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At a Glance

Ithmaar Holding B.S.C. (Ithmaar Holding, Ithmaar, the Company or the Group) is a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain (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), and has a paid-up capital of US\$757.69 million.

Ithmaar Holding owns two wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed) (Ithmaar Bank), an Islamic bank subsidiary which holds the core banking business, and IB Capital B.S.C. (closed) (IB Capital), an investment firm subsidiary, which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB.

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

IB Capital maintains a presence in regional and overseas markets through its investments including in associated companies. These include Ithmaar Development Company Limited (real estate), and Naseej (infrastructure) in Bahrain.

Vision, Mission and Values

Our Vision

To help all stakeholders and communities realise their long-term ambitions.

Our Mission

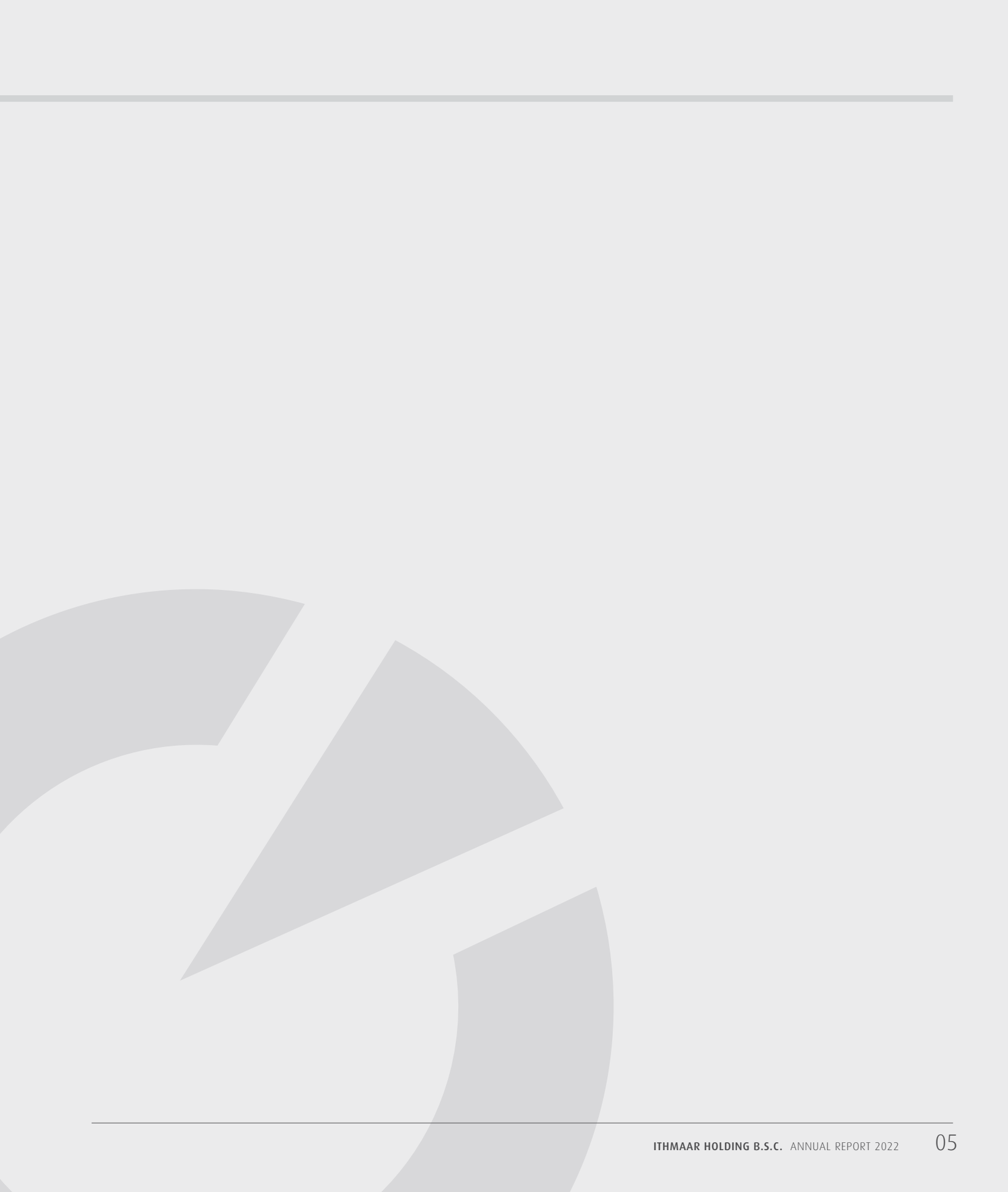
To pursue a portfolio of sustainable investments that enhance shareholder value and encourage future growth.

Our Values

- Comply with Islamic Sharia principles;
- Honesty, integrity and objectivity in all our relationships;
- Continuous improvement, willingness to bring about changes and improve efficiency; and
- Active role in the community.

Financial Highlights

	2022	2021	2020	2019	2018	2017
Net profit/(loss) [US\$ 000]	(20,964)	60,324	(21,479)	12,198	10,057	(72,401)
Net profit/(loss) attributable to shareholders [US\$ 000]	(38,387)	38,603	(41,719)	669	(23,981)	(84,711)
Net income before provision for impairment and overseas taxation [US\$ 000]	71,764	63,031	34,049	74,120	43,415	22,060
Total equity attributable to shareholders [US\$ 000]	4,569	37,762	14,762	95,546	116,356	355,330
Book value per share [US cents]	0	1	1	3	4	12
Earnings per share [US cents]	(1.32)	1.33	(1.43)	0.02	(0.82)	(2.91)
Total assets [US\$ 000]	6,055,489	9,032,789	8,383,665	8,085,239	8,488,656	8,611,359
Funds under management [restricted investment accounts] [US\$ 000]	41,943	44,199	44,234	45,632	110,382	257,133
Return on average shareholders' equity	-181.37%	146.99%	-75.64%	0.63%	-10.17%	-21.64%
Return on average assets	-0.28%	0.69%	-0.26%	0.15%	0.12%	-0.85%
Market price per share [US cents]	4.0	6.6	7.1	5.0	8.5	13.5
Market price per share/Book value per share	25.00	5.08	13.92	1.52	2.13	1.11



Joint Message



HRH Prince Amr Mohammed Al Faisal
Chairman



Abdulla Abdulaziz Taleb
Chief Executive Officer

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to report that the Group achieved positive outcomes during 2022 despite all the challenges the year posed by global and regional turmoil.

The Group, continued to focus on adding value for its shareholders and had successfully managed to sell some of its key assets to Al Salam Bank during 2022. The transaction which was approved by the Group's shareholders at the Extraordinary General Meeting on 17 March 2022 and was completed on 7 July 2022, resulted in a gross gain of US\$77 million based on assessed values of 30 September 2021.

On different note, the Group was impacted by several factors resulting from global and regional challenges, including strengthening of the US Dollar against the Pakistan Rupee, coupled with the political situation in Pakistan, resulting in the US Dollar parity depreciating significantly.

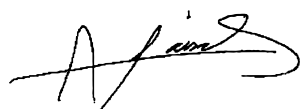
Addressing the above and other related matters, the Board of Directors is utterly exploring various initiatives to improve the capital, to strengthen the Company's consolidated equity, including issuance of Additional Tier 1 capital, sale and/or restructuring of non-core assets, recovery of financing exposures and reduction of ECL. These proposed initiatives are subject to thorough review, negotiations and regulatory approvals.

Ithmaar Holding is consistent in retaining a well-diversified portfolio of international and local financial and other assets, which includes banking businesses both in Bahrain and in Pakistan. In Bahrain, Ithmaar Bank remains a wholly-owned subsidiary of Ithmaar Holding and continues to capitalize on its rich heritage via embarking on a new chapter of growth with an exclusive focus on corporate banking related products and services, with primary focus on serving the fast-growing Small and Medium Enterprises (SME) sector.

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

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

We pray to Allah the almighty for an improved performance and prosperity of the Group 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

Review of Operations



Review of Operations

Strategy and focus

Ithmaar Holding remains focused on continuing the Group's transformation, in line with the strategic decisions taken by shareholders, and to realising the long-term objectives of growing the core business and ensuring the independent and focused management of investments and other assets.

This is part of Ithmaar Holding's long-standing strategy of creating value for its shareholders.

Principal activities

The principal activities of Ithmaar Holding include:

- To own and manage its subsidiaries, associated companies and major investments and to participate in the management of other companies in which it has controlling interests via granting the necessary support for such companies;
- To own real estate and other assets necessary for its business; and
- To own industrial property rights including patents, trade and industrial marks, concessions and other intellectual rights, and to use and lease them to its subsidiaries and associated companies or other companies.

Ithmaar Holding's key business model is investing, developing, nurturing and growing with the objective of realising benefits for its shareholders.

Transformation of The Group

At an Extraordinary General Meeting on 17 March 2022, Ithmaar Holding shareholders approved plans to sell some of the Company's key assets in Bahrain to Al Salam Bank (Bahrain Bourse Trading Code "SALAM", Dubai Financial Market Trading Code "SALAM_BAH"). The assets include Ithmaar Holdings' ownership stake in both BBK (Bahrain Bourse Trading Code: "BBK") and Solidarity Group Holding, one of the largest takaful groups globally and the parent of Solidarity Bahrain (Bahrain Bourse Trading Code: "SOLID"), as well as the consumer banking business of Ithmaar Bank, a Bahrain-based Islamic bank and a wholly-owned subsidiary of Ithmaar Holding. The transaction has been completed effective 7 July 2022.

Ithmaar Holding retains a well-diversified portfolio of international and local financial and other assets, which include banking businesses in Bahrain and Pakistan. Ithmaar Bank, which remains a wholly-owned subsidiary of Ithmaar Holding, continues to operate as an Islamic bank that is licensed and regulated by the CBB and exclusively focused on corporate banking and related services, particularly the fast-growing SME.

The Board of Directors is working on various initiatives to improve the capital, which will strengthen the Company's consolidated equity, including issuance of Additional Tier 1 capital, sale and/or restructuring of non-core assets, and recovery of financing exposures and reduction of ECL, subject to further review, negotiations and necessary regulatory approvals. Further details will be announced in due course.

Role in the community

Ithmaar Holding plays a real and meaningful role in the community primarily through its wholly-owned subsidiaries, Ithmaar Bank and IB Capital. As an Islamic licensed entity, creating value, ethics and well-being of the communities comes as an integral part of the essence of day to day business of Ithmaar Holding and its subsidiaries.

Ithmaar Holding strongly believes that its success wouldn't be possible without the support of the society in which it operates. The Group's corporate social responsibility plans was imbedded in its strategies, values and missions to have active role in supporting the local community and its continuous development and prosperity.

In 2022, Ithmaar Holding continued to being engaged with the society through supporting various initiatives and charitable events. This included providing moral and financial support to noble purpose events in diverse fields be it health, education, sports, and environmental initiatives as well as events directed towards positive impact on the society.

Investing in our people

Ithmaar Holding and its two wholly-owned subsidiaries, Ithmaar Bank and IB Capital, conducted various training programmes for members of the Board of Directors, Executive Management and employees to further develop capabilities and enhance performance.

Ithmaar Holding keeps its employees among the best in the market through solid development programs and grooming initiatives that cater for the Group's needs and at the same time fulfil the employees' personal potential.

Ithmaar Holding considers its Human Capital to be the most valuable assets and that investing in developing their skills, well-being and knowledge is itself an investment in the growth and development of the Group, which is essential to its success and sustainability.

Compliance with AAOIFI

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia-compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards as appropriate in the Group financial statements.

The Sharia Supervisory Board has approved the Sharia Compliance Plan for the conversion or disposal of assets and liabilities which are not Sharia-Compliant. The Sharia Supervisory Board continues to monitor the implementation of this plan on a regular basis.

Financial Review

Financial Performance

In 2022, Ithmaar Holding reported total net loss attributable to equity holders for the year ended 31 December 2022 of US\$38.39 million compared to the net profit of US\$38.60 million reported for 2021.

Financial Position

Total assets stood at US\$6.06 billion as at 31 December 2022, a decrease of 33 percent than US\$9.03 billion as at 31 December 2021. This is mainly due to the transaction with Al Salam Bank.

During 2022, Ithmaar Holding’s financial position was adversely impacted by the strengthening of the US Dollar against other global currencies, coupled with the political situation in Pakistan, resulting in the Pakistan Rupee-US Dollar parity depreciating significantly. This depreciation has resulted in foreign exchange translation impact of US\$50 million from Ithmaar Holding’s subsidiary in Pakistan, Faysal Bank Limited. Accordingly, Ithmaar Holding’s total owners’ equity decreased to US\$4.57 million as at 31 December 2022, a 87.90 percent decrease compared to US\$37.76 million as at 31 December 2021.

