

**ITHMAAR HOLDING B.S.C.**

CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2023

**Ithmaar Holding B.S.C.**  
**Consolidated financial statements**  
**for the year ended 31 December 2023**

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

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

The Sharia Supervisory Board of Ithmaar Holding B.S.C. and its subsidiaries ("Ithmaar") performed the following during the financial year ended 31 December 2023:

- 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 2023. 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 on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2023 until 31 December 2023, corresponding to the Year from 8 Jumada Al-Akhirah 1444 H until 18 Jumada Al-Akhirah 1445 H.**

c. 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 to 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 2023 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 7<sup>th</sup> of July 2022, and no gains made from sources prohibited by Sharia for the year 2023.

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 Sunday 1 Shaaban 1445, 11 February 2024.**

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

**Ithmaar Holding B.S.C.****Board of Directors' Report for the year ended 31 December 2023**

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. ("Ithmaar") for the year ended 31 December 2023, 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, fund management and real estate development.

**Consolidated financial position and results**

The consolidated financial position of the Group as at 31 December 2023, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of \$13.3 million for the year ended 31 December 2023, as compared to a net loss of \$21 million for 2022. The net loss attributable to the equity holders of the Group is \$9.3 million for 2023, as compared to a net loss of \$38.4 million for 2022. Total assets at 31 December 2023 amounted to \$6104.6 million (31 December 2022: \$6,055.5

**Directors**

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

HRH Prince Amr Mohammed Al-Faisal (Chairman)

Tunku Yaacob Khyra

Dr. Amani Khaled Bouresli

Sheikh Mohamed Abdullah Abdulkarim El Kherei

Ms. Elham Ebrahim Abdulla Hassan

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

**Board of Directors' & Executive Management Remuneration**

In accordance with the provisions of the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No.(3) for the year 2022, the table below shows the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2023.

**Ithmaar Holding B.S.C.**  
**Board of Directors' Report for the year ended 31 December 2023**

**Board of Directors' & Executive Management Remuneration (continued)**

**First: 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	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors											
1. Dr. Amani Khaled Bouresli	-	17,191	-	17,191	-	-	-	-	-	17,191	-
2. Ms. Elham Ebrahim Hassan	-	17,191	-	17,191	-	-	-	-	-	17,191	-
3. Tunku Yaacob Khyra	-	15,608	-	15,608	-	-	-	-	-	15,608	-
Second: Non-Executive Directors:											
1. HRH Prince Amr Mohammed Al-Faisal	-	11,762	-	11,762	-	-	-	-	-	11,762	-
2. Sheikh Mohamed Abdullah El Kherei	-	11,762	-	11,762	-	-	-	-	-	11,762	-
Third: Executive Directors:											
1. Mr. Mohammed A. Rahman Bucheerei (Resigned effective 31 December 2023)	-	17,191	-	17,191	-	-	-	-	-	17,191	-
Total	-	90,705	-	90,705	-	-	-	-	-	90,705	-

Note: All amounts are stated in Bahraini Dinars

Other remunerations:

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

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

**Note:**

1.The Group 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.

**Second: Executive management remuneration details:**

	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
<b>Executive management</b>				
<b>Remunerations for top 6 executives, including CEO and Senior Financial Officer</b>	-	-	-	-

Note: All amounts are stated in Bahraini Dinars

**Note:**

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

**Ithmaar Holding B.S.C.****Board of Directors' Report for the year ended 31 December 2023 (continued)****Interests of Directors**

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

<b>Name</b>	<b>Number of Shares</b>	
	<b>31 December 2023</b>	<b>31 December 2022</b>
HRH Prince Amr Mohammed Al-Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Mr. Mohammed A. Rahman Bucheerei	105,600	105,600

**Dividend**

No dividend has been proposed for 2023 (2022: Nil).

