,385
31	**Total RSF**	**-**	**-**	**-**	**-**	**1,110,567**
32	**NSFR (%)**	-	-	-	-	**123%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35. NET STABLE FUNDING RATIO (NSFR) (continued)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and guideline set for the Bank. 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%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36. 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
Financing assets	295,312
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**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36. 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:

Description	Year ended 31 December 2022
Total income	4,944
Total expenses	(5,132)
	(188)
Provision for impairment - net	(111)
	(299)
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)
Gain recongised on transfer	29,012
Net results from discontinued operations	**5,615**

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:

Cash flow lines	Year ended 31 December 2022
Net cash from operating activities	12,897
Net cash used by investing activities	(24,726)
Net cash movement	**(11,829)**

37. COMPARATIVES

The Group has amended the presentation of the income statement in 2023 to align with industry presentation practices to improve consistency and comparability, and accordingly the 2022 comparative information were also regrouped within the captions without any change to the total income, total expense and profit for the previous year. In 2022, the income statement was presented to show income earned from assets financed by unrestricted investment account holders and from other self-financed sources of funds rather than by the type of asset. In 2023, the income statement has been re-presented to reflect income from different asset classes as aggregated in the statement of financial position, which was more aligned with industry practices of other Islamic banks. The current presentation now clearly discloses on the face of the income statement the total income earned by the assets financed by equity of unrestricted investment account holders and the share of Group as a mudarib.

Public Disclosures

At 31 December 2023

Contents

PUBLIC DISCLOSURES

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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 2023, 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 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 management, 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 30% at aggregate level. Any exposure over and above the threshold 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%.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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	1,820,760	126,863	67	Pakistan	Banking	Aggregation
Dilmunia Development Fund I L.P.	65,023	56,274	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	2,330,798
FAS 30 Transitional impact	21,630
Modification loss & ECL transitional impact	18,403
Aggregation	35,426
Balance sheet as in Regulatory Return	**2,406,257**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2023

Assets	As per published financial statements	As per Consolidated PIRI
Cash and balances with banks and central banks	135,403	135,403
Commodity placements with banks, financial and other institutions	4,908	4,908
Financing Assets	1,163,742	1,163,742
Investment securities	860,688	860,688
Investment in associates	2,396	2,396
Other assets	38,106	38,106
Investment in real estate	3,989	3,989
Development Properties	57,280	57,280
Property and equipment	57,669	57,669
Intangible assets	6,617	6,617
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	35,426
Total Assets	**2,330,798**	**2,406,257**
Liabilities & Unrestricted Investment Accounts (URIA)		
Unrestricted Investment Accounts	1,029,941	1,029,941
Other liabilities	1,207,919	1,207,919
Total Liabilities & URIA	**2,237,860**	**2,237,860**
Minority Interest	52,862	52,862
Owners' Equity		
Share capital	100,000	100,000
Reserves	(53,304)	(53,304)
of which eligible for CET1	-	(37,097)
Accumulated losses	(6,620)	(6,620)
of which eligible for CET1	-	(57,610)
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	35,426
Total Owners' Equity	**40,076**	**115,535**
Total Liabilities + Owners' Equity	**2,330,798**	**2,406,257**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 3: Common disclosure template as at 31 December 2023

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	(57,610)
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	115,766
Common Equity Tier 1 capital before regulatory adjustments	**108,330**
Total regulatory adjustments to Common equity Tier 1	**108,330**
Tier 1 capital (T1 = CET1 + AT1)	**108,330**
Tier 2 capital: instruments and provisions:	
FAS 30 Transitional impact	7,205
Tier 2 capital (T2)	**7,205**
Total capital (TC = T1 + T2)	**115,535**
Total Risk Weighted Assets (RWA)	**827,935**
Capital ratios and buffers:	
Common Equity Tier 1 (as a percentage of risk weighted assets)	**13.08%**
Tier 1 (as a percentage of risk weighted assets)	**13.08%**
Capital Adequacy Ratio (CaR)	**13.95%**
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	10.0
CBB total capital minimum ratio	12.5

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	13.08%	13.95%
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	14.44%	17.30%

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 Head - Risk Management 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.