Subsidiaries and Associates

Board of Directors

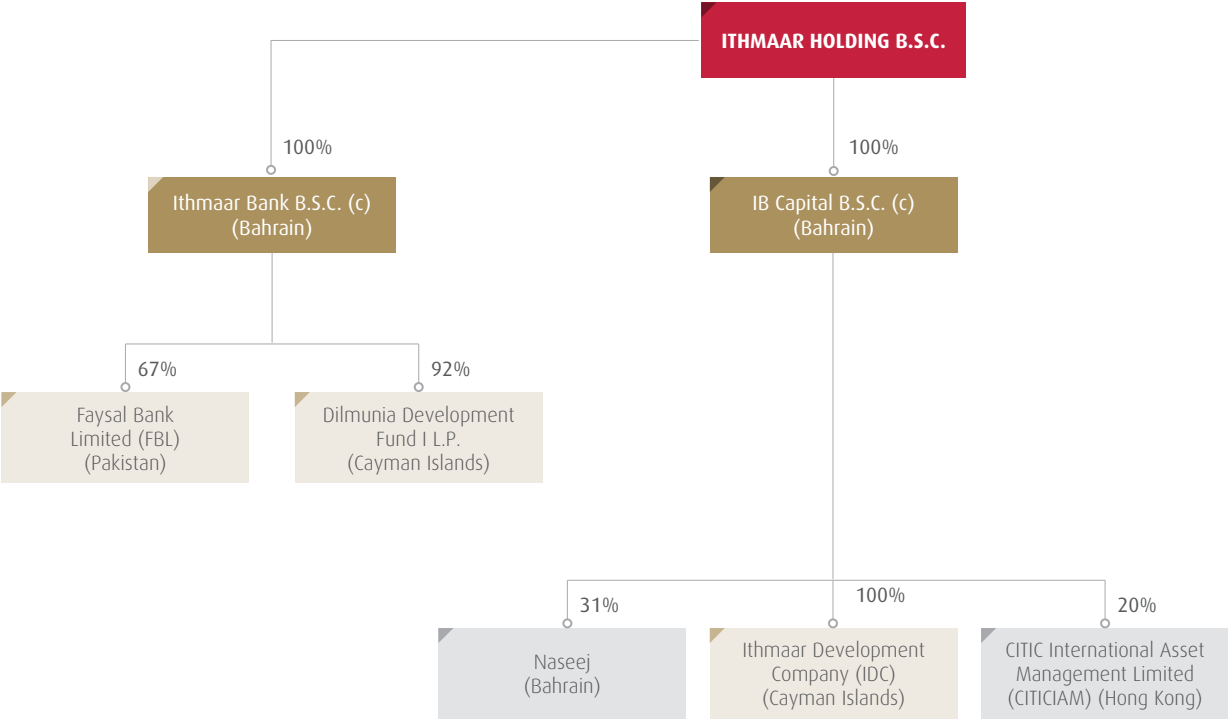
Sharia Supervisory Board

Executive Management

Subsidiaries and Associates

Group Structure

Key Subsidiaries and Associates



Subsidiaries
Associates

Subsidiaries and Associates Continued

Key operating subsidiaries

Ithmaar Bank B.S.C. (c)

Ithmaar Bank is one of the pioneering Islamic banks in the Kingdom of Bahrain. The Bank, including its predecessors, has been in operation for more than 30 years.

The standalone (Bahrain Operations) total assets as of 31 December 2022 amounted to US\$1.4 billion.

Ithmaar Holding fully owns Ithmaar Bank.

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

FBL shares are listed on the Pakistan Stock Exchange and the Bank operates 698 branches. FBL's total assets and total shareholders' equity as of 31 December 2022 amounted to PKR 1,067 billion (equivalent US\$ 4.7 billion) and PKR 67 billion (equivalent US\$ 297 million) respectively.

Ithmaar Bank owns 66.57 percent of FBL.

IB Capital B.S.C. (c)

IB Capital maintains a presence in regional and overseas markets through its investments in subsidiaries and associated companies.

The total standalone assets as of 31 December 2022 amounted to US\$684 million.

Ithmaar Holding fully owns IB Capital.

Ithmaar Development Company (IDC)

IDC was established in 2007 to develop and manage major development, real estate and other infrastructure projects. IDC's flagship projects include Dilmunia, a 1.25 million square metre manmade island off the coast of Bahrain.

Ithmaar Holding fully owns IDC.

Dilmunia Development Fund I L.P.

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

The total assets and total shareholders' equity as of 31 December 2022 amounted to US\$175 million and US\$153 million respectively.

Ithmaar Bank owns 92 percent of the Fund.

Subsidiaries and Associates Continued

Key operating associates of IB Capital

Naseej B.S.C. (c) (Naseej)

Naseej is the Middle East and North Africa (MENA) region’s first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion.

Naseej’s core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region’s affordable housing development needs.

Naseej’s strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPPHP) in Bahrain. Apart from the PPPHP, Naseej is also involved in major residential projects in Bahrain like Yasmeenat Saar and Jumana

IB Capital owns 31 percent of Naseej.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People’s Republic of China (CITIC group owns 46% in CIAM). CITICIAM’s principal activity is to invest in companies and projects in China and internationally. Established in 2002 to specialise in distressed asset management, the current portfolio of CITICIAM includes direct investments in real estate, high technology, health, retail and industrial projects.

IB Capital owns 20 percent of CITICIAM.

Board of Directors

HRH Prince Amr Mohammed Al Faisal **Non-Executive Chairman**

Elected 28 September 2022

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

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

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

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

Sheikh Mohamed Abdullah Abdulkarim Elkhareiji **Non-Executive Board Member**

Appointed 28 September 2022 (representing Dar Al-Maal Al-Islami Trust)

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

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Board of Directors. Sheikh Elkhareiji is the Chairman of many companies in Saudi Arabia, including Elkhareiji Group Holding Co., Hal International Company and S.A. Elkhareiji Real Estate Limited Company. Sheikh Elkhareiji 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 Elkhareiji is also a member of the Board of Directors of Faisal Islamic Bank of Egypt.

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

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

Tunku Yaacob Khyra **Independent Board Member**

Elected 28 September 2022

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

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

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

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

Board of Directors continued

Mohammed A. Rahman Bucheeri **Executive Board Member**

Appointed 28 September 2022 (representing Dar Al-Maal Al-Islami Trust)

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

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

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

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

Elham Ebrahim Abdulla Hassan **Independent Board Member**

Elected 28 September 2022

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

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

Ms. Hassan was previously a Board Member of the Bahrain Economic Development Board (EDB), Tamkeen, BBK, the Bahrain Real Estate Investment Company (EDAMAH), Solidarity Group Holding and the University of Bahrain, as well as a member of both the Women Empowerment Economic Committee of the Supreme Council for Women and the Planning and Follow-up Committee of the Bahrain

Business Women's Society. She was the Country Senior Partner at PricewaterhouseCoopers in Bahrain until June 2010, and was the financial services leader for PricewaterhouseCoopers Middle East until June 2007. While at PricewaterhouseCoopers, Ms. Hassan worked extensively with Islamic institutions since the early eighties.

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

Dr. Amani Khaled Bouresli **Independent Board Member**

Elected 28 September 2022

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

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

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

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

Sharia Supervisory Board

Sheikh Abdullah Sulaiman Al Manee'a **Chairman**

Appointed 28 September 2022

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

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

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

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

Sheikh Nedham Mohammed Saleh Yaqouby **Member**

Appointed 28 September 2022

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

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

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

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

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

Sheikh Mohsin Al-Asfoor **Member**

Appointed 28 September 2022

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

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

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

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

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

Sheikh Osama Mohammed Saad Bahar **Member**

Appointed 28 September 2022

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

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

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

Sheikh Bahar holds a Master's degree from Allmam 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

Ithmaar Holding Executive Management

Abdulla Abdulaziz Taleb Group Chief Executive Officer

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

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

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

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

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

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

Ithmaar Holding outsources the key functions from its wholly-owned subsidiary, Ithmaar Bank B.S.C. (c), which in turn provides the required services under an intra-group outsourcing arrangement.

Corporate Governance



Corporate Governance

Overview of Policies and Controls

Ithmaar Holding follows the Central Bank of Bahrain's (CBB) requirements stipulated under the High Level Controls (HC) Module of the Rulebook issued by the CBB as well as the Corporate Governance Code of the Ministry of Industry and Commerce, Ithmaar Holding'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, as well as the regulatory requirements of Bahrain Bourse and Dubai Financial Market.

Ithmaar Holding follows the Group's internal policies on corporate governance. This Policy provides guidance on engaging with stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is the Group's policy to treat shareholders, major and minor, equally and fairly 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 to shareholders over the long-term. The Group adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Holding adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct and 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 Group's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Group, 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 interest of stakeholders.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Company 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 CBB regulations, Ithmaar Holding 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 Company's controller.

Developments in Regulations

On an ongoing basis, Ithmaar Holding monitors updates to 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.

Corporate Governance Continued

Board of Directors

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

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

The Board’s role and responsibilities include, but are not limited to, the overall business performance and strategy for the Company; causing financial statements to be prepared which accurately disclose Ithmaar Holding’s financial position; monitoring management’s performance; monitoring conflicts of interest and preventing abusive related-party transactions; and assuring equitable treatment of shareholders, including minority shareholders. In particular, the Board, among other things, ensures that Ithmaar Holding’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 Ithmaar Holding’s strategic direction;
- Maintaining overall responsibility for the performance of the Company;
- 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;
- Monitoring the effectiveness of the governance and compliance practices;
- Ensuring compliance with the listing requirements;
- Ensuring timely and adequate legal and regulatory disclosures;
- Ensuring effective internal controls;
- Arranging the shareholders’ annual, ordinary and extraordinary general meetings; and
- Ensuring equitable treatment of minority shareholders.

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

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 Company’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 Company’s annual general meeting.

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

Structure and Composition of the Board

The Company is managed at the high level by the Board. The size of the Board is subject to Ithmaar Holding’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 Company’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 Company and its shareholders. The Board members owe their fiduciary duty to Ithmaar as a corporate entity in its own right and not just 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 Company are the duty of obedience, the duty of care and the duty of loyalty.

Ithmaar 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.

Corporate Governance Continued

Board of Directors (Continued)

The below 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 Company'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 Company'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 Ithmaar.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of the Company. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using the Company'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 Company, as well as information that appears to be confidential from its nature or matter.

Board Members' Election and Evaluation System

Any shareholder who owns ten percent or more of the issued share capital of Ithmaar Holding (rounded up to the nearest integer) shall have the right to appoint a representative on the Board, being one representative for each ten (10) percent owned. However, if a shareholder exercises this right, they shall lose their right to vote in the annual general meeting Board elections for the percentage of which they used to appoint a Board member.

Subject to the foregoing, the shareholders shall elect members of the Board by a secret cumulative ballot in the annual general meeting.

A cumulative ballot means each shareholder has one vote for each share held. The shareholders can use their shares to vote for a single Board member, or divide their shares to vote for multiple members.

All appointments to the Board are governed by and subject to Ithmaar Holding'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 Company'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 Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

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 contribution.

Board Induction and Development Programme

Ithmaar Holding 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 of the Company and Ithmaar Bank introduce Ithmaar in detail, covering the Company's history, structure, subsidiaries, 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 Company and Ithmaar Bank.

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

Corporate Governance Continued

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 Company, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

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

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

This provision is reflected in the Company's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to Ithmaar without the approval of the General Assembly. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by a majority vote of disinterested directors, subject to CBB approval. The Company'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 Company or profit realised by the conflicted Board member.

Board Members Sitting Fees

The Board members' sitting fees for Board and Board committees' meetings in 2022 amounted to US\$ 349,000 (2021: US\$ 390,000). Sharia Supervisory Board sitting fees for 2022 was US\$ 16,000 (2021: US\$ 16,000).

Remuneration Strategy

The Variable Remuneration Policy is not applicable to investment companies and hence, post the reorganisation, Ithmaar Holding is not subject to any Remuneration Strategy and the Remuneration Balances were transferred, as part of the reorganisation, to Ithmaar Bank.

Employment of Relatives of Approved Persons

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

Board Committees

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

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

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

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

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

Corporate Governance Continued

Board Committees (Continued)

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

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 Company are in line with regulatory guidelines and commensurate to the scale of business operations of the Company.

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

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

* Sheikh Dr. Osama Bahar is a member of the Sharia Supervisory Board with voting rights in respect of the agenda items 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 US\$ 21,000 for the year 2022 (2021: Nil), and have met two (2) times.

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

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

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

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

* Sheikh Dr. Osama Bahar is a member of the Sharia Supervisory Board with voting rights in respect of the agenda items relating to Sharia governance issues.

The AGRMC received an aggregate sitting fees of US\$ 33,000 for the year 2022 (2021: US\$ 72,000), and have met four (4) times.

Remuneration and Nomination Committee (discontinued effective 28 September 2022)

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

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

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

The RNC received an aggregate sitting fees of US\$ 9,000 for the year 2022 (2021: US\$ 18,000), and have met one (1) time.

There were no significant issues that arised during the year.

Corporate Governance Continued

Attendance

2022 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit, Governance & Risk Management Committee		Remuneration & Nomination Committee		Audit, Governance, Risk, Nomination & Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
HRH Prince Amr Mohammed Al Faisal	6	6	-	-	-	-	-	-
Tunku Yaacob Khyra	6	6	-	-	1	1	2	1
Abdelhamid Mohamed Aboumoussa (resigned effective 28 September 2022)	5	5	-	-	-	-	-	-
Sheikh Zamil Abdullah Al-Zamil (resigned effective 28 September 2022)	5	5	-	-	1	1	-	-
Mohammed A. Rahman Bucheeri	6	6	-	-	-	-	2	2
Abdullellah Ebrahim Al-Qassimi (resigned effective 28 September 2022)	5	5	4	3	1	1	-	-
Dr. Amani Khaled Bouresli	6	6	4	4	-	-	2	2
Sheikh Mohamed Abdullah Abdulkarim Elkhareiji	6	6	-	-	-	-	-	-
Elham Ebrahim Abdulla Hassan	6	6	4	4	-	-	2	2
Omar Abdi Ali (resigned effective 28 September 2022)	5	4	-	-	-	-	-	-

Dates of meeting during 2022

19 January	6 February	13 February	9 November
25 January	28 April	-	22 November
14 February	11 May	-	-
6 June	22 August	-	-
28 August	-	-	-
13 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 one (1) meeting. The other meeting Sheikh Dr. Osama Bahar did not attend as it did not include any Sharia governance items.
- Sheikh Dr. Osama Bahar, a member of the Sharia Supervisory Board, was also a member of the Audit, Governance and Risk Management Committee (before its discontinuation). He attended three meetings. The other meeting Sheikh Dr. Osama Bahar did not attend as it did not include any Sharia governance items.
- In accordance with the Central Bank of Bahrain requirements and Ithmaar Holding's Articles of Association, the Board of Directors shall meet at least four (4) times a year and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

Corporate Governance Continued

Sharia Supervisory Board

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

The SSB is appointed, in compliance with licensing requirements of the Central Bank of Bahrain and Ithmaar Holding'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 and employees.

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 sitting fees paid per meeting attended.

This remuneration is recommended by the Nomination and Remuneration Committee (NRC), the structure of which is approved by the shareholders.

Currently, Ithmaar Holding 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.

Communications with Stakeholders

The Board acknowledges the importance of regular communication with stakeholders and particularly investors through a number of means to promote greater understanding and dialogue.

Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year on the Bahrain Bourse and Dubai Financial Market as well as on the Ithmaar Holding website, through which stakeholders have an overview of Ithmaar Holding's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of Ithmaar Holding are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of Ithmaar Holding's shares on the Bahrain Bourse and Dubai Financial Market are disclosed in the section on Share Information of the annual report.