**Auditors**

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

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal  
Chairman

13 February 2024



Elham Hassan  
Director



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Audit  
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CR No. 6220 - 2

## Independent auditors' report

### To the Shareholders of

*Ithmaar Holding B.S.C.  
Seef Tower  
Seef, Kingdom of Bahrain*

### Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and consolidated results of its operations, changes in owners' equity, its cash flows and changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

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

### Basis for Opinion

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

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

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

### Other Matter

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



## 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 period. 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.

### Impairment allowance on financing assets

Refer to accounting policy in Note 2.4 (d), disclosure on use of estimates and judgment in Note 2.3 and management of credit risk in Note 32 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>• of the significance of financing assets to total assets;</li> <li>• impairment of financing assets involves: <ul style="list-style-type: none"> <li>❖ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;</li> <li>❖ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL') models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and</li> <li>❖ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.</li> </ul> </li> <li>• the need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and</li> <li>• adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks.</li> </ul>	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice.</li> <li>• Confirming our understanding of management's processes, systems and controls over the ECL calculation process.</li> </ul> <p><b>Control testing</b> We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following:</p> <ul style="list-style-type: none"> <li>• Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process.</li> <li>• Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays.</li> <li>• Testing controls over the modelling process, including governance over model monitoring, validation and approval.</li> </ul> <p><b>Tests of details</b> Key aspects of our testing involved:</p> <ul style="list-style-type: none"> <li>• Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging.</li> <li>• Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used.</li> <li>• Re-performing key elements of the Group's model calculations and assessing performance results for accuracy.</li> </ul>

#### **Tests of details (continued)**

Key aspects of our testing involved:

- Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified.
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.
- Assessing the adequacy of provisions against individually impaired financing assets (stage 3) in accordance with the applicable FAS.

#### **Use of specialists**

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following:

- We involved our Information Technology Audit specialists to test the relevant General IT and Application controls over key systems used for data extraction as part of the ECL calculation process.
- We involved our Credit Risk specialists in:
  - Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used);
  - On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria);
  - Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and
  - Evaluating the overall reasonableness of the management forward looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends.

#### **Disclosures**

We assessed the adequacy of the Group's disclosures relating to impairment of financing assets by reference to the requirements of the relevant accounting standards.

## **Other Information**

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Board of Directors for the Consolidated Financial Statements**

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

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with ASIFIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Ithmaar to cease to continue as a going concern.

*Independent auditors' report (continued)*  
*Ithmaar Holding B.S.C.*

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

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

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

#### Report on Other Regulatory Requirements

As required by the Commercial Companies Law 2001(as amended) and (Volume 4) of the Rulebook issued by the Central Bank of Bahrain (CBB), we report that:

- a) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law 2001 (as amended), the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 4, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of Ithmaar's memorandum and articles of association that would have had a material adverse effect on the business of Ithmaar or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.



KPMG Fakhro  
Partner Registration Number 137  
14 February 2024

**Ithmaar Holding B.S.C.****Consolidated statement of financial position****as at 31 December 2023**

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

	Note	At 31 December 2023 (Audited)	At 31 December 2022 (Audited)
<b>ASSETS</b>			
Cash and balances with banks and central banks	3	367,962	333,064
Commodity placements with banks, financial and other institutions	4	12,977	48,871
Financing assets	5	2,606,574	2,570,344
Investment securities	6	2,323,480	2,200,496
Investment in associates	7	94,659	104,318
Other assets	8	93,835	183,895
Investment in real estate	9	243,638	245,239
Development properties	10	174,662	174,461
Property and equipment	11	169,236	172,075
Intangible assets	12	17,551	22,726
<b>Total assets</b>		<b>6,104,574</b>	<b>6,055,489</b>
<b>LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND TOTAL EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts	13	1,724,829	1,736,961
Due to banks, financial and other institutions	14	1,189,988	1,101,718
Due to investors		8,652	37,020
Other liabilities	15	299,468	427,124
<b>Total liabilities</b>		<b>3,222,937</b>	<b>3,302,823</b>
Equity of unrestricted investment accountholders	16	2,719,498	2,616,616
<b>Total liabilities and equity of unrestricted investment accountholders</b>		<b>5,942,435</b>	<b>5,919,439</b>
<b>OWNERS' EQUITY</b>			
Share capital	17	757,690	757,690
Treasury shares	17	(30,149)	(30,149)
Reserves	18	114,857	105,780
Accumulated losses		(838,063)	(828,752)
<b>Total owners' equity</b>		<b>4,335</b>	<b>4,569</b>
Non-controlling interest	19	157,804	131,481
<b>Total equity</b>		<b>162,139</b>	<b>136,050</b>
<b>Total liabilities, equity of unrestricted investment accountholders and total equity</b>		<b>6,104,574</b>	<b>6,055,489</b>