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 and industry. 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 Bank also has well documented polcies which describe the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its 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. T'his enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status so that corrective actions can be implemented wherever required. 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.

All credits exposures are reviewed and rated periodically and appropriate provisions are maintained for any classified account as per the provisioning policy and in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

7. Risk Management (Continued)

7.4.1.1 Corporate credit risk (including financial institutions) (Continued)

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 and industry. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. 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.

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.

7. Risk Management (Continued)

7.4.5 Credit Risk Mitigation (Continued)

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets which 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 legally enforceable within the applicable laws;
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.
- Real estate properties legally mortgaged in the Bank's name;
- Fixed charge over moveable assets, such as vehicles, marine vessels and aircrafts, provided: (1) the charge can be legally registered, or (2) the assets are owned by the Bank and leased to the counterparty;
- Cash collaterals including lien over modaraba accounts managed by the Bank;
- Pledge of listed and marketable securities such as quoted shares, sukuks and similar near cash instruments;
- Financial guarantees of the government, Tamkeen, acceptable investment rated financial institutions, and banks based in Bahrain (subject to availability of approved lines for the financial institution issuing the guarantee);
- Negotiable instruments issued by acceptable investment rated banks (subject to availability of approved lines for the financial institution issuing the instruments). These will include bank drafts, bills of exchange/ drafts accepted by banks, etc; and
- Debt securities issued or supported by the guarantee of a GCC Government (such as Islamic sukuk or T. bills).
- Any other collateral specifically approved by the Board as primary collateral of the Exposure.

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;
- 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.

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 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.

7.4.5.3 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.

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.

7. Risk Management (Continued)

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 2023, 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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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	14,529	1,816
Claims on corporate portfolio	11,941	1,493
Real Estate	90,943	11,368
Other assets	250	31
Aggregation	454,470	56,809
Total	**572,133**	**71,517**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	3,452	432
Past due facilities	779	97
Total	**4,231**	**529**

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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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	135,403	131,756
Commodity placements with banks, financial and other institutions	4,908	18,458
Financing Assets	1,163,742	1,082,535
Investments	867,073	768,737
Other assets	38,106	67,143
Development Properties	57,280	57,156
Property and equipment	57,669	53,687
Intangible assets	6,617	6,474
Total on balance sheet credit exposure	**2,330,798**	**2,185,946**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	193,528	172,426
Financing commitments, Undrawn facilities and other credit related liabilities	497,003	463,058
Total off balance sheet credit exposure	**690,531**	**635,484**
Total credit exposure	**3,021,329**	**2,821,430**
Total credit exposure financed by URIA	**1,029,941**	**904,767**
Total credit exposure financed by URIA (%)	**34.09%**	**32.07%**

The average gross credit exposure represent average balances for 2022 and 2023
Exposures amounting to BD0.7 million are covered by guarantee.

9.1 Eligible Collaterals Held (After Appropriate Haircuts)

Type of collateral	After Appropriate Haircuts
Lien On Modarabah/Current/Saving Account	33,348
Guarantee	332,583
Mortgage over property	1,276,453
Movable assets	67,493
Securities	157,068
Total collateral after appropriate haircuts	**1,866,945**

The Bank has secured these collaterals through mortgage agreements and can be enforced in the event of default.

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. Geographical distribution of credit exposures

	Asia	Middle East	Europe	Total
On-balance sheet items				
Cash and balances with banks and central banks	117,279	18,124	-	135,403
Commodity placements with banks, financial and other institutions	-	4,908	-	4,908
Financing Assets	782,967	380,058	717	1,163,742
Investment	828,315	38,575	183	867,073
Other assets	26,613	11,477	16	38,106
Development Properties	-	57,280	-	57,280
Property and equipment	57,245	424	-	57,669
Intangible assets	3,316	3,301	-	6,617
Total on balance sheet items	**1,815,735**	**514,147**	**916**	**2,330,798**
Off balance sheet items	**675,254**	**15,277**	**-**	**690,531**
Total credit exposure	**2,490,989**	**529,424**	**916**	**3,021,329**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