Shareholders' Rights

All shares issued have equal rights. Recognising the importance of shareholders, it is Ithmaar Holding's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the appointments of Boards of Directors, the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reductions of capital, and the right to receive dividend payments, as well as the right to give opinions and the right to enquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include Independent Directors with the additional responsibilities of protecting minority shareholders' rights. This is also in accordance with regulatory directives.

As additional measures to protect minority interests, Ithmaar subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercising of rights to elect Independent Directors;
- Penalties for insider trading; and
- Necessary provisions on takeovers, mergers, and acquisitions.

Services Provided by External Auditors

PricewaterhouseCoopers M.E Limited (PwC) were the external auditors for the financial year ended 31 December 2022. Fees paid to PwC during the year 2022 amounted to \$108,951 out of which \$80,419 was for audit services and \$28,532 was for CBB mandatory review requirements under the Agreed Upon Procedures.

Code of Ethics and Business Conduct

Ithmaar Holding'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 the Company.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Holding'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 of Directors.

Risk Management

Compliance, Anti Money Laundering and Internal Controls

Risk Management

The Risk Management activities of Ithmaar Holding are outsourced to Ithmaar Bank. Ithmaar Bank has a robust risk management framework detailed in the Risk Charter. The risk management framework includes comprehensive risk policies for various risk silos addressing all material risks from an enterprise risk management perspective. The policies address the risk appetite and risk management guidelines for each of the risk silos. The policies are further supported by risk measurement models and methodologies which measure the risks in line with regulatory guidelines. The risk management policies of Ithmaar Bank, along with the latest amendments, are adopted by Ithmaar Holding.

All investments of Ithmaar Holding are monitored on an active basis and representatives from Ithmaar Holding are appointed to the Boards of the major investments to monitor the investments.

Further, any proposals to exit investments or any major developments in the investments are reviewed by the Risk Management Department and submitted to the approving authority as mentioned in the risk policies. The Board-approved Business Discretionary Powers policy establishes the approval authorities for investments based on their value.

Declarations of Interest

On taking office, Members of the Board of Directors of Ithmaar Holding are required to disclose to the Company all interests and relationships which could or might be seen to affect their ability to perform their duties as Board members. Any such interests declared shall be recorded in the Board of Directors' register of interests. 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 reorganisation.

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 the CBB rulebook.

In particular, the Board members of Ithmaar Holding disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Board member informs the Company when there are changes in his/her interests, and the register of interests is updated at least on an annual basis.

During 2022, Board members 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 reorganisation.

Compliance, Anti Money Laundering and Internal Controls

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a company may suffer as a result of its failure to comply with laws, regulations, directives, directions, 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 Ithmaar through setting the roles and responsibilities of the Board of Directors, the Senior Management and the Compliance function staff, as well as formalising the independence and effectiveness of the Compliance function and the reporting line of the Compliance Officer. The compliance function follows a risk-based approach to compliance Risk Management, in accordance with the Compliance plan approved by the Audit, Governance, Risk, Nomination and Remuneration Committee of the Board.

The Company's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. 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 organisation 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 Company's operations.

Ithmaar Holding complies with Bahrain's 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.

Consolidated Financial Statements

For the year ended 31 December 2022

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Report of the Sharia Supervisory Board

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In the Name of Allah, the Beneficent, the Merciful

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

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

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

- 1- Issued fatwas and Sharia resolutions related to the Company's products, activities and the Company's assets, and circulating it through Sharia Coordination and Implementation Department of the group, and follow up its execution through Internal Sharia Audit Department of the group, while also emphasis on the company's management towards more diligence on Sharia-compliant transactions.
- 2- Studied different mechanisms of financing, investment and various mudaraba accounts and preparing its documents with the company's management.
- 3- Examined the accounts, records and transactions and auditing some of their samples through the Group's Internal Sharia Audit Department as per established sharia auditing standards.
- 4- Reviewed the report of the External Shariah Auditor and took his observations into consideration.
- 5- Examined sources of income and expenditures through reviewing the consolidated statements of financial position, income statement and Ithmaar's overall banking activities.

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

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

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

With regard to Ithmaar's business in general:

- a. Ithmaar's overall operations and activities were conducted in full 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.

Report of the Sharia Supervisory Board (Continued)

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

c. Income generated from non-sharia compliant investments of the conventional assets transferred to Ithmaar when Shamil Bank merged with Ithmaar Bank in 2010, have been identified, disclosed and published to the shareholders in Note (41) of the Consolidated Financial Statements, and the Sharia Supervisory Board directs Ithmaar towards continuous correction of the status of these investments.

d. Zakat is calculated in accordance with Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

Non-sharia compliant income:

To ensure compliance with the Fatwas and previous Directions of the Sharia Supervisory Board relating to conventional assets transferred to Ithmaar in 2010, the Sharia Supervisory Board has reviewed the consolidated income statement of Ithmaar for the year ended 31 December 2022 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note (41). And since most of these conventional assets were disposed on 7th of July 2022, no gains made from sources prohibited by Sharia for the year 2022.

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

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

رئيس الهيئة
سماعة الشيخ عبدالله الخبيز

عضو الهيئة
فضيلة الشيخ أسامة بن

عضو الهيئة
فضيلة الشيخ محمد آل عصفور

عضو الهيئة
فضيلة الشيخ نظام يعقوبي

Directors' Report

For the year ended 31 December 2022

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

Principal activities

Ithmaar Holding B.S.C directly owns two major subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank), an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an Islamic investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the Central Bank of Bahrain.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful and real estate development.

Consolidated financial position and results

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

The Group has reported a net loss of \$21 million for the year ended 31 December 2022, as compared to a net profit of US\$60.3 million for 2021. The net loss attributable to the equity holders of the Group is \$38.4 million for 2022, as compared to a net profit of \$38.6 million for 2021. Total assets at 31 December 2022 amounted to \$6,055.5 million (31 December 2021: \$9,032.8 million).

During 2022, Ithmaar Holding agreed 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.

Directors

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

HRH Prince Amr Mohammed Al-Faisal (Chairman)

Tunku Yaacob Khyra

Mr. Mohammed A. Rahman Bucheerei

Dr. Amani Khaled Bouresli

Sheikh Mohamed Abdullah El Kherei

Ms. Elham Ebrahim Hassan

Governor Abdelhamid Mohamed Abou Moussa (Resigned with effect from 28 September 2022)

Sheikh Zamil Abdullah Al-Zamil (Resigned with effect from 28 September 2022)

Mr. Abdullellah Ebrahim Al-Qassimi (Resigned with effect from 28 September 2022)

Mr. Omar Abdi Ali (Resigned with effect from 28 September 2022)

Directors' Report (continued)

Directors' & Executive Management Remuneration

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

Board of directors' remuneration details:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others**	Total			
Independent Directors													
1. Dr. Amani Khaled Bouresli	-	16,777	-	-	16,777	-	-	-	-	-	-	16,777	-
2. Ms. Elham Ebrahim Hassan	-	16,777	-	-	16,777	-	-	-	-	-	-	16,777	-
3. Tunku Yaacob Khyra	-	13,384	-	-	13,384	-	-	-	-	-	-	13,384	-
Non-Executive Directors:													
1. HRH Prince Amr Mohammed Al-Faisal	-	11,876	-	-	11,876	-	-	-	-	-	-	11,876	-
2. Sheikh Mohamed Abdullah El Kherei	-	11,876	-	-	11,876	-	-	-	-	-	-	11,876	-
Executive Directors:													
1. Mr. Mohammed A. Rahman Bucheerei	-	12,253	-	-	12,253	-	-	-	-	-	-	12,253	-
Resigned during the year													
1. Sheikh Zamil Abdullah Al-Zamil	-	12,441	-	-	12,441	-	-	-	-	-	-	12,441	-
2. Mr. Abdulellah Ebrahim Al-Qassimi	-	15,834	-	-	15,834	-	-	-	-	-	-	15,834	-
3. Governor Abdelhamid Mohamed Abou Moussa	-	11,310	-	-	11,310	-	-	-	-	-	-	11,310	-
4. Mr. Omar Abdi Ali	-	9,048	-	-	9,048	-	-	-	-	-	-	9,048	-
Total	-	131,576	-	-	131,576	-	-	-	-	-		131,576	-

Note: All amounts Expressed in Bahraini Dinars

Other remunerations:

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

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

Note:

- 1.The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors. Further there is no remuneration proposed for the year.
2. Board remuneration represents payments made during the year 2022 based on the approval of the Annual General Meeting dated 16 March 2022.

Directors' Report (continued)

Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	-	-	-	-

Note:

Note: All amounts Expressed in Bahraini Dinars

2. There are no salaries, allowances or rewards for the executive management due to the nature of the holding company.

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

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

Interests of Directors

The interests of the Directors in the shares of Ithmaar are disclosed below:

Name	Number of Shares	
	31 December 2022	31 December 2021
HRH Prince Amr Mohammed Al-Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Governor Abdelhamid Mohamed Abou Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Mohammed A. Rahman Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100

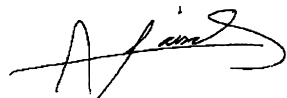
Dividend

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

Auditors

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

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal

Chairman

20 February 2023

Independent Auditor's Report

To the Shareholders of Ithmaar Holding B.S.C.



Independent auditor's report to the shareholders of Ithmaar Holding B.S.C.

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers M.E Limited, Office no. 4701, Building no. 1459, Road no. 4626, Block no. 346, P.O. Box 60771, Manama/Sea Front, Kingdom of Bahrain, Floor 47, West Tower, Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

Our audit approach

Overview

Key audit matters	<ul style="list-style-type: none">• Impairment and expected credit losses on financing facilities and other financial assets subject to credit risk• Disposal of consumer business of a subsidiary, an ultimate subsidiary and an associate• Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
<p>Impairment and expected credit losses on financing facilities and other financial assets subject to credit risk</p> <p>Impairment allowances represent the Board of Directors' best estimate of the expected credit losses. As described in the summary of significant accounting policies to the Group's consolidated financial statements, the impairment losses have been determined in accordance with FAS 30.</p> <p>We focused on this area because the Board of Directors makes complex and subjective judgements over amount and timing of recognition of impairment to capture the recent developments in the financing facilities, such as:</p> <ul style="list-style-type: none"> • Update factors including GDP and oil prices; • Determining criteria for significant increase in credit risk; • Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • Adjustments to models based on weighting assigned to base case, upside and downside scenarios; • Establishing groups of similar assets for the purpose of measuring the ECL; and • Determining disclosure requirements in accordance with FAS 30. <p>The Group's financing facilities that are subject to credit risk, included financing assets amounting to USD 2,570 million and off-balance sheet exposures amounting to USD 1,784 million as at 31 December 2022, which are material to the Group. Information on the credit risk including Group's credit risk management is provided in note 37 to the Group's consolidated financial statements.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We assessed and tested a sample of key controls around origination and approval of financing facilities and monitoring of credit exposure and impairment calculation; • We evaluated the appropriateness of the Group's impairment provisioning policy in accordance with the requirements of FAS 30; • We used our experts on a sample basis to independently assess the reasonableness of the ECL methodology developed and applied by the Board of Directors including model risk parameters (PD, LGD, and EAD), forward-looking information, associated weighting, and staging analysis; • We obtained an understanding and on a sample basis tested the completeness and accuracy of the data sets used for the ECL calculation; • We tested a sample of financing facilities to determine the appropriateness and application of staging criteria; • We obtained samples of the latest available credit reviews and checked that they include appropriate assessment and documentation of borrowers' ability to meet repayment obligations (principal, profit, and fees); • We independently assessed the appropriateness of provisioning assumptions on a sample of Stage 3 exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files; and • We evaluated the adequacy of the consolidated financial statements disclosures to determine if they were in accordance with the requirements of FAS 30.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

Our audit approach (continued)

Key audit matters (continued)

<p>Disposal of consumer business of a subsidiary, an ultimate subsidiary and an associate</p> <p>On 27 January 2022, Ithmaar and Al Salam Bank B.S.C. had agreed to the acquisition of a group of assets by Al Salam Bank from Ithmaar. The group of assets included in the acquisition consists of the consumer banking business in Bahrain of Ithmaar's wholly owned subsidiary, Ithmaar Bank B.S.C. (c) ("Ithmaar Bank"), the entire indirect underlying shareholdings of Ithmaar in Solidarity Group Holding B.S.C. (c) ("ultimate subsidiary") and Bank of Bahrain and Kuwait B.S.C. ("associate") (the "transaction"). The transaction was completed on 7 July 2022 after obtaining requisite regulatory and corporate approvals and signing of definitive agreements.</p> <p>Accordingly, the disposal has been disclosed as 'discontinued operations' for the year ended 31 December 2022.</p> <p>An independent consultant's report was obtained for the carve out closing financial information up till 7 July 2022.</p> <p>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 \$77 million based on the agreed values of assets and liabilities (the "operations") as of 7 July 2022</p> <p>We considered this to be a key audit matter due to the size and complexity of the transaction.</p> <p>Refer to note 43 to the consolidated financial statements.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We held meetings and performed inquiries with the entity's executive management to obtain an understanding of the disposal process as well as the impact of the transaction; • We reviewed the executed "Business Transfer Agreement" and "Partial In-Kind Settlement Agreement" and verified the accounting treatment for the transaction which included calculation of the gain on disposal; • We traced the values of assets and liabilities transferred to the independent consultant's report received on the carve out closing financial information as on 7 July 2022; and • We assessed the appropriateness and completeness of the related disclosures of the assets, liabilities and the results presented as discontinued operations as provided in Note 43 to the consolidated financial statements.
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Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

Our audit approach (continued)

Key audit matters (continued)

<p>Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis</p> <p>The Group's consolidated equity deteriorated by USD 33.2 million from USD 37.8 million as at 31 December 2021 to USD 4.6 million as at 31 December 2022. Furthermore, the Group is mainly reliant, for its liquidity requirements, on deposits aggregating to USD 613 million as at 31 December 2022 from counterparties who are currently located in a country sanctioned, amongst others, under US measures. As a result, these deposits are currently frozen.</p> <p>In light of the above conditions, the Board of Directors has assessed the appropriateness of preparing the consolidated financial statements on a going concern basis.</p> <p>In assessing the appropriateness of the going concern basis, the Board of Directors has considered the Group's consolidated financial statements, cash flow and equity projections for a 12 month period from the date of issuance of these consolidated financial statements.</p> <p>The Board of Directors has assessed the deterioration of the Pakistani Rupee against the United States Dollar and its impact on the Group's equity.</p> <p>The Board of Directors have also discussed the plan to re-merge the Ithmaar Group into a single entity where the surviving entity (re-merged entity) shall function as an Islamic retail bank with certain exemptions.</p> <p>We considered this to be a key audit matter as the assessment required the use of significant judgment made by the Board of Directors.</p> <p>Refer to note 1.1 to the consolidated financial statements for the details related to the going concern assumptions.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We obtained and assessed the Board of Directors detailed consolidated financial and cash flow projections for a period of 12 months from the date of issuance of the consolidated financial statements; • We tested the mathematical accuracy of the calculations included within the consolidated financial and cash flow projections; • We evaluated the appropriateness of the key assumptions used in the consolidated financial, cash flow and equity projections including the impact on the liquidity of the Group arising from the potential withdrawals of deposits; • We have reviewed the Board of Directors ("BOD") minutes held during the year especially to obtain information on the management plan for the re-merger. These discussions were included in the BOD meetings held during the year; • We have reviewed the Board of Directors' plan to mitigate the potential impact of the Pakistani Rupee on the Group's equity; • We performed a sensitivity analysis over the Group's financial and cash flow projections for the going concern assessment period; and • We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.
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Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

Other information

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

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

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

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

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

Responsibilities of those charged with governance for the consolidated financial statements

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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), the Central Bank of Bahrain ("CBB") Rulebook (Volume 4 and applicable provisions of Volume 6) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.