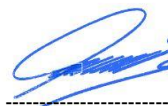
These consolidated financial statements were approved by the Board of Directors on 13 February 2024 and signed on its behalf by:



HRH Prince Amr Mohammed Al-Faisal  
Chairman



Elham Hassan  
Director




Abdulla Taleb  
CEO

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.


**Ithmaar Holding B.S.C.**
**Consolidated income statement**
**for the year ended 31 December 2023**

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

	Note	Year ended	
		31 December 2023	31 December 2022
		(Audited)	(Audited)
			(Refer Note 38)
<b>INCOME</b>			
Income from financing contracts	21	355,546	290,424
Income from investments	22	362,032	260,631
Other income - net	23	30,329	61,666
<b>Total income</b>		<b>747,907</b>	<b>612,721</b>
Less: profit on placements from banks, financial and other institutions – net		(15,361)	(106,289)
Return on equity of investment accountholders before Group's share as a Mudarib		(734,746)	(469,457)
Group's share as a Mudarib		285,672	220,347
<b>Share of profit of unrestricted investment accountholders</b>		<b>(449,074)</b>	<b>(249,110)</b>
<b>Net income</b>		<b>283,472</b>	<b>257,322</b>
<b>EXPENSES</b>			
General and administrative expenses	24	(163,802)	(162,890)
Depreciation and amortization		(19,328)	(22,668)
<b>Total expenses</b>		<b>(183,130)</b>	<b>(185,558)</b>
<b>Profit before impairment allowances and overseas taxation</b>		<b>100,342</b>	<b>71,764</b>
Impairment allowance - net	25	(16,794)	(21,856)
<b>Profit before overseas taxation</b>		<b>83,548</b>	<b>49,908</b>
Tax expense	26	(70,193)	(55,280)
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<b>13,355</b>	<b>(5,372)</b>
Net results from discontinued operations		-	(15,592)
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>		<b>13,355</b>	<b>(20,964)</b>
<b>Attributable to:</b>			
Equity holders of Ithmaar		(9,311)	(38,387)
Non-controlling interest		22,666	17,423
		<b>13,355</b>	<b>(20,964)</b>
<b>Basic and diluted losses per share</b>	20	<b>US Cts (0.32)</b>	<b>US Cts (1.32)</b>
<b>Basic and diluted losses per share - continuing operations</b>	20	<b>US Cts (0.32)</b>	<b>US Cts (0.78)</b>



HRH Prince Amr Mohammed Al-Faisal  
Chairman



Elham Hassan  
Director



Abdulla Taleb  
CEO

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

**Ithmaar Holding B.S.C.**
**Consolidated statement of changes in owners' equity**
**for the year ended 31 December 2023**