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	135,403	-	-	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	-	4,908
Financing Assets	324,686	318,275	38,527	346,132	62,096	67,821	6,205	1,163,742
Investments	5,784	6,831	1,799	852,245	-	231	183	867,073
Other assets	10,673	-	11,544	-	15,889	-	-	38,106
Development Properties	-	-	57,280	-	-	-	-	57,280
Property and equipment	57,245	-	424	-	-	-	-	57,669
Intangible assets	3,316	2,381	-	-	-	-	920	6,617
Total on balance sheet items	**542,015**	**327,487**	**109,574**	**1,198,377**	**77,985**	**68,052**	**7,308**	**2,330,798**
Off balance sheet items	**194,664**	**383,411**	**1,595**	**48,054**	**1,289**	**13,827**	**47,691**	**690,531**
Total credit exposure	**736,679**	**710,898**	**111,169**	**1,246,431**	**79,274**	**81,879**	**54,999**	**3,021,329**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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	135,403	-	-	-	-	-	-	135,403
Commodity placements with banks, financial and other institutions	4,908	-	-	-	-	-	-	4,908
Financing Assets	439,303	132,958	73,924	465,794	44,857	6,906	-	1,163,742
Investments	484	-	74,300	698,225	76,317	17,743	4	867,073
Other assets	3,310	3,283	11,227	14,295	2,486	1,869	1,636	38,106
Development Properties	-	-	-	57,280	-	-	-	57,280
Property and equipment	-	6,095	292	8,483	33,188	7,954	1,657	57,669
Intangible assets	1,383	2	23	1,620	3,589	-	-	6,617
Total on balance sheet items	**584,791**	**142,338**	**159,766**	**1,245,697**	**160,437**	**34,472**	**3,297**	**2,330,798**
Off balance sheet items	**259,290**	**370,568**	**15,277**	**13,215**	**2,911**	**29,270**	**-**	**690,531**
Total credit exposure	**844,081**	**512,906**	**175,043**	**1,258,912**	**163,348**	**63,742**	**3,297**	**3,021,329**
Customers' current accounts	654,158	-	-	-	-	-	-	654,158
Due to banks, financial and other institutions	291,470	39,620	8,879	49,605	60,486	243	-	450,303
Due to investors	2,917	69	246	28	-	-	-	3,260
Other liabilities	15,145	3,370	3,510	6,259	71,914	-	-	100,198
Equity of unrestricted investment accountholders	676,234	162,718	171,919	19,070	-	-	-	1,029,941
	1,639,924	**205,777**	**184,554**	**74,962**	**132,400**	**243**	**-**	**2,237,860**

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 2023 were as follows:

Affiliated companies	327,726
Directors & key management	55
Total	**327,781**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. Past due and impaired financings and related provisions for impairment

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	27,729	20,711	7,018
Agriculture	1,106	981	125
Construction	17,627	8,689	8,938
Finance	1,692	335	1,357
Trade	11,094	5,551	5,543
Personal	2,296	1,584	712
Other sectors	12,875	4,719	8,156
Total	**74,419**	**42,570**	**31,849**
Ageing analysis			
Over 3 months up to 1 year	17,244	6,929	10,315
Over 1 year up to 3 years	2,244	1,423	821
Over 3 years	54,931	34,218	20,713
Total	**74,419**	**42,570**	**31,849**

Details of impairment provisions at 31 December 2023	**Total**
At 1 January	**79,771**
Charge for the year	5,698
Write back during the year	(3,246)
Utilised during the year	(35,051)
Exchange differences	(4,602)
At 31 December	**42,570**

15. Past due and impaired financings by geographical areas

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	48,572	27,079	21,493
Middle East	25,847	15,491	10,356
Total	**74,419**	**42,570**	**31,849**

16. Details of credit facilities outstanding that have been restructured during the year

Restructured financings during the year ended 31 December 2023 aggregated to BD29.8 million (31 December 2022: BD15.9 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17. Credit exposures which are covered by eligible financial collateral

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	340,260	4,915
Total	**340,260**	**4,915**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	54,709	4,291
Regulatory retail portfolio	70	713
Past due financings	25,982	-
Total	**80,761**	**5,004**

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	1,564	-	-	1,564	-
Total	**1,564**	**-**	**-**	**1,564**	**-**

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. Market Risk (Continued)

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.