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

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

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

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

Report on other legal and regulatory and Sharia requirements

As required by the Commercial Companies Law and the CBB Rulebook (Volume 4), we report the following:

- i. Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- ii. The financial information contained in the Report of the Sharia Supervisory Board and the Directors' report is consistent with the consolidated financial statements;
- iii. nothing has come to our attention which causes us to believe that Ithmaar has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, CBB Rulebook (Volume 4 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2022 or its financial position as at that date; and
- iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

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

The engagement partner on the audit resulting in this independent auditor's report is Elias Abi Nakhoul.

A stylized blue ink signature of the PricewaterhouseCoopers (PwC) firm, written in a cursive script.

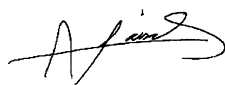
Partner's registration number: 196
PricewaterhouseCoopers M.E Limited
Manama, Kingdom of Bahrain
20 February 2023

Consolidated Statement of Financial Position

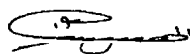
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2022 (Audited)	At 31 December 2021 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	333,064	545,116
Commodity and other placements with banks, financial and other institutions	4	48,871	249,569
Murabaha and other financings	5	1,048,394	2,190,974
Musharaka financing	6	1,521,142	1,425,743
Sukuk and investment securities	7	2,200,496	2,524,742
Investment in associates	8	104,318	676,933
Assets acquired for leasing	9	808	391,820
Insurance and related receivables	10	-	103,474
Other assets	12	183,895	180,624
Investment in real estate	13	245,239	256,319
Development properties	14	174,461	233,235
Fixed assets	15	172,075	171,774
Intangible assets	16	22,726	82,466
Total assets		6,055,489	9,032,789
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY			
Customers' current accounts	17	1,736,961	1,903,979
Due to banks, financial and other institutions	18	1,141,004	1,367,702
Due to investors	19	37,020	1,114,187
Other liabilities	20	427,124	453,276
Insurance related reserves	11	-	129,734
Total liabilities		3,342,109	4,968,878
Equity of unrestricted investment accountholders	21	2,577,330	3,751,697
Total liabilities and equity of unrestricted investment accountholders		5,919,439	8,720,575
Share capital	23	757,690	757,690
Treasury shares	23	(30,149)	(30,149)
Reserves		105,780	109,009
Accumulated losses		(828,752)	(798,788)
Total owners' equity		4,569	37,762
Non-controlling interest	22	131,481	274,452
Total Equity		136,050	312,214
Total liabilities, equity of unrestricted investment accountholders and total equity		6,055,489	9,032,789

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



HRH Prince Amr Mohamed Al Faisal
Chairman



Elham Hasan
Director



Abdulla Taleb
CEO

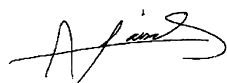
The notes 1 to 44 on pages 49 to 110 form an integral part of the consolidated financial statements.

Consolidated Income Statement

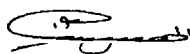
(Expressed in thousands of United States Dollars unless otherwise stated)

		Year ended	
		31 December 2022 (Audited)	31 December 2021 (Audited)
	Notes		
INCOME			
Income from assets financed by unrestricted investment account holders		469,457	227,701
Less: return to unrestricted investment accounts and impairment provisions		(249,110)	(101,573)
Group's share of income from unrestricted investment accounts as a Mudarib		220,347	126,128
Income from murabaha and other financings	25	34,322	61,472
Share of results from associates	8	(164)	(1,395)
Income from other investments	26	67,545	112,620
Other income	27	41,561	67,354
Total income		363,611	366,179
Less: profit paid to banks, financial and other institutions – net		(106,289)	(152,202)
Operating income		257,322	213,977
EXPENSES			
Administrative and general expenses	28	(162,890)	(159,774)
Depreciation and amortization	9,15,16	(22,668)	(23,862)
Total expenses		(185,558)	(183,636)
Net income before provision for impairment and overseas taxation		71,764	30,341
(Provision for)/reversal of impairment - net	29	(21,856)	29,065
Net income before overseas taxation		49,908	59,406
Overseas taxation	30	(55,280)	(28,800)
NET (LOSSES)/INCOME FROM CONTINUING OPERATIONS		(5,372)	30,606
Net results from discontinued operations	43	(15,592)	29,718
NET (LOSS)/INCOME FOR THE PERIOD		(20,964)	60,324
Attributable to:			
Equity holders of the Ithmaar		(38,387)	38,603
Non-controlling interests	22	17,423	21,721
		(20,964)	60,324
Basic and diluted (losses)/earnings per share attributable to equity holders of Ithmaar	24	US Cts (1.32)	US Cts 1.33
Basic and diluted (losses)/earnings per share - continuing operations attributable to equity holders of Ithmaar	24	US Cts (0.78)	US Cts 0.31

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



HRH Prince Amr Mohamed Al Faisal
Chairman



Elham Hasan
Director



Abdulla Taleb
CEO

The notes 1 to 44 on pages 49 to 110 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2022

(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves													
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Hedging reserve	Fixed Assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2022 (Audited)	757,690	(30,149)	149,085	42,345	50,727	(2,882)	(3,581)	-	4,551	(131,236)	(798,788)	37,762	274,452	312,214
Net (loss)/income for the year	-	-	-	-	-	-	-	-	-	-	(38,387)	(38,387)	17,423	(20,964)
Movement from dividend distribution by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(27,307)	(27,307)
Movement due to sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	(103,124)	(103,124)
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	-	8,423	8,423	(8,423)	-
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(11,016)	-	-	-	-	-	(11,016)	(4,111)	(15,127)
Movement in hedging reserve	-	-	-	-	-	-	3,581	-	-	-	-	3,581	-	3,581
Movement in fair value of land and building	-	-	-	-	-	-	-	26,476	-	-	-	26,476	13,296	39,772
Movement in fair value of investment in real estate	-	-	-	-	-	-	-	-	(684)	-	-	(684)	469	(215)
Movement in fair value reserves of associates	-	-	-	-	-	19,152	-	-	-	-	-	19,152	-	19,152
Foreign currency translation adjustments	-	-	-	-	-	(195)	-	-	(346)	(40,197)	-	(40,738)	(31,194)	(71,932)
At 31 December 2022 (Audited)	757,690	(30,149)	149,085	42,345	50,727	5,059	-	26,476	3,521	(171,433)	(828,752)	4,569	131,481	136,050

	Reserves												
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Accumulated losses	Total owners' equity	Non-controlling interest	Total Equity
At 1 January 2021 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(4,216)	(7,324)	4,491	(110,230)	(833,797)	14,762	277,375	292,137
Net income for the year	-	-	-	-	-	-	-	-	-	38,603	38,603	21,721	60,324
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	266	266	(1,316)	(1,050)
Movement from dividend distribution by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(1,552)	(1,552)
Transfer to statutory reserve	-	-	-	3,860	-	-	-	-	-	(3,860)	-	-	-
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(3,161)	-	-	-	-	(3,161)	(12,614)	(15,775)
Movement in hedging reserve	-	-	-	-	-	-	3,743	-	-	-	3,743	-	3,743
Movement in fair value reserves of associates	-	-	-	-	-	4,712	-	-	-	-	4,712	-	4,712
Foreign currency translation adjustments	-	-	-	-	-	(217)	-	60	(21,006)	-	21,163	(9,162)	(30,325)
At 31 December 2021 (Audited)	757,690	(30,149)	149,085	42,345	50,727	(2,882)	(3,581)	4,551	(131,236)	(798,788)	37,762	274,452	312,214

The notes 1 to 44 on pages 49 to 110 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of United States Dollars unless otherwise stated)

		Year ended	
	Notes	31 December 2022 (Audited)	31 December 2021 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation from:			
Continuing operations		49,908	59,406
Discontinued operations		(15,592)	29,718
Adjustments for:			
Depreciation and amortization		22,668	23,862
Share of results from associates	8	164	1,395
(Provision for)/reversal of impairment - net	29	21,856	(29,065)
Income from other investments		(67,545)	(112,620)
Finance cost on net ijarah liability		7,154	7,617
Gain on sale of fixed assets	27	(258)	(1,578)
Operating income/(loss) before changes in operating assets and liabilities		18,355	(21,265)
Increase in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(129,103)	30,867
Changes in operating assets and liabilities:			
Murabaha and other financings		159,484	226,949
Musharaka financing		(455,047)	(725,461)
Other assets		(194,433)	(17,153)
Customers' current accounts		257,881	283,818
Due to banks, financial and other institutions		(22,650)	310,398
Due to investors		(80,497)	(135,938)
Other liabilities		192,276	6,621
Increase in equity of unrestricted investment accountholders		374,473	496,364
Taxes paid		(53,519)	(42,316)
Net cash generated from operating activities		67,220	412,884
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		12,273	(6,286)
Sukuk and investment securities		(297,876)	(456,851)
Investment in real estate		-	2,130
Purchase of fixed assets		8,640	(39,484)
Dividend received from associates		20,705	20,139
Net cash used in investing activities		(256,258)	(480,352)
FINANCING ACTIVITIES			
Repayment of net lajarah liability		(14,627)	(16,421)
Net cash used in financing activities		(14,627)	(16,421)
Foreign currency translation adjustments		(75,925)	(48,867)
Net decrease in cash and cash equivalents		(279,590)	(132,756)
Cash and cash equivalents at the beginning of the year		621,351	754,107
Cash and cash equivalents at the end of the year	4	341,761	621,351

Note: For non-cash transactions, please refer note 43

The notes 1 to 44 on pages 49 to 110 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2022

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2022	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2022
Shamil Bosphorus Modaraba*	6,250	-	-	6,250
European Real Estate Placements*	12,713	(700)	(1,556)	10,457
US Real Estate Placements*	25,236	-	-	25,236
TOTAL	44,199	(700)	(1,556)	41,943

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

	At 1 January 2021	Fair value movements	At 31 December 2021
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	12,748	(35)	12,713
US Real Estate Placements*	25,236	-	25,236
TOTAL	44,234	(35)	44,199

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

The notes 1 to 44 on pages 49 to 110 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. INCORPORATION AND ACTIVITIES

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB").

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

The principal activities of Ithmaar 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.

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

Ithmaar's shares are listed on the Bahrain Bourse and Dubai Financial Market.

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 account holder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	2022	2021		
Direct subsidiaries				
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Shamil Financial (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Principal indirect subsidiaries				
Faysal Bank Limited	67	67	Pakistan	Banking
Solidarity Group Holding B.S.C. (C) (note 43)	-	56	Kingdom of Bahrain	Takaful
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Health Island WLL	50	50	Kingdom of Bahrain	Real estate
Dilmunia Development Fund I L.P.	92	92	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. INCORPORATION AND ACTIVITIES (Continued)

- 1.1 As of 31 December 2022, the total consolidated equity of the Group stood at \$4.6 million as compared to \$37.8 million as at 31 December 2021. The equity as at 31 December 2022 is still above the minimum threshold required by the CBB for Category 1 investment firm license.

The Board of Directors of Ithmaar is working on various initiatives to strengthen the Group's consolidated equity within the next twelve months from the date of issuance of these consolidated financial statements ('Equity Strengthening Plans'). These initiatives are also aimed to address the potential impact of the Pakistani Rupee deterioration on the Group's equity (refer to note 44). These initiatives include the following:

- Issuance of Additional Tier 1 capital instrument (AT1) of up to \$50 million, subject to regulatory and shareholders' approvals. Consideration is currently being given to how this could be structured (including in-kind real estate after ensuring legal enforceability of title transfer to Ithmaar) and further details will be announced in due course;
- Sale of non-core assets, subject to further review, negotiations and necessary regulatory approvals; and
- Reduction of ECL through focusing on recovery of financing exposures (including the related party receivables) by way of sale/ realization of underlying collateral.

On 17 March 2022, the Board of Directors (the "Board") summoned an Extraordinary General Meeting of the shareholders as per Article 64(7) of the Group Articles of Association. The Board has recommended measures such as setting off the accumulated losses against the share capital. However, this will be contemplated after consideration of the above-mentioned measures and will be presented to the shareholders for their consideration and approval subject to the approvals of the competent authorities.