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

	Share capital	Treasury shares	Reserves	Accumulated losses	Total owners' equity	Non-controlling interests	Total equity
<b>At 1 January 2023</b>	<b>757,690</b>	<b>(30,149)</b>	<b>105,780</b>	<b>(828,752)</b>	<b>4,569</b>	<b>131,481</b>	<b>136,050</b>
(Loss)/profit for the year	-	-	-	(9,311)	(9,311)	22,666	13,355
Movement from dividend distribution by subsidiaries	-	-	-	-	-	(5,460)	(5,460)
Increase in shareholding of subsidiary	-	-	-	-	-	19,064	19,064
Movement in fair value of investment securities (i)	-	-	(516)	-	(516)	6,613	6,097
Movement in fair value of land and building (i)	-	-	-	-	-	112	112
Movement in fair value of investment in real estate (i)	-	-	-	-	-	222	222
Movement in fair value reserves of associates (i)	-	-	(2,070)	-	(2,070)	-	(2,070)
Recycling of translation reserve on disposal of assets (i)	-	-	5,744	-	5,744	-	5,744
Foreign currency translation adjustments (i)	-	-	5,919	-	5,919	(16,894)	(10,975)
<b>At 31 December 2023 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>114,857</b>	<b>(838,063)</b>	<b>4,335</b>	<b>157,804</b>	<b>162,139</b>

	Share capital	Treasury shares	Reserves	Accumulated losses	Total owners' equity	Non-controlling interest	Total equity
<b>At 1 January 2022</b>	<b>757,690</b>	<b>(30,149)</b>	<b>109,009</b>	<b>(798,788)</b>	<b>37,762</b>	<b>274,452</b>	<b>312,214</b>
(Loss)/profit 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 Investment securities (i)	-	-	(11,016)	-	(11,016)	(4,111)	(15,127)
Movement in fair value of investment in real estate (i)	-	-	(684)	-	(684)	469	(215)
Movement in fair value of land and building (i)	-	-	26,476	-	26,476	13,296	39,772
Movement in hedging reserve	-	-	3,581	-	3,581	-	3,581
Movement in fair value reserve of associates (i)	-	-	19,152	-	19,152	-	19,152
Foreign currency translation adjustments (i)	-	-	(40,738)	-	(40,738)	(31,194)	(71,932)
<b>At 31 December 2022 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>105,780</b>	<b>(828,752)</b>	<b>4,569</b>	<b>131,481</b>	<b>136,050</b>

(i) Refer note 16 for allocation of investment in a subsidiary to equity of unrestricted investment accountholders and note 18 for details of reserves.

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

**Ithmaar Holding B.S.C.**  
**Consolidated statement of cash flows**  
**for the year ended 31 December 2023**  
(Expressed in thousands of United States Dollars unless otherwise stated)

Note	Year ended	
	31 December 2023	31 December 2022
	(Audited)	(Audited)
<b>OPERATING ACTIVITIES</b>		
<b>Net profit/(loss) before overseas taxation from:</b>		
Continuing operations	83,548	49,908
Discontinued operations	-	(15,592)
<u>Adjustments for:</u>		
Depreciation and amortization	19,328	22,668
Provision for impairment - net	25 16,794	21,856
Income from other investments	(362,032)	(260,631)
Finance cost on net ijarah liability	4,832	7,154
Gain on sale of fixed assets	(81)	(258)
Operating income/(loss) before changes in operating assets and liabilities	(237,611)	(174,895)
Balances with banks maturing after 90 days and including with central banks relating to minimum reserve requirement	(14,341)	(129,103)
Changes in operating assets and liabilities:		
Financing assets	(427,859)	(295,563)
Assets acquired for leasing	-	12,273
Other assets	93,590	(194,433)
Customers' current accounts	242,105	257,881
Due to banks, financial and other institutions	179,869	(22,650)
Due to investors	(21,369)	(80,497)
Other liabilities	(75,189)	192,276
Increase in equity of unrestricted investment accountholders	558,514	374,473
Taxes paid	(62,794)	(53,519)
<b>Net cash generated from /(used in) operating activities</b>	<b>234,915</b>	<b>(113,757)</b>
<b>INVESTING ACTIVITIES</b>		
Investment securities	(188,156)	(104,626)
Property and equipment	(33,525)	8,640
Dividend received from associates	-	20,705
<b>Net cash used in investing activities</b>	<b>(221,681)</b>	<b>(75,281)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of net Ijarah liability	(11,030)	(14,627)
<b>Net cash used in financing activities</b>	<b>(11,030)</b>	<b>(14,627)</b>
Foreign currency translation adjustments	(9,326)	(75,925)
<b>Net decrease in cash and cash equivalents</b>	<b>(7,122)</b>	<b>(279,590)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>341,761</b>	<b>621,351</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>334,639</b>	<b>341,761</b>
<u>Details of cash and cash equivalents:</u>		
Cash and balances with banks and central banks	367,962	333,064
Commodity placements with banks, financial and other institutions	13,089	48,983
Less: Placements with original maturing after 90 days and balances with central banks relating to minimum reserve requirement	(46,412)	(40,286)
	<b>334,639</b>	<b>341,761</b>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.