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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. Market Risk (Continued)

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 2023	Maximum Value	Minimum Value	31 December 2023	Maximum Value	Minimum Value
Foreign exchange risk	18,823	18,823	18,781	2,353	2,353	2,348
Aggregation						
Foreign exchange risk	1,520	1,520	1,670	190	190	209
Profit Rate Risk (Trading Book)	57,113	57,113	27,010	7,139	7,139	3,376
Equity Position Risk	15,226	15,226	8,859	1,903	1,903	1,107
Total	**92,682**	**92,682**	**56,320**	**11,585**	**11,585**	**7,040**

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 2023 amounted to BD77.2 million (31 December 2022: BD67 million) (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2023 were as follows:

	Long/(Short)
Pakistani Rupee	79,794
United States Dollars	188,516

21. Equity position in Banking book

At 31 December 2022, the Group's investment securities aggregated to BD860.7 million (31 December 2022: BD815 million). Out of the total investment securities, BD98.7 million (31 December 2022: BD121.6 million) were listed investment securities and the remaining BD762 million (31 December 2022: BD695.4 million) represented unlisted investment securities.

Cumulative realized gain from sale of investment securities during the year ended 31 December 2023 amounted to BD330.1 million (31 December 2022: BD21 million). Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD6.8 million (31 December 2022: BD1.8 million).

At 31 December 2023, capital requirements using standardized approach aggregated to BD 0.18 million (31 December 2022: BD0.2 million) for listed investment securities and BD 0.03 million (31 December 2022: BD0.03 million) for unlisted investment securities after aggregation/ pro-rata aggregation of investments in Banking and other financial entities.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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 to 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 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	119,640	125,686	123,522
Rate shock (assumed) (+/-)	2.00%	2.00%	2.00%
Total estimated impact (+/-)	**2,393**	**2,514**	**2,470**

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.

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.

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. Operational Risk (Continued)

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 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

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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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 2023 aggregated to BD19.9 million (31 December 2022: BD19 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.

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 2023
Liquid assets to total assets	6.02%
Short term assets to short term liabilities	43.68%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.5. Liquidity ratios

The Liquidity Coverage Ratio (LCR) of Ithmaar Bank as of 31 December was 100%. The average 90 day LCR as of 31st December 2023 was 101%. The detailed breakdown of the average 90 day LCR as of 31st December 2023 is detailed below.

	Description	Total Unweighted Value (average)	Total Weighted Value (average)
HIGH-QUALITY LIQUID ASSETS (HQLA)			
1	Total HQLA	-	517,767
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	597	18
4	Less stable deposits	625,118	60,905
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,864	5,966
7	Non-operational deposits (all counterparties)	712,534	433,402
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	2,501	2,501
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	70,474	5,137
14	Other contractual funding obligations	71,016	71,016
15	Other contingent funding obligations	472,662	23,633
16	**TOTAL CASH OUTFLOWS**	**-**	**602,578**
CASH INFLOWS			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	174,462	92,065
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	**174,462**	**92,065**
21	**TOTAL HQLA**	**-**	**517,767**
22	**TOTAL NET CASH OUTFLOWS**	**-**	**510,513**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**101%**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio

The Net stable Funding Ratio (NSFR) of the Bank as of 31 December 2023 was 100%. The detailed breakdown of the NSFR as of 31 December 2023 is detailed below.