Further to the above, the Board of Directors has also discussed the plan to re-merge Ithmaar Holding B.S.C., Ithmaar Bank B.S.C. (c) and IB Capital B.S.C. (c) into a single entity where the surviving entity (re-merged entity) shall function as an Islamic retail bank with certain exemptions subject to the approvals of the competent authorities.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

(i) Basis of preparation

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

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

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

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

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

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

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

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

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

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

- a) ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

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

(i) FAS 39 Financial Reporting for Zakah

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

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

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

Associates

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

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and non-controlling interests

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements

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

1. Classification of investments

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

2. Special purpose entities

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

3. Impairment of goodwill and intangible assets

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

4. Impairment on financing assets and investments

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

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

5. Liquidity mismatch

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

6. Significant increase in credit risk (SICR)

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

During 2021 and 2022, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring up to six months instalments at a time. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. The Group uses judgement to individually differentiate between a borrowers' short-term liquidity constraints taking into account of customers who requested for further deferment and a change in its lifetime credit risk.

7. Forward Looking Information

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

8. Impairment and recoverable amount of investment in associates

The Group uses estimates in its assessment of the impairment provision and recoverable amount of its investment in associates, which are subject to judgement. The key assumption used in such assessment was the existence and percentage of the significant influence premium. The premium is applied since the Group holds more than twenty percent voting rights in the associates, has board representation and participates in all significant financial and operating decisions.

9. Non-current assets classified as held-for-sale

The Group assesses its assets at each reporting date in accordance with the criteria specified by IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations” and FAS 26 “Investment in Real Estate”. In determining whether the sale is highly probable, the Group exercises judgement in context of current market appetite including price offered and availability of identified willing buyer.

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

(d) Cash and cash equivalents

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

(e) Murabaha and other financings

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

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

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

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

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

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

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

- a. the investment is held within a business model whose objective is to hold such investments in order to collect expected cashflows till maturity of the instrument; and
- b. the investment represents either a debt type instrument or other investment instrument having reasonably determinable effective yield.

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

2. Investments carried at fair value through equity

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

- a. the investment is held within a business model whose objective is achieved by noth collecting the expected cashflows and selling the investments; and
- b. the investment represents a non monetary debt type instrument or other investment instrument having reasonably determinable effective yield.

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

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

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Factors considered by theGroup 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.”

3. Investments carried at fair value through income statement

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Investment in real estate

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

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

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

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

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

5. Development properties

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

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

6. Investment in mudaraba

Mudaraba investments are recorded at cost.

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

7. Fair value

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(h) Assets acquired for leasing (*Ijarah*)

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

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

(i) *Takaful and retakaful contracts*

- Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

- Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

- Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(i) *Takaful and retakaful contracts* (continued)

- Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

- Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

- Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

- Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

- Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

- Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(j) Fixed assets

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

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

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

reserve in equity

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

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

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

(k) Intangible assets

1. Goodwill

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(k) Intangible assets (continued)

2. Computer software

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

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

3. Other acquired intangible assets

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

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

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

(l) 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.

(m) 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.

(n) Value Added Tax (VAT)

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

(o) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(p) 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.

(q) Due to investors

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

(r) Equity of unrestricted investment accountholders

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

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

After initial recognition, subsequent measurement of investment accounts 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.

(s) 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.

(t) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(t) *Investment Risk Reserve (IRR)* (continued)

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.

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

(u) *Restricted investment accounts (off-balance sheet)*

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

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

After initial recognition, subsequent measurement of investment accounts 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.

(v) *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.

(w) *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.

(x) *Fixed Assets fair value reserve*

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

(y) *Revenue recognition*

1. Profit participation and management fees

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

2. Profit on Murabaha and other financings

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(y) Revenue recognition (continued)

3. Income from assets acquired for leasing

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

4. Income from Mudaraba contracts

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

5. Profit on Musharaka contracts

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

6. Income from investments carried at amortised cost

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

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

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

8. Income from investments carried at fair value through equity

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

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

9. Fees and commissions

Fees and commissions are recognised when earned.

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

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

(z) 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.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

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

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

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

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

Hedges directly affected by variable profit rate benchmark reforms

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment

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

1. Financings & receivables

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

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

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 Group 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 as applicable. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

1. Financings & receivables (continued)

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

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

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

Default

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

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

Non-Retail:

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

Non-retail customers with the following characteristics:

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

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

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

Retail:

The Group has set out the following definition of default:

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

The 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group 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 Group uses LGD estimate based on market practice.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

1. Financings & receivables (continued)

Incorporation of forward looking information

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

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

Generating the term structure of PD

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

1. Financings & receivables (continued)

Impairment

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

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

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing.
- 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

1. Financings & receivables (continued)

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

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ac) Impairment (continued)

2. Investments

Development properties

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

Intangible assets

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

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

Assets classified as held for sale

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

Other investments

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

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

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

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

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	29,494	10,792	40,286	92,402	18,010	110,412
Cash and balances with banks and central banks	66,330	226,448	292,778	248,250	186,454	434,704
	95,824	237,240	333,064	340,652	204,464	545,116

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

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

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	31,122	17,861	48,983	249,700	-	249,700
Less: Provision for impairment	(112)	-	(112)	(131)	-	(131)
	31,010	17,861	48,871	249,569	-	249,569

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

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	95,824	237,240	333,064	340,652	204,464	545,116
Commodity and other placements with banks, financial and other institutions	31,122	17,861	48,983	249,700	-	249,700
Less: Placement maturing after ninety days	-	-	-	(63,053)	-	(63,053)
Less: Balances with central bank relating to minimum reserve requirement	(29,494)	(10,792)	(40,286)	(92,402)	(18,010)	(110,412)
	97,452	244,309	341,761	434,897	186,454	621,351

5. MURABAHA AND OTHER FINANCINGS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	574,679	769,606	1,344,285	760,241	1,788,170	2,548,411
Less: Provision for impairment	(227,894)	(67,997)	(295,891)	(289,193)	(68,244)	(357,437)
	346,785	701,609	1,048,394	471,048	1,719,926	2,190,974

Other financings represents conventional loans and advances totalling \$188.9 million (31 December 2021: \$253.2 million) made by a subsidiary of Ithmaar.

Murabaha and other financings includes restructured facilities amounting to \$42.1 million (31 December 2021: \$535.1 million)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

5. MURABAHA AND OTHER FINANCINGS (Continued)

The movement in provision for impairment is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	289,193	68,244	357,437	314,205	47,340	361,545
Charge for the year	17,584	1,187	18,771	31,053	23,076	54,129
Write back during the year	(14,852)	(1,076)	(15,928)	(29,981)	(529)	(30,510)
Utilised during the year	(5,972)	(138)	(6,110)	(14,880)	(667)	(15,547)
Movement due to sale of assets	(35,365)	-	(35,365)	-	-	-
Reclassification	-	2,516	2,516	(319)	-	(319)
Exchange differences and other movements	(22,694)	(2,736)	(25,430)	(10,885)	(976)	(11,861)
At 31 December	227,894	67,997	295,891	289,193	68,244	357,437

6. MUSHARAKA FINANCING

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Musharaka financing	-	1,537,222	1,537,222	115	1,439,478	1,439,593
Less: expected credit loss	-	(16,080)	(16,080)	-	(13,850)	(13,850)
	-	1,521,142	1,521,142	115	1,425,628	1,425,743

Notes to the Consolidated Financial Statements

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(Expressed in thousands of united states dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Debt-type instruments – listed	110	-	110	174	-	174
Debt-type instruments – unlisted	1,108	-	1,108	66,022	-	66,022
Equity-type securities – listed	1,980	-	1,980	4,916	-	4,916
	3,198	-	3,198	71,112	-	71,112
Investment securities at fair value through equity						
Debt-type instruments – listed	-	219,259	219,259	187,535	90,153	277,688
Debt-type instruments – unlisted	63,576	1,751,718	1,815,294	760,857	846,482	1,607,339
Equity-type securities – listed	-	43,564	43,564	82,482	567	83,049
Equity-type securities – unlisted	191,303	3,417	194,720	293,924	-	293,924
	254,879	2,017,958	2,272,837	1,324,798	937,202	2,262,000
Provision for impairment	(153,362)	(6,324)	(159,686)	(209,541)	-	(209,541)
	101,517	2,011,634	2,113,151	1,115,257	937,202	2,052,459
Investment securities carried at amortised cost						
Debt-type instruments – listed	-	40,961	40,961	43,788	313,329	357,117
Debt-type instruments – unlisted	-	49,674	49,674	10,424	42,259	52,683
	-	90,635	90,635	54,212	355,588	409,800
Provision for impairment	-	(6,488)	(6,488)	(8,629)	-	(8,629)
	-	84,147	84,147	45,583	355,588	401,171
	104,715	2,095,781	2,200,496	1,231,952	1,292,790	2,524,742

Sukuk and investment securities include conventional investments totalling \$66.9 million (31 December 2021: \$1,067.2 million) made by a subsidiary of Ithmaar.

Certain assets totalling \$4.5 million (31 December 2021: \$4.5 million) included above are held by third parties as nominee on behalf of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES (Continued)

The movement in provision for impairment relating to sukuk and investment securities is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	218,170	-	218,170	219,041	-	219,041
Charge for the year	5,633	-	5,633	12,463	-	12,463
Write back during the year	(1,577)	(1,165)	(2,742)	(7,794)	-	(7,794)
Utilised during the year	(49,967)	-	(49,967)	(3,855)	-	(3,855)
Reclassification	(15,453)	15,453	-	1,104	-	1,104
Exchange differences and other movements	(3,444)	(1,476)	(4,920)	(2,789)	-	(2,789)
At 31 December	153,362	12,812	166,174	218,170	-	218,170

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 investments.

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

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

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

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2022				
Investment securities at fair value through income statement				
Debt-type instruments	1,218	-	-	1,218
Equity securities	1,980	-	-	1,980
Investment securities at fair value through equity				
Debt-type instruments – listed	218,124	-	-	218,124
Debt-type instruments – unlisted	-	1,815,983	-	1,815,983
Equity-type securities	35,447	5,808	37,789	79,044
	256,769	1,821,791	37,789	2,116,349

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For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES (Continued)

	Level 1	Level 2	Level 3	Total
At 31 December 2021				
Investment securities at fair value through income statement				
Debt-type instruments	174	66,022	-	66,196
Equity securities	4,916	-	-	4,916
Investment securities at fair value through equity				
Debt-type instruments – listed	277,147	-	-	277,147
Debt-type instruments – unlisted	-	1,606,581	-	1,606,581
Equity-type securities	74,528	10,400	83,803	168,731
	356,765	1,683,003	83,803	2,123,571

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

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2022	2021
At 1 January	83,803	72,248
Total gains/(losses) recognised in		
- Income statement	893	(5,963)
- Equity	620	(1,191)
Purchases	-	6,011
Sales	(47,527)	-
Other movement	-	12,698
At 31 December	37,789	83,803

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8. INVESTMENT IN ASSOCIATES

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

Name of company	2022	% of Share-holding	2021	% of Share-holding	Country	Activity
Unlisted:						
Citic International Assets Management Limited	25,381	20	29,253	20	Hong Kong	Asset management
Naseej B.S.C. (C)	70,438	31	72,564	31	Bahrain	Infrastructure
Health 360 Ancillary Services W.L.L.	-	20	490	20	Bahrain	Third party administrator
Faysal Stock Fund	1,167	32	-	-	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	3,727	32	-	-	Pakistan	Mutual funds
Faysal Islamic Stock Fund	426	21	-	-	Pakistan	Mutual funds
Faysal Saving Growth Fund (B)	3,179	29	-	-	Pakistan	Mutual funds
Faysal Saving Growth Fund	-	35	411	35	Pakistan	Mutual funds
Faysal Asset Allocation Fund	-	23	6,105	23	Pakistan	Mutual funds
Listed:						
BBK B.S.C.	-	-	568,110	26	Bahrain	Banking
	104,318		676,933			

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

Group's share of associates's results comprise mainly from following associated companies:

Share of reserves of Investment in associates amount to \$2 million (31 December 2021: \$36.5 million).

Investment in associates include conventional investments totalling \$95.8 million (31 December 2021: \$670 million).

Investment in associates amounting to Nil (31 December 2021: \$568.1 million) are pledged as collateral against borrowings with the terms and conditions in the ordinary course of business.

Amortisation charge for the intangible assets for the year ended 31 December 2022 amounted to \$1.8 million (31 December 2021: \$7.2 million).

Summarised financial position of associates that have been equity accounted:

	31 December 2022	31 December 2021
Total assets	416,946	10,169,973
Total liabilities	33,749	8,352,352
Total revenues	8,162	328,722
Total net profit	(2,666)	150,311

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9. ASSETS ACQUIRED FOR LEASING

	31 December 2022			31 December 2021		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	808	-	808	457,624	(65,804)	391,820

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

	31 December 2022	31 December 2021
Relating to owners	808	922
Relating to unrestricted investment accounts	-	390,898
	808	391,820

10. INSURANCE AND RELATED RECEIVABLES

	31 December 2022	31 December 2021
Insurance and other receivables	-	54,008
Reinsurers' share of outstanding claims	-	20,760
Reinsurers' share of unearned contribution	-	36,614
	-	111,382
Less: Provision for impairment	-	(7,908)
	-	103,474

11. INSURANCE RELATED RESERVES

	31 December 2022	31 December 2021
Outstanding claims - Gross	-	52,403
Unearned contributions, commission and other reserves	-	77,331
	-	129,734

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12. OTHER ASSETS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	108,796	108,476	217,272	141,385	83,925	225,310
Due from related parties (note 38)	183	-	183	684	-	684
Taxes – deferred	779	3,219	3,998	9,326	1,164	10,490
Taxes – current	7,333	6,008	13,341	525	-	525
Non-current assets held for sale	22,236	4,635	26,871	23,623	-	23,623
	139,327	122,338	261,665	175,543	85,089	260,632
Provision for impairment	(68,358)	(9,412)	(77,770)	(67,904)	(12,104)	(80,008)
	70,969	112,926	183,895	107,639	72,985	180,624

The movement in provision for impairment is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	67,904	12,104	80,008	64,993	11,939	76,932
Charge for the year	3,959	-	3,959	1,716	182	1,898
Write back during the year	(1,590)	(145)	(1,735)	(843)	-	(843)
Utilised during the year	-	-	-	(6,961)	-	(6,961)
Reclassification	-	(2,516)	(2,516)	10,020	-	10,020
Exchange differences and other movements	(1,915)	(31)	(1,946)	(1,021)	(17)	(1,038)
At 31 December	68,358	9,412	77,770	67,904	12,104	80,008

13. INVESTMENT IN REAL ESTATE

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	245,510	7,468	252,978	266,289	-	266,289
Less: Provision for impairment	(7,739)	-	(7,739)	(9,970)	-	(9,970)
	237,771	7,468	245,239	256,319	-	256,319

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$0.6 million (31 December 2021: \$0.6 million) included above are held by third parties as nominee on behalf of the Group.