**Ithmaar Holding B.S.C.****Consolidated statement of changes in restricted investment accounts  
for the year ended 31 December 2023**

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

	At 1 January 2023	Foreign exchange movements	Net Deposits / (Redemptions)	At 31 December 2023
Shamil Bosphorus Modaraba*	6,250	-	-	6,250
European Real Estate Placements*	10,457	326	-	10,783
US Real Estate Placements*	25,236	-	-	25,236
<b>Total (Audited)</b>	<b>41,943</b>	<b>326</b>	<b>-</b>	<b>42,269</b>

	At 1 January 2022	Foreign exchange 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
<b>Total (Audited)</b>	<b>44,199</b>	<b>(700)</b>	<b>(1,556)</b>	<b>41,943</b>

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

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

**Ithmaar Holding B.S.C.**  
**Notes to the consolidated financial statements**  
**for the year ended 31 December 2023**

**1 REPORTING ENTITY**

Ithmaar Holding B.S.C. ("Ithmaar" or the "Company") was incorporated in the Kingdom of Bahrain under the Commercial Companies Law and registered with Ministry of Industry and Commerce (MOIC) under Commercial Registration number 15210-20 on 26 October 2016. Formerly, Ithmaar was incorporated as an investment bank on 13 August 1984 and regulated by the Central Bank of Bahrain ("CBB"). Post restructuring over the years, Ithmaar is now licensed by the CBB under Volume 4, Category 1 investment firm.

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

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

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

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

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 and fund management.

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

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

	% owned		Country of Incorporation	Principal business activities
	2023	2022		
<u>Direct subsidiaries</u>				
Ithmaar Bank B.S.C. (c) (the "Bank")	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (c) (IBC)	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
<u>Principal indirect subsidiaries</u>				
Faysal Bank Limited (FBL) (Note 1)	67	67	Pakistan	Banking
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.

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

## **1 REPORTING ENTITY (continued)**

### **1.1 Going Concern**

- 1.1 As of 31 December 2023, the total consolidated owners' equity of the Group stood at \$4.5 million and its accumulated losses are in excess of its paid-up capital. Further, the Group's Board of Directors (the "Board") continues to pay utmost attention to the implementation of a capital plan being put in place in order to resolve the regulatory capital requirements. These events and conditions are of significant value to the Group's ability to continue as a going concern.

The Board of Directors of Ithmaar is working on various initiatives to strengthen the Group's consolidated equity and liquidity profile within the next twelve months from reporting date of these consolidated financial statements ('Equity Strengthening Plans'). These initiatives include, amongst other initiatives, the following:

- Issuance of Tier 1 capital instrument (T1) of up to \$200 million, subject to regulatory and shareholders' approvals;
- Sourcing long term funding lines against assets to support unplanned liquidity needs;
- Consideration of sale of core and non-core assets, subject to further review, negotiations and necessary regulatory approvals; and
- 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 summoned an Extraordinary General Meeting of the shareholders and 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. The Board of directors are in the process of discussing the issuance of T1 capital with the regulators and its interested shareholders.

On 4 June 2023, the shareholders, in an Extraordinary General Meeting, approved issuance of Tier 1 Capital instrument of up to US dollar 200 million.

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

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

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

### **1.2 Subsequent event – Transfer of business and sale of assets**

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

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

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

## **2 ACCOUNTING POLICIES**

### **2.1 BASIS OF PREPARATION AND PRESENTATION**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the "Group") as at and for the year ended 31 December 2023 and are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Bank and in conformity with the Bahrain Commercial Companies Law and the guidelines of CBB and Financial Institutions Law.