		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:**	**108,330**	**-**	**-**	**7,205**	**115,535**
2	Regulatory Capital	108,330	-	-	-	108,330
3	Other Capital Instruments	-	-	-	7,205	7,205
4	**Retail deposits and deposits from small business customers:**	**-**	**598,126**	**54,289**	**2,456**	**591,311**
5	Stable deposits	-	32,919	718	18	31,973
6	Less stable deposits	-	565,207	53,571	2,438	559,338
7	**Wholesale funding:**	**-**	**632,948**	**335,690**	**318,671**	**656,738**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	632,948	335,690	318,671	656,738
10	**Other liabilities:**	**-**	**280,702**	**-**	**7,654**	**7,654**
11	NSFR Shari'a-compliant hedging contract liabilities	-	7,876	-	-	-
12	All other liabilities not included in the above categories	-	272,826	-	7,654	7,654
13	**Total Available Stable Funding (ASF):**	-	-	-	-	**1,371,238**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	42,791
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**439,782**	**72,584**	**620,110**	**788,751**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	9,120	4,848	259,844	263,636
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	430,662	67,736	206,774	424,957
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:	-	-	-	129,397	84,108

PUBLIC DISCLOSURES CONTINUED

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio (Continued)

		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
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	22,985	14,940
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	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,110	1,110
24	**Other assets:**	**-**	**252,640**	**-**	**-**	**252,640**
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	-	1,575	-	-	1,575
29	All other assets not included in the above categories	-	251,065	-		251,065
30	Off Balance Sheet items	-	527,703	-	-	26,385
31	**Total RSF**					**1,110,567**
32	**Net Stable Funding Ratio (%)**					**123%**

25.7. Leverage Ratio

S No.	Description	Amount
1	**Tier 1 Capital**	**108,330**
	On Balance Sheet Assets	
2	Self Finance	464,533
3	URIA	1,861,409
4	Off Balance (with conversion CCFs)	310,652
5	**Total Assets (2+3*(0.3)+4)**	**1,333,608**
6	**Leverage Ratio (1/5)**	**8.12%**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26. Legal contingencies

At 31 December 2023, the Group had contingent liabilities towards customer and other claims aggregating to BD39.3 million (31 December 2022: BD52.9 million). The management is of the view that these claims are not likely to result into potential liabilities.

During the year, the Bank was subject to no financial penalty (31 December 2022: BD50,000) 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 2023		31 December 2022		31 December 2021		31 December 2020		31 December 2019	
	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	26.9%	276,999	17.8%	176,985	4.0%	85,843	5.6%	91,603	6.4%	82,551
Less: return to unrestricted investment accounts & provisions	-16.4%	(169,301)	-9.5%	(93,914)	-1.8%	(38,293)	-3.4%	(55,655)	-4.2%	(54,359)
Group's share of income from unrestricted investment accounts as a Mudarib	10.5%	**107,698**	8.4%	**83,071**	2.9%	**47,550**	2.2%	**35,948**	2.2%	**28,192**

For the year ended 31 December 2023 the return generated from unrestricted investment accountholders based on the average balance outstanding during the year stood at 5.5% per annum (2022: 4.8%). The return paid to unrestricted investment accountholders based on the average balance outstanding during the year at 6.1% per annum (31 December 2022: 3.2%).

Limits for investment in each category of asset are applied as per the bank's board approved risk management policies.

At 31 December 2023
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. Average declared rate of return on General Mudaraba deposits

	31 December 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
30 Days	1.50	1.45	1.25	1.27	1.41
90 Days	1.75	1.70	1.50	1.55	1.81
180 Days	1.90	1.85	1.68	1.80	2.06
360 Days	2.55	2.50	2.33	2.45	2.80
3 Years	2.85	2.80	2.58	2.75	3.04

30. Movement in Profit Equalization Reserve and Investment Risk Reserve

	31 December 2023
Profit Equalization Reserve	1,563
Net utilisation during the year	(1,563)
As at 31 December 2023	-
Investment Risk Reserve	-
As at 31 December 2023	Nil

At 31 December 2023, the ratio of profit equalization reserve and provisions against equity of unrestricted investment accountholders stood at NIl and 3.8% respectively.

31 December 2023, the ratio of financings to URIA stood at 80%.

31 December 2023, 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	100.00%

The following table summarizes the breakdown of URIA

	31 December 2023
Exposure : Banks	198,260
Exposure : Non-Banks	831,681

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	Fatema Abdulla Mufeez – Head of Legal, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Corporate Secretary
Auditors	KPMG Fakhro, P.O. Box 710, Manama, Kingdom of Bahrain