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13. INVESTMENT IN REAL ESTATE (Continued)

The movement in provision for impairment for investment in real estate is as follows:

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	9,970	-	9,970	35,746	-	35,746
Charge for the year	-	-	-	-	-	-
Write back during the year	(1,906)	-	(1,906)	-	-	-
Utilised during the year	-	-	-	(15,141)	-	(15,141)
Reclassification	-	-	-	(10,613)	-	(10,613)
Exchange differences and other movements	(325)	-	(325)	(22)	-	(22)
At 31 December	7,739	-	7,739	9,970	-	9,970

14. DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2022	31 December 2021
Land	138,715	185,080
Development costs	35,746	48,155
	174,461	233,235

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

15. FIXED ASSETS

	Relating to owners					
	31 December 2022			31 December 2021		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	82,263	(2,270)	79,993	58,463	(10,143)	48,320
Leasehold improvements	28,463	(16,440)	12,023	37,207	(24,276)	12,931
Furniture and equipment	71,094	(50,996)	20,098	93,980	(69,445)	24,535
Motor vehicles	2,720	(1,837)	883	3,387	(2,009)	1,378
Right-of-use assets	64,022	(4,944)	59,078	99,581	(14,971)	84,610
	248,562	(76,487)	172,075	292,618	(120,844)	171,774

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15. FIXED ASSETS (Continued)

The movement in land and building is as follows:

	2022	2021
At 1 January	48,320	43,919
Additions	10,813	7,385
Depreciation	(292)	(436)
Movement in fair value	39,772	-
Movement due to sale of assets	(13,940)	-
Exchange differences and other movements	(4,680)	(2,548)
At 31 December	79,993	48,320

Depreciation charge for the year ended 31 December 2022 amounted to \$10.4 million (31 December 2021: \$12.8 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 \$40.2 million.

16. INTANGIBLE ASSETS

Relating to owners						
31 December 2022						
	Cost	Accumulated amortisation	Provision for impairment	Movement due to sale of assets	Exchange differences	Net book amount
Goodwill	93,355	-	(71,070)	(2,577)	(12,918)	6,790
Customer relations	120,212	(86,842)	-	(18,566)	(12,003)	2,801
Core deposits	155,546	(124,093)	-	(15,114)	(13,711)	2,628
Others	57,925	(33,233)	-	(14,185)	-	10,507
	427,038	(244,168)	(71,070)	(50,442)	(38,632)	22,726

Relating to owners						
31 December 2021						
	Cost	Accumulated amortisation	Provision for impairment	Movement due to sale of assets	Exchange differences	Net book amount
Goodwill	93,355	-	(71,070)	-	(12,619)	9,666
Customer relations	120,212	(83,505)	-	-	(11,911)	24,796
Core deposits	155,546	(119,586)	-	-	(13,711)	22,249
Others	63,965	(38,210)	-	-	-	25,755
	433,078	(241,301)	(71,070)	-	(38,241)	82,466

Amortisation charge for the year ended 31 December 2022 amounted to \$14.5 million (31 December 2021: \$15.9 million)

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16. INTANGIBLE ASSETS (Continued)

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

	31 December 2022	31 December 2021
Faysal Bank Limited	6,790	7,088
Solidarity Group Holding B.S.C. (C)	-	2,578
	6,790	9,666

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 (P/B) 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.

17. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to \$191.5 million which is subject to sanctions under US measures (31 December 2021: \$203.9 million).

18. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	362,321	639,703	1,002,024	822,562	427,690	1,250,252
Due to financial and other institutions	74,890	64,090	138,980	63,902	53,548	117,450
	437,211	703,793	1,141,004	886,464	481,238	1,367,702

Due to banks, financial and other institutions include balances totalling \$412.1 million from two counterparties which are subject to sanctions under US measures (31 December 2021: \$427.6 million).

Due to banks, financial and other institutions include conventional deposits totalling \$26.1 million (31 December 2021: \$203.5 million), accepted by a subsidiary of Ithmaar.

At 31 December 2022, there were collateralized borrowings against an investment in associate in aggregate Nil (31 December 2021: \$146.8 million).

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19. DUE TO INVESTORS

	Relating to owners	
	31 December 2022	31 December 2021
Due to corporate institutions	14,649	705,221
Due to individuals	22,371	197,561
Due to financial institutions	-	211,405
	37,020	1,114,187

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

20. OTHER LIABILITIES

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	166,023	236,987	403,010	260,562	184,265	444,827
Due to related parties (note 38)	43	-	43	13	-	13
Provision for taxation – current	5,261	17,598	22,859	5,080	-	5,080
Provision for taxation – deferred	1,212	-	1,212	3,356	-	3,356
	172,539	254,585	427,124	269,011	184,265	453,276

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21. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

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

	Notes	31 December 2022	31 December 2021
Cash and balances with banks and central banks	3	237,240	204,464
Commodity and other placements with banks, financial and other institutions	4	17,861	-
Murabaha and other financings	5	701,609	1,719,926
Musharaka financing	6	1,521,142	1,425,628
Sukuk and investment securities	7	2,095,781	1,292,790
Assets acquired for leasing		-	390,898
Investment in real estate		7,468	-
Other assets	12	112,926	72,985
Fixed assets		51,151	56,897
Intangible assets		1,992	-
Due from the Group (net)		71,087	532,697
		4,818,257	5,696,285
Customers' current accounts	17	1,282,549)	1,279,085)
Due to banks, financial and other institutions	18	(703,793)	(481,238)
Other liabilities	20	(254,585)	(184,265)
Equity of unrestricted investment accountholders		2,577,330	3,751,697

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

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21. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (Continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$106.3 million (31 December 2021: \$94.2 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

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

	31 December 2022	31 December 2021
At 1 January	4,158	11,497
Net utilisation during the year	(2,597)	(7,339)
At 31 December	1,561	4,158

The average gross rate of return in respect of unrestricted investment accounts was 4.8% per annum for 2022 (2021: 3.9%) of which 3.2% per annum (2021: 2.4%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees of \$1.3 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.

22. NON-CONTROLLING INTERESTS

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

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

	31 December 2022		31 December 2021	
	Non-controlling %		Non-controlling %	
Faysal Bank Limited	33	101,342	33	117,997
Solidarity Group Holding B.S.C. (C)	-	-	45	101,871
Health Island B.S.C. (C)	50	19,688	50	33,668
Dilmunia Development Fund I L.P.	8	11,676	9	21,546
Cityview Real Estate Development B.S.C. (C)	49	(3,175)	49	(2,538)
Sakana Holistic Housing Solutions B.S.C. (C)	50	1,618	50	1,576
Others		332		332
		131,481		274,452

Non-controlling interests in the consolidated income statement of \$17.4 million (31 December 2021: \$21.7 million) represent the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

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23.SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2022 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2021	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2021 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2022 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2022 (31 December 2021: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

24.EARNINGS/(LOSSES) PER SHARE (BASIC & DILUTED)

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

	31 December 2022	31 December 2021
Net (loss)/income attributable to shareholders (\$ '000)	(38,387)	38,603
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
(Losses)/earnings per share (Basic & Diluted) - US Cents	(1.32)	1.33

Earnings per share on non-sharia compliant income and expenses is included under note 41.

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

	31 December 2022	31 December 2021
Net (loss)/income attributable to shareholders (\$ '000)	(22,795)	8,885
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
(Losses)/earnings per share (Basic & Diluted) - US Cents	(0.78)	0.31

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24. EARNINGS/(LOSSES) PER SHARE (BASIC & DILUTED) (Continued)

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

	31 December 2022	31 December 2021
Net (loss)/income attributable to shareholders (\$ '000)	(15,592)	29,718
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
(Losses)/earnings per share (Basic & Diluted) - US Cents	(0.54)	1.02

25. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2022	31 December 2021
Income from Islamic financings	3,886	3,717
Income from other financings	30,436	57,755
	34,322	61,472

26. INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2022	31 December 2021
Income from investment securities at amortised cost	183	205
Income from investment securities at fair value through equity	52,395	98,850
Income from investment securities at fair value through income statement	11,636	20,919
Income/(Loss) from investment in real estate	3,331	(7,354)
	67,545	112,620

27. OTHER INCOME

	Relating to owners	
	31 December 2022	31 December 2021
Income from banking services	25,205	41,868
Income from commodity placements	4,864	5,824
Foreign exchange income	11,234	18,084
Gain on disposal of fixed assets	258	1,578
	41,561	67,354

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28. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2022	31 December 2021
Salaries and other benefits	65,158	64,322
Office expenses	71,107	60,729
Professional fees	9,226	12,748
Other administrative expenses	17,399	21,975
	162,890	159,774

29. PROVISION FOR IMPAIRMENT

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	736,468	94,198	830,666	830,116	69,886	900,002
Charge for the year	41,780	12,854	54,634	44,553	32,954	77,507
Write back during the year	(19,924)	(8,190)	(28,114)	(73,618)	(5,678)	(79,296)
Utilised during the year	(56,810)	(141)	(56,951)	(47,010)	(667)	(47,677)
Movement due to sale of assets	(51,030)	-	(51,030)			
Reclassification	(15,453)	15,453	-			
Exchange differences	(28,258)	(7,873)	(36,131)	(17,573)	(2,297)	(19,870)
At 31 December	606,773	106,301	713,074	736,468	94,198	830,666

Provision utilised during the year represents write-offs during the year pertaining to stage 3.

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29. PROVISION FOR IMPAIRMENT (Continued)

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

	31 December 2022			31 December 2021		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	227,894	67,997	295,891	289,193	68,244	357,437
Musharaka financing	-	16,080	16,080	-	13,850	13,850
Commodity and other placements with banks, financial and other institutions	112	-	112	131	-	131
Investment in mudaraba	176	-	176	176	-	176
Investment in associates	1,624	-	1,624	9,662	-	9,662
Sukuk and investment securities	153,362	12,812	166,174	218,170	-	218,170
Restricted investment accounts	49,735	-	49,735	49,735	-	49,735
Insurance and related receivables	-	-	-	7,908	-	7,908
Other assets	67,653	9,412	77,065	66,040	12,104	78,144
Off-balance sheet related	705	-	705	1,864	-	1,864
Development properties	24,703	-	24,703	12,549	-	12,549
Investment in real estate	7,739	-	7,739	9,970	-	9,970
Fixed assets	2,000	-	2,000	-	-	-
Intangible assets	71,070	-	71,070	71,070	-	71,070
	606,773	106,301	713,074	736,468	94,198	830,666

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

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29. PROVISION FOR IMPAIRMENT (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 2022

	Stage 1	Stage 2	Stage 3	Total
Commodity and other placements with banks, financial and other institutions				
Gross exposure	48,983	-	-	48,983
Less: expected credit loss	(112)	-	-	(112)
Net exposure	48,871	-	-	48,871
Murabaha and other financings				
Gross exposure	415,339	574,341	354,605	1,344,285
Less: expected credit loss	(10,874)	(79,818)	(205,199)	(295,891)
Net exposure	404,465	494,523	149,406	1,048,394
Musharaka financing				
Gross exposure	770,929	754,768	11,525	1,537,222
Less: expected credit loss	(3,399)	(6,287)	(6,394)	(16,080)
Net exposure	767,530	748,481	5,131	1,521,142
Assets acquired for leasing (including Ijara receivables)				
Gross exposure	-	1,569	-	1,569
Less: expected credit loss	-	(761)	-	(761)
Net exposure	-	808	-	808
Other assets				
Gross exposure	149,718	53,314	58,633	261,665
Less: expected credit loss	(19,033)	(104)	(58,633)	(77,770)
Net exposure	130,685	53,210	-	183,895
Total gross exposure	1,384,969	1,383,992	424,763	3,193,724
Less: Total expected credit loss	(33,418)	(86,970)	(270,226)	(390,614)
Total Net exposure	1,351,551	1,297,022	154,537	2,803,110

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29. PROVISION FOR IMPAIRMENT (Continued)

31 December 2021

	Stage 1	Stage 2	Stage 3	Total
Commodity and other placements with banks, financial and other institutions				
Gross exposure	249,700	-	-	249,700
Less: expected credit loss	(131)	-	-	(131)
Net exposure	249,569	-	-	249,569
Murabaha and other financings				
Gross exposure	1,412,594	707,515	428,302	2,548,411
Less: expected credit loss	(28,264)	(78,574)	(250,599)	(357,437)
Net exposure	1,384,330	628,941	177,703	2,190,974
Musharaka financing				
Gross exposure	1,383,344	46,760	9,489	1,439,593
Less: expected credit loss	(5,984)	(4,071)	(3,795)	(13,850)
Net exposure	1,377,360	42,689	5,694	1,425,743
Assets acquired for leasing (including Ijara receivables)				
Gross exposure	437,066	2,921	867	440,854
Less: expected credit loss	(1,621)	(28)	(867)	(2,516)
Net exposure	435,445	2,893	-	438,338
Other assets				
Gross exposure	138,422	11,119	62,057	211,598
Less: expected credit loss	(15,268)	(167)	(62,057)	(77,492)
Net exposure	123,154	10,952	-	134,106
Total gross exposure	3,621,126	768,315	500,715	4,890,156
Less: Total expected credit loss	(51,268)	(82,840)	(317,318)	(451,426)
Total Net exposure	3,569,858	685,475	183,397	4,438,730

30. OVERSEAS TAXATION

	Relating to owners	
	31 December 2022	31 December 2021
Current taxes	50,043	32,287
Deferred taxes	5,237	(3,487)
	55,280	28,800

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

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30. OVERSEAS TAXATION (Continued)

Current tax receivable/(payable)

	31 December 2022	31 December 2021
At 1 January	(4,555)	(827)
Charge for the year	(50,043)	(32,287)
Payments made	53,519	42,316
Exchange differences and other movements	(8,439)	(13,757)
At 31 December	(9,518)	(4,555)