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

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

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

### **2.2 BASIS OF CONSOLIDATION**

#### **(i) Subsidiaries**

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

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

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

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

#### **(ii) Non-controlling interests**

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

#### **(iii) Assets under management**

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.2 BASIS OF CONSOLIDATION (continued)**

#### **(iv) Loss of control**

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

#### **(v) Transactions eliminated on consolidation**

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

#### **(vi) Foreign currency**

##### **(a) Functional and presentation currency**

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

##### **(b) Foreign currencies**

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

##### **(c) Translation of foreign operations**

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not United States Dollars are translated into United States Dollars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant use of judgements and estimates are as follows:

#### *Impairment assessment of financial contracts subject to credit risk*

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

#### *Impairment of goodwill*

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

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

#### *Impairment of investment securities at fair value through equity*

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

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

#### *Fair value of unquoted equity*

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

Valuation of investments in private equity involve judgment and is normally based on one of the following:

- a. valuation by independent external valuers for underlying properties / projects;
- b. recent market transactions;
- c. current fair value of another contract that is substantially similar;
- d. present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- e. application of other valuation models.

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

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

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

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

#### *Deferred tax asset / liability*

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

#### **Judgments**

##### **Going concern**

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

#### **Control over special purpose entities**

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

#### **Investment classification**

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

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

### **2.4 SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Financial instruments**

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

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

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

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



## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(a) Financial instruments (continued)**

*The Group segregates its investment into following categories:*

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

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

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

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

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

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

#### **(b) Trade date accounting**

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

#### **(c) Derecognition**

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

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

#### **(d) Financing assets**

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(d) Financing assets (continued)**

##### *Murabaha financing*

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

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

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

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

##### *Mudaraba financing*

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

##### *Musharaka financing*

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

#### **(e) Cash and cash equivalents**

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

#### **(f) Finance lease assets**

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Finance lease assets (continued)**

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

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

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

*Modification of finance lease assets*

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

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

**(g) Placements with financial institutions**

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

**(h) Non-trading investments**

**Equity-type investments**

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

*Recognition and de-recognition*

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(h) Non-trading investments (continued)**

##### *Measurement*

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

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

#### **(i) Investments in associates**

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is not a subsidiary. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

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

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

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(j) Investments in real estate**

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

#### **(k) Development properties**

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

#### **(l) Fair value of financial assets**

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

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

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

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

#### **(m) Property and equipment**

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

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Right-of-use assets	life of lease

In 2022 the management has changed the accounting policy for land and building from cost method to revaluation method' (refer note 11). Land & buildings are initially recognised at cost. After initial recognition, these are carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers.

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(m) Property and equipment (continued)**

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.

#### **(n) Goodwill and other intangible assets**

##### **a. Goodwill**

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

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

Acquisition of non-controlling interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a non-controlling 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.

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format

**2 ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Goodwill and other intangible assets (continued)**

**b. Intangible assets**

*Computer software*

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

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

*Other acquired intangible assets*

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

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

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

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

**(o) Assets classified as held-for-sale**

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

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

**(p) Current taxation**

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

**(q) Deferred taxation**

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(r) Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with FAS 39 Zakah using the net assets method. Zakah is calculated by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Group calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The calculations of Zakah is approved by the Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the relevant account holders. Zakah is not required to be paid by law or by virtue of its constitution documents of the Company.

#### **(s) Provision for staff benefits**

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

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

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

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

#### *Share-based payment*

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

#### *Deferred share-based annual incentives*

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

#### **(t) Due to investors**

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

#### **(u) Customers' current accounts**

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



**2 ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Equity of unrestricted investment accountholders**

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

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

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

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

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

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

After initial recognition, subsequent measurement of investment 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.