Deferred tax asset/(liability)

	31 December 2022	31 December 2021
At 1 January	7,134	(2,289)
Charge for the year	(5,237)	3,487
Charges due to fair value reserve	623	4,356
Exchange differences and other movements	266	1,580
At 31 December	2,786	7,134

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31. SEGMENTAL INFORMATION

The Group constitutes of three main business segments , namely;

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

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

	31 December 2022				31 December 2021			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income/(loss)	189,608	67,235	479	257,322	260,484	(47,705)	1,198	213,977
Total expenses	(165,433)	(19,880)	(245)	(185,558)	(160,185)	(21,996)	(1,455)	(183,636)
Net income/(loss) before provision and overseas taxation	24,175	47,355	234	71,764	100,299	(69,701)	(257)	30,341
Provision and overseas taxation	(58,146)	(18,369)	(621)	(77,136)	(18,951)	18,967	249	265
Net income/(loss) from continuing operations	(33,971)	28,986	(387)	(5,372)	81,348	(50,734)	(8)	30,606
Net results for the period from discontinued operations	14,893	(35,314)	4,829	(15,592)	(12,251)	30,240	11,729	29,718
Net income/(loss) for the year	(19,078)	(6,328)	4,442	(20,964)	69,097	(20,494)	11,721	60,324
Attributable to:								
Equity holders of Ithmaar	(35,656)	(4,134)	1,403	(38,387)	51,384	(18,039)	5,258	38,603
Non-controlling interests	16,578	(2,194)	3,039	17,423	17,712	(2,455)	6,464	21,721
	(19,078)	(6,328)	4,442	(20,964)	69,096	(20,494)	11,722	60,324
Total assets	5,029,147	1,023,014	3,328	6,055,489	7,630,642	1,037,807	364,340	9,032,789
Total liabilities and equity of unrestricted investment account holders	5,861,131	57,811	497	5,919,439	8,484,557	49,398	186,620	8,720,575

The Group constitutes of three geographical segments which are Middle East, Asia and others

	31 December 2022				31 December 2021			
	Middle East & Africa	Rest of Asia	Others	Total	Middle East & Africa	Rest of Asia	Others	Total
Operating income/(loss)	23,190	232,407	1,725	257,322	8,137	203,272	2,568	213,977
Total expenses	(46,639)	(136,892)	(2,027)	(185,558)	(51,553)	(129,856)	(2,227)	(183,636)
Net income/(loss) before provision and overseas taxation	(23,449)	95,515	(302)	71,764	(43,416)	73,416	341	30,341
Provision and overseas taxation	(33,049)	(44,856)	769	(77,136)	19,992	(19,022)	(705)	265
Net income/(loss) from continuing operations	(56,498)	50,659	467	(5,372)	(23,424)	54,394	(364)	30,606
Net results for the period from discontinued operations	(15,592)	-	-	(15,592)	29,718	-	-	29,718
Net income/(loss) for the year	(72,090)	50,659	467	(20,964)	6,294	54,394	(364)	60,324
Attributable to:								
Equity holders of the Ithmaar	(72,569)	33,715	467	(38,387)	2,756	36,211	(364)	38,603
Non-controlling interests	479	16,944	-	17,423	3,538	18,183	-	21,721
	(72,090)	50,659	467	(20,964)	6,294	54,394	(364)	60,324
Total assets	821,034	4,869,185	365,270	6,055,489	3,584,288	4,935,056	513,445	9,032,789
Total liabilities and equity of unrestricted investment account holders	1,215,078	4,413,631	290,730	5,919,439	3,868,032	4,502,872	349,671	8,720,575

Notes to the Consolidated Financial Statements

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32. ZAKAH

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

33. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2022	31 December 2021
Acceptances and endorsements	30,584	47,295
Guarantees and irrevocable letters of credit	458,390	693,242
Customer and other claims	140,240	190,174
	629,214	930,711

Commitments

	31 December 2022	31 December 2021
Undrawn facilities, financing lines and other commitments to finance	1,294,925	1,550,227

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34. CURRENCY RISK

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

31 December 2022	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	38,491	223,188	44,679	5,306	1,591	19,809	333,064
Commodity and other placements with banks, financial and other institutions	31,057	17,814	-	-	-	-	48,871
Murabaha and other financings	418,438	491,250	50,821	23,622	-	64,263	1,048,394
Musharaka financing	-	1,521,142	-	-	-	-	1,521,142
Sukuk and investment securities	62,260	2,119,381	15,302	699	-	2,854	2,200,496
Investment in associates	-	-	70,468	-	-	33,850	104,318
Assets acquired for leasing	-	-	808	-	-	-	808
Insurance and related receivables							-
Other assets	49,537	94,211	14,997	5,510		19,640	183,895
Investment in real estate	13,316	7,468	177,587	-	-	46,868	245,239
Development properties	-	-	174,461	-	-	-	174,461
Fixed assets	-	152,995	19,080	-	-	-	172,075
Intangible assets	12,317	10,409	-	-	-	-	22,726
Total assets	625,416	4,637,858	568,203	35,137	1,591	187,284	6,055,489
Customer current accounts	159,772	1,183,963	163,607	208,656	659	20,304	1,736,961
Due to banks, financial and other institutions	46,264	664,781	15,371	72,640	327,421	14,527	1,141,004
Due to investors	2,226	34,402	-	172	-	220	37,020
Other liabilities	-	161,814	152,233	16,156	4,714	92,207	427,124
Total liabilities	208,262	2,044,960	331,211	297,624	332,794	127,258	3,342,109
Equity of unrestricted investment accountholders	184,327	2,013,156	365,858	5,281	-	8,708	2,577,330
Total liabilities and equity of unrestricted investment accountholders	392,589	4,058,116	697,069	302,905	332,794	135,966	5,919,439
Contingent liabilities and commitments	564,998	1,185,304	52,733	51,412	811	68,881	1,924,139
31 December 2021							
Total assets	460,885	4,781,769	3,082,929	376,717	1,898	328,591	9,032,789
Total liabilities and equity of unrestricted investment accountholders	1,045,718	4,186,850	2,695,993	306,624	331,206	154,184	8,720,575
Contingent liabilities and commitments	742,017	1,416,586	67,939	54,894	3,225	196,277	2,480,938

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35. MATURITY PROFILE

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

31 December 2022	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	325,819	7,245	-	-	-	333,064
Commodity and other placements with banks, financial and other institutions	36,864	12,007	-	-	-	48,871
Murabaha and other financings	207,136	177,175	465,857	153,728	44,498	1,048,394
Musharaka financing	545,501	59,436	157,087	545,791	213,327	1,521,142
Sukuk and investment securities	20,974	-	77,188	1,813,154	289,180	2,200,496
Investment in associates	-	-	-	-	104,318	104,318
Assets acquired for leasing	-	-	-	808	-	808
Other assets	32,451	1,132	103,381	33,028	13,903	183,895
Investment in real estate	-	-	-	17,210	228,029	245,239
Development properties	-	-	-	174,461	-	174,461
Fixed assets	-	14,889	12,091	24,814	120,281	172,075
Intangible assets	-	-	-	-	22,726	22,726
Total assets	1,168,745	271,884	815,604	2,762,994	1,036,262	6,055,489
Customer current accounts	1,736,961	-	-	-	-	1,736,961
Due to banks, financial and other institutions	564,125	200,349	161,833	9,689	205,008	1,141,004
Due to investors	34,053	934	1,485	543	5	37,020
Other liabilities	13,605	71	210,332	67,046	136,070	427,124
Insurance related reserves	-	-	-	-	-	-
Total liabilities	2,348,744	201,354	373,650	77,278	341,083	3,342,109
Equity of unrestricted investment accountholders	1,771,050	388,503	366,152	51,625	-	2,577,330
Total liabilities and equity of unrestricted investment accountholders	4,119,794	589,857	739,802	128,903	341,083	5,919,439
Net position	(2,951,049)	(317,973)	75,802	2,634,091	695,179	136,050
Contingent liabilities and commitments	1,120,491	334,905	288,857	170,640	9,246	1,924,139
31 December 2021						
Total assets	1,725,430	859,881	848,090	2,840,659	2,758,729	9,032,789
Total liabilities and equity of unrestricted investment accountholders	5,387,935	1,000,874	1,520,548	493,354	317,864	8,720,575
Net position	(3,662,505)	(140,993)	(672,458)	2,347,305	2,440,865	312,214
Contingent liabilities and commitments	1,114,743	285,539	765,005	100,403	215,248	2,480,938

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

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

31 December 2022	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	333,064	-	-	-	-	-	-	333,064
Commodity and other placements with banks, financial and other institutions	48,871	-	-	-	-	-	-	48,871
Murabaha and other financings	261,240	403,559	92,337	72,770	22,901	65,569	130,018	1,048,394
Musharaka financing	1,349	699,287	32,111	518,779	159,113	91,792	18,711	1,521,142
Sukuk and investment securities	113,926	35,039	14,211	2,036,652	-	-	668	2,200,496
Investment in associates	104,318	-	-	-	-	-	-	104,318
Assets acquired for leasing	-	-	808	-	-	-	-	808
Insurance and related receivables								-
Other assets	52,300	46,762	42,110	-	42,676	-	47	183,895
Investment in real estate	7,468	-	185,776	-	-	-	51,995	245,239
Development properties	-	-	174,461	-	-	-	-	174,461
Fixed assets	154,982	-	17,093	-	-	-	-	172,075
Intangible assets	18,972	-	-	-	-	-	3,754	22,726
Total assets	1,096,490	1,184,647	558,907	2,628,201	224,690	157,361	205,193	6,055,489
Customer current accounts	333,173	673,645	126,378	211,668	347,023	8,658	36,416	1,736,961
Due to banks, financial and other institutions	1,066,114	-	-	4,108	-	-	70,782	1,141,004
Due to investors	5,200	6,366	1,567	6,458	11,001	143	6,285	37,020
Other liabilities	129,845	4,973	74,426	1,037	16,853	-	199,990	427,124
Insurance related reserves								-
Total liabilities	1,534,332	684,984	202,371	223,271	374,877	8,801	313,473	3,342,109
Equity of unrestricted investment accountholders	548,647	732,968	158,994	485,955	332,756	6,308	311,702	2,577,330
Total liabilities and equity of unrestricted investment accountholders	2,082,979	1,417,952	361,365	709,226	707,633	15,109	625,175	5,919,439
Contingent liabilities and commitments	439,241	917,602	73,215	257,483	2,582	52,694	181,322	1,924,139
31 December 2021								
Total assets	4,274,873	1,574,357	1,227,534	204,479	1,329,233	191,832	230,481	9,032,789
Total liabilities and equity of unrestricted investment accountholders	1,690,776	2,144,990	238,497	955,637	2,433,102	19,874	1,237,699	8,720,575
Contingent liabilities and commitments	685,207	964,403	62,853	26,303	6,521	156,323	579,328	2,480,938

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36. CONCENTRATION OF ASSETS , LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (Continued)

31 December 2022	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	333,064	-	-	-	-	333,064
Commodity and other placements with banks, financial and other institutions	48,871	-	-	-	-	48,871
Murabaha and other financings	542,814	229,952	95,660	179,968	-	1,048,394
Musharaka financing	1,521,142	-	-	-	-	1,521,142
Sukuk and investment securities	2,126,247	70,002	3,733	514	-	2,200,496
Investment in associates	33,849	70,469	-	-	-	104,318
Assets acquired for leasing	-	808	-	-	-	808
Insurance and related receivables	-	-	-	-	-	-
Other assets	94,547	53,291	35,286	771	-	183,895
Investment in real estate	7,468	189,893	47,878	-	-	245,239
Development properties	-	174,461	-	-	-	174,461
Fixed assets	150,774	19,841	1,460	-	-	172,075
Intangible assets	10,409	12,317	-	-	-	22,726
Total assets	4,869,185	821,034	184,017	181,253	-	6,055,489
Customer current accounts	1,301,096	232,281	194,389	9,195	-	1,736,961
Due to banks, financial and other institutions	672,145	452,402	16,457	-	-	1,141,004
Due to investors	37,014	6	-	-	-	37,020
Other liabilities	285,856	70,579	70,689	-	-	427,124
Insurance related reserves	-	-	-	-	-	-
Total liabilities	2,296,111	755,268	281,535	9,195	-	3,342,109
Equity of unrestricted investment accountholders	2,117,520	459,810	-	-	-	2,577,330
Total liabilities and equity of unrestricted investment accountholders	4,413,631	1,215,078	281,535	9,195	-	5,919,439
Contingent liabilities and commitments	1,871,406	52,733	-	-	-	1,924,139
31 December 2021						
Total assets	4,935,056	3,584,288	282,731	230,367	347	9,032,789
Total liabilities and equity of unrestricted investment accountholders	4,502,872	3,868,032	329,996	19,675	-	8,720,575
Contingent liabilities and commitments	2,408,945	71,993	-	-	-	2,480,938

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37. RISK MANAGEMENT

Risk Management in the Group

The Group'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 Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group 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 Group. The Group 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 Group 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 Group's financing and off-balance sheet financial instruments.

The Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential significant increase in Credit Risk (SICR).

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 2).

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

Credit Risk Mitigation

Group 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 Group 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.

Group's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Group prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

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37. RISK MANAGEMENT (Continued)

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at quarterly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy. Collaterals associated with exposures classified in stage 2 and stage 3 shall be valued annually.

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

Group has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

Liquidity risk

Liquidity risk is the risk that Ithmaar is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Ithmaar regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

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).

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.

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

37. RISK MANAGEMENT (Continued)

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

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2022	Up to one month	One- three months	Three- twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	333,064	333,064
Commodity and other placements with banks, financial and other institutions	20,080	4,000	24,791	-	-	-	48,871
Murabaha and other financings	28,079	98,115	495,085	229,756	197,359	-	1,048,394
Musharaka financing	416,620	46,704	144,711	812,014	101,093	-	1,521,142
Sukuk and investment securities	250,221	639,476	77,230	167,230	966,719	99,620	2,200,496
Assets acquired for leasing	-	-	-	-	808	-	808
Insurance and related receivables	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	183,895	183,895
Total financial assets	715,000	788,295	741,817	1,209,000	1,265,979	616,579	5,336,670
Customer current accounts						1,736,961	1,736,961
Due to banks, financial and other institutions	539,547	211,555	157,641	27,253	205,008	-	1,141,004
Due to investors	-	-	-	-	37,020	-	37,020
Other liabilities	-	-	-	-	-	427,124	427,124
Total financial liabilities	539,547	211,555	157,641	27,253	242,028	2,164,085	3,342,109
Equity of unrestricted investment accountholders	371,654	400,600	460,833	577,620	766,624	-	2,577,330
Total financial liabilities and equity of unrestricted investment accountholders	911,201	612,155	618,474	604,873	1,008,652	2,164,085	5,919,439
Total repricing gap	(196,201)	176,140	123,343	604,128	257,327	(1,547,506)	(582,769)
31 December 2021							
Total financial assets	1,070,825	1,036,413	998,148	1,564,035	2,001,660	940,981	7,612,062
Total financial liabilities and equity of unrestricted investment accountholders	3,283,927	626,670	1,473,477	849,512	-	2,486,989	8,720,575
Total repricing gap	(2,213,102)	409,743	(475,329)	714,523	2,001,660	(1,546,008)	(1,108,513)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

38. 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 Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- (c) Associated companies of Ithmaar.
- (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.

Significant balances with related parties comprise:

	31 December 2022				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	372,963	-	-	-	372,963
Investment in associates	-	104,318	-	-	104,318
Other assets (note 12)	-	-	-	183	183
Liabilities					
Customers' current accounts	11,365	3,124	-	-	14,489
Due to banks, financial and other institutions	37,741	-	-	-	37,741
Other liabilities (note 20)	43	-	-	-	43
Equity					
Fair value reserves	-	(1,953)	-	-	(1,953)
Income					
Income from murabaha and other financings	3,773	-	-	-	3,773
Share of profit after tax from associates	-	(164)	-	-	(164)
Profit paid to banks, financial and other institutions	(1,668)	-	-	-	(1,668)
Expenses					
Administrative and general expenses	(800)	-	(50)	-	(850)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	31 December 2021				Total
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	
Assets					
Murabaha and other financings	379,661	-	-	-	379,661
Investment in associates	-	676,933	-	-	676,933
Sukuk and investment securities	13,310	-	-	-	13,310
Other assets (note 12)	-	-	-	684	684
Liabilities					
Customers' current accounts	21,583	7,047	-	980	29,610
Due to banks, financial and other institutions	25,159	5,200	-	-	30,359
Equity of unrestricted investment accounts	-	-	-	5,019	5,019
Other liabilities (note 20)	13	-	-	-	13
Equity					
Fair value reserves	-	(36,543)	-	-	(36,543)
Income					
Return to unrestricted investment accounts	-	-	-	(151)	(151)
Income from murabaha and other financings	3,782	-	-	-	3,782
Share of profit after tax from associates	-	(1395)	-	-	(1395)
Profit paid to banks, financial and other institutions	-	(287)	-	-	(287)
Reversal of provision for impairment on associate	-	35,000	-	-	35,000
Expenses					
Administrative and general expenses	(1,190)	-	(50)	-	(1,240)

Certain collaterals amounting to \$40.6 million (31 December 2021: \$368.4 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

Certain assets amounting to \$5.1 million (31 December 2021: \$5.1 million) are legally held by related parties for the beneficial interest of the Group.

39. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and;
- To maintain a strong capital base to support the development of its business.

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license. The subsidiaries comply with the directives of the respective local regulators for their capital management.

Notes to the Consolidated Financial Statements

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(Expressed in thousands of united states dollars unless otherwise stated)

40. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2022 (31 December 2021: Nil).

41. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2022	31 December 2021
INCOME		
Income from other financings	30,436	57,755
Share of profit after tax from associates - note (i)	5,281	36,364
Income from investments	60,380	120,397
Other income	17,324	23,864
Gross income	113,421	238,380
Less: profit paid to banks, financial and other institutions - note (ii)	(78,893)	(103,759)
Total income	34,528	134,621
EXPENSES		
Administrative and general expenses - note (ii)	(29,062)	(59,330)
Depreciation and amortisation	(14,531)	(21,750)
Total expenses	(43,593)	(81,080)
Net income before provision for impairment and overseas taxation	(9,065)	53,541
Provision for impairment (net)	4,294	44,450
Net income before overseas taxation	(4,771)	97,991
Overseas taxation	1,552	(11,950)
NET INCOME FOR THE YEAR	(3,219)	86,041
Attributable to:		
Equity holders of the Bank	(1,258)	78,536
Non-controlling interests	(1,961)	7,505
	(3,219)	86,041
Basic and diluted earnings per share	US Cts (0.04)	US Cts 2.70

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

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

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 698 branches (2021: 595 branches) out of total 698 branches (2021: 606 branches).

42. SOCIAL RESPONSIBILITY

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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43. 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 \$ 645million .

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 \$77 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	167,745
Murabaha and other financings	783,321
Sukuk and investment securities	83,761
Assets acquired for leasing	378,740
Other assets	82,875
Fixed assets	14,454
Total	1,510,896
Investment in subsidiary (Takaful business)	103,090
Investment in associate (investment assets)	500,042
Total Assets transferred - A	2,114,028
Consumer business	
Customers' current accounts	93,560
Due to banks, financial and other institutions	38,111
Other liabilities	51,297
Total liabilities	182,968
Equity of unrestricted investment accountholders	2,001,737
Net movement in consolidated income statement relating to the above assets & liabilities from 1 to 7 July 2022	414
Total liabilities transferred - B	2,185,119
Estimated balancing payment - C	5,864
Gain recongised on transfer (B+C-A)	76,955

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

43. DISCONTINUED OPERATIONS (Continued)

The gain on the transaction of \$77 million was assessed initially on fair values as of 30 September 2021. Accordingly, the movement in carrying values of the transferred assets and liabilities associated with the transaction from 1 October 2021 till 30 June 2022 have been reflected as part of discontinued operations for the period. The net results of the above operations included in the consolidated financial statements are as follows:

Year ended 31 December 2022				
Description	Consumer business	Takaful business	Investment assets	Total
Total income	13,114	20,601	5,446	39,161
Total expenses	(13,613)	(15,470)	-	(29,083)
	(499)	5,131	5,446	10,078
Provision for impairment - net	(294)	(302)	-	(596)
	(793)	4,829	5,446	9,482
Write off of intangible assets directly associated with consumer business	(25,002)	-	-	(25,002)
Movement in carrying values from 1 October 2021 to 7 July 2022	-	3,961	(46,132)	(42,171)
Transfer of fair value and foreign exchange translation reserves to consolidated income statement	-	(4,962)	(29,894)	(34,856)
	(25,795)	3,828	(70,580)	(92,547)
Gain recognised on transfer				76,955
Net results from discontinued operations				(15,592)

Year ended 31 December 2021				
Description	Consumer business	Takaful business	Investment assets	Total
Total income	18,048	37,925	30,240	86,213
Total expenses	(28,947)	(25,893)	-	(54,840)
	(10,899)	12,032	30,240	31,373
Provision for impairment - net	(1,352)	(303)	-	(1,655)
	(12,251)	11,729	30,240	29,718

The comparative period balances in the consolidated income statement has been reclassified to include those operations that have been classified as discontinued in the current period presentation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in thousands of united states dollars unless otherwise stated)

43. DISCONTINUED OPERATIONS (Continued)

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	31 December 2021
Net cash from operating activities	12,100	74,319
Net cash used by investing activities	(46,126)	(86,463)
Net cash movement	(34,027)	(12,144)

44. SUBSEQUENT EVENT

Subsequent to the reporting date, the foreign exchange rate of Pakistani Rupee, the functional currency of the Group's subsidiary incorporated in Pakistan, has significantly deteriorated against United States Dollars. Any adverse movement of the foreign exchange rate will have an accounting impact on the Group's consolidated equity.

Share Information



Share Information

Shareholding Structure

	31-Dec-22			31-Dec-21		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-10,000	294	1,246,531	0.04%	270	1,190,370	0.04%
10,001 - 100,000	2,359	63,046,109	2.08%	2,399	65,421,159	2.16%
100,001 - 1,000,000	844	289,884,542	9.56%	855	292,415,005	9.65%
1,000,001 - 10,000,000	232	641,908,376	21.18%	227	616,935,199	20.36%
over 10,000,000	25	2,034,669,469	67.13%	29	2,054,793,294	67.80%
Total	3,754	3,030,755,027	100.00%	3,780	3,030,755,027	100.00%

Shareholding by Nationality

Country	31-Dec-22			31-Dec-21		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Bahamas	2	1,384,545,224	45.68%	2	1,384,545,224	45.68%
Bahrain	776	315,136,949	10.40%	796	320,802,901	10.58%
KSA	820	283,096,367	9.34%	828	290,378,865	9.58%
Kuwait	656	260,796,871	8.61%	749	302,068,054	9.97%
Other GCC Countries	455	290,552,525	9.59%	467	289,930,893	9.57%
Other Countries	1,045	496,627,091	16.39%	938	443,029,090	14.62%
Total	3,754	3,030,755,027	100.00%	3,780	3,030,755,027	100.00%

Shareholding by Percentage

Percentage	31-Dec-22			31-Dec-21		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Less than 1%	3,746	1,288,738,764	42.52%	3,771	1,258,875,384	41.54%
1 % to 5%	6	357,471,039	11.79%	7	387,334,419	12.78%
More than 10%	2	1,384,545,224	45.68%	2	1,384,545,224	45.68%
Total	3,754	3,030,755,027	100.00%	3,780	3,030,755,027	100.00%

Major Shareholders

Shareholder	No. of Shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08%
Islamic Inv. Co. of the Gulf	594,129,224	19.60%
Others	1,646,209,803	54.32%
Total	3,030,755,027	100.00%

The executive management do not hold shares of Ithmaar Holding.

Share Information Continued

Bahrain Bourse

ITHMR's Trading Activity – Bahrain



Performance in the Bahrain Bourse

Stock Code: ITHMR			Change in 2022	
Share Price Relative to Indices 2022	Open	Close	Points	%
ITHMR's Share Price (US \$)	0.07	0.04	-0.026	-39.39%
Bahrain All Share Index	1797.25	1895.267	98.017	5.45%
Bahrain Islamic Index	751.72	663.13	-88.59	-11.78%

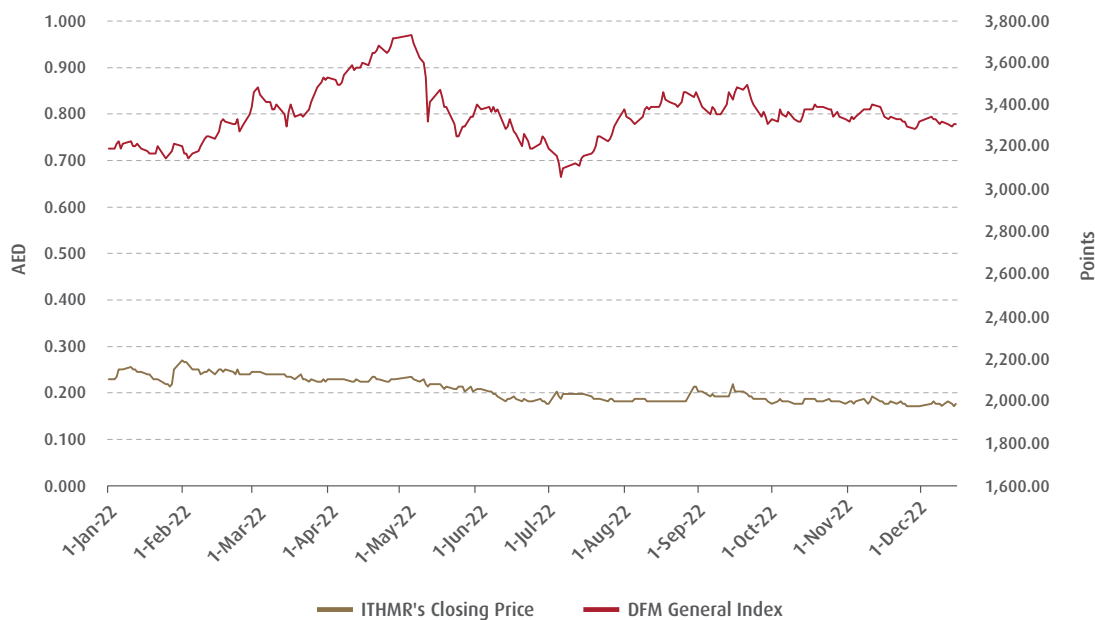
ITHMR'S Share Trading (Bahrain)

	2022	2021
Volume, No. of Shares	31,619,206	17,008,978
Value, US\$	1,777,711	1,025,698

Share Information Continued

Dubai Financial Market (DFM)

ITHMR's Trading Activity – United Arab Emirates



Performance in DFM

Stock Code: ITHMR			Change in 2022	
Share Price Relative to Indices 2022	Open	Close	Points	%
ITHMR's Share Price (AED)	0.23	0.17	-0.056	-24.45%
DFM General Index	3,195.91	3,328.79	132.88	4.16%
Banking Sector Index	2,348.51	2,354.84	6.33	0.27%

ITHMR'S Share Trading (United Arab Emirates)

	2022	2021
Volume, No. of Shares	1,116,636,771	1,620,951,680
Value, AED	247,253,552	378,830,572

Corporate Information

Name of Company	Ithmaar Holding B.S.C.
Legal Form	Ithmaar Holding B.S.C. is a Bahrain-based financial institution that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain. Ithmaar Holding B.S.C. is incorporated as a Bahrain Shareholding Company under Bahrain Commercial Law (Law No. 21 of 2001).
Company Registration Number	CR 15210
Stock Exchange Listings	Bahrain Bourse and Dubai Financial Market
Stock Code	"ITHMR"
Share Registrar	Bahrain Clear
Head Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 1758 4000
Facsimile	+973 1758 4017
E-mail	info@ithmaarholding.com
Website	www.ithmaarholding.com
Accounting Year End	31 December
Compliance Officer	Balu Tiruvilandur Ramamurthy – Head, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Board Secretary
Auditors	PriceWaterHouseCoppers ME Limited, P.O. Box 60771, Manama, Kingdom of Bahrain