**(x) Treasury shares**

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

**(y) Statutory reserve**

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

**(z) Financial guarantees**

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

**(aa) Provisions**

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ab) URIA Protection Scheme**

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

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

#### **(ac) Repossessed assets**

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

#### **(ad) Revenue recognition**

##### **1. Profit participation and management fees**

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

##### **2. Profit on financing assets**

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the

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

##### **3. Income from assets acquired for leasing**

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

##### **4. Income from Mudaraba contracts**

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

##### **5. Profit on Musharaka contracts**

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

##### **6. Income from Sukuk**

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

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

##### **7. Dividend income**

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ad) Revenue recognition (continued)**

##### **8. Gain on sale of investment in equity securities**

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

##### **9. Fees and commissions**

Fees and commissions are recognised when earned.

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

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

#### **(ae) Profit allocation between group and investment accountholders**

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

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

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

#### **(af) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts**

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

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

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

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

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.

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

##### *Hedges directly affected by variable profit rate benchmark reforms*

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

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

#### **(ah) Impairment**

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

##### **1. Financings and receivables**

##### **Impairment**

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

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

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

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

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

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ah) Impairment (continued)**

##### **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 assesses 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.

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- 12 month ECL: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.

- Stage 2 - lifetime ECL-not credit impaired: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

- Stage 3 - lifetime ECL-credit impaired: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

##### **Default**

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the 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.

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ah) Impairment (continued)**

Non-Retail:

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

Non-retail customers with the following characteristics:

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

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

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

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

Retail:

The Group has set out the following definition of default:

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

The 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).

#### **Measurement of ECL**

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

- financing assets that are not credit-impaired at the reporting date: as the value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financing assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive
- 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).

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ah) Impairment (continued)**

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.

#### **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.

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ah) Impairment (continued)**

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.

#### **Restructured financial assets**

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

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

#### **Credit-impaired financial assets**

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

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

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



## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(ah) Impairment (continued)**

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

#### **Write-off**

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

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

#### **(ai) Impairment of non-financial assets**

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(aj) Sovereign Sukuk and Corporate Sukuk**

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

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

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

#### **(ak) Profit Equalisation Reserve (PER)**

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

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

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

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

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

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

#### **(ak) Investment Risk Reserve (IRR)**

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

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

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*(i) FAS 39 Financial Reporting for Zakah*

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

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

The Group does not have any obligation to pay Zakah as per its constitutional documents. The Group has adopted this standard and has provided the necessary additional disclosures in its annual financial statements (refer note 28).

*(ii) FAS 41 Interim financial reporting*

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

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *(iii) FAS 44 Determining Control of Assets and Business*

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

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

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

## **II. New standards, amendments, and interpretations issued but not yet effective**

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

#### *(i) FAS 1 General Presentation and Disclosures in the Financial Statements*

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2024 with an option to early adopt.

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

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

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quassi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes to the financial statements;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting; and
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FAS's.

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

## **2 ACCOUNTING POLICIES (continued)**

### **2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

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

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

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

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

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

- The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and
- An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

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

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

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

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

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

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

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

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

**Ithmaar Holding B.S.C.****Notes to the consolidated financial statements****for the year ended 31 December 2023**

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

**3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS**

	<b>31 December 2023</b>	31 December 2022
Cash reserve with central banks	46,412	40,286
Cash and balances with banks and central banks	321,550	292,778
	<b>367,962</b>	<b>333,064</b>

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

	<b>31 December 2023</b>	31 December 2022
Commodity placements/contracts	13,089	48,983
Less: Allowance for impairment	(112)	(112)
	<b>12,977</b>	<b>48,871</b>

**5 FINANCING ASSETS**

	<b>31 December 2023</b>	31 December 2022
Murabaha and tawarruq financings	1,502,738	1,181,490
Musharaka financing	1,131,764	1,537,222
Istisna financings	185,484	162,795
Ijarah financing	1,568	1,568
	2,821,554	2,883,075
Less: Allowance for impairment	(214,980)	(312,731)
	<b>2,606,574</b>	<b>2,570,344</b>

Murabaha financings include conventional loans and advances totalling \$56.9 million (31 December 2022: \$188.9 million) made by a subsidiary of Ithmaar.

Financing assets includes restructured facilities amounting to \$20.4 million (31 December 2022: \$42.1 million).

The movement in allowance for impairment is as follows:

	<b>31 December 2023</b>	31 December 2022
At 1 January	312,731	374,561
Charge for the year	33,559	30,548
Write back during the year	(19,056)	(21,732)
Utilised during the year	(92,972)	(6,110)
Movement due to sale of assets	-	(35,365)
Exchange differences	(19,282)	(29,171)
<b>At 31 December</b>	<b>214,980</b>	<b>312,731</b>

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**6 INVESTMENT SECURITIES**

	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Investment securities at fair value through income statement</b>		
Debt-type instruments – listed	-	110
Debt-type instruments - unlisted	16,601	1,108
Equity-type securities – listed	5,132	1,980
	<b>21,733</b>	<b>3,198</b>
<b>Investment securities at fair value through equity</b>		
Debt-type instruments – listed	147,199	219,259
Debt-type instruments – unlisted	1,977,609	1,815,294
Equity-type securities – listed	19,921	43,564
Equity-type securities – unlisted	180,441	194,720
	<b>2,325,170</b>	<b>2,272,837</b>
Less: Allowance for impairment	(144,501)	(159,686)
	<b>2,180,669</b>	<b>2,113,151</b>
<b>Investment securities carried at amortised cost</b>		
Debt-type instruments – listed	96,371	40,961
Debt-type instruments – unlisted	29,721	49,674
	<b>126,092</b>	<b>90,635</b>
Less: Allowance for impairment	(5,014)	(6,488)
	<b>121,078</b>	<b>84,147</b>
	<b>2,323,480</b>	<b>2,200,496</b>

Investment securities include \$96.4 million Sukuk which have been repoed with another counterparty.

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

Investment securities include conventional investments totalling \$32.8 million (31 December 2022: \$66.9 million) made by a subsidiary of the Group.

Certain assets totalling \$4.5 million (31 December 2022: \$4.5 million) included above are held by third parties as nominee on behalf of the Group.

The movement in allowance for impairment relating to impairment is as follows:

	<b>31 December 2023</b>	<b>31 December 2022</b>
At 1 January	166,174	218,170
Charge for the year	8,823	5,633
Write back during the year	(4,874)	(2,742)
Utilised during the year	(1,607)	(49,967)
Reclassification*	(14,699)	-
Exchange differences and other movements	(4,302)	(4,920)
<b>At 31 December</b>	<b>149,515</b>	<b>166,174</b>

\*Represents assets reclassified to investment in real estate and other assets

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**6 INVESTMENT SECURITIES (continued)**

FAS 33 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

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

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

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

**Investments measured at fair value**

	Level 1	Level 2	Level 3	Total
<b>At 31 December 2023</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	16,601	-	-	16,601
Equity securities	5,132	-	-	5,132
<b>Investment securities at fair value through equity</b>				
Debt-type instruments	-	2,122,411	-	2,122,411
Equity-type securities	15,514	383	42,361	58,258
	<b>37,247</b>	<b>2,122,794</b>	<b>42,361</b>	<b>2,202,402</b>

**Investments not measured at fair value****Investment securities carried at amortised cost**

Debt-type instruments	89,266	24,748	-	114,014
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	Level 1	Level 2	Level 3	Total
<b>At 31 December 2022</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	1,218	-	-	1,218
Equity securities	1,980	-	-	1,980

**Investment securities at fair value through equity**

Debt-type instruments	218,124	1,815,983	-	2,034,107
Equity-type securities	35,447	5,808	37,789	79,044
	<b>256,769</b>	<b>1,821,791</b>	<b>37,789</b>	<b>2,116,349</b>

**Investments not measured at fair value****Investment securities carried at amortised cost**

Debt-type instruments	35,746	43,807	-	79,553
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**Reconciliation of Level 3**

	<b>Investment securities at fair value through equity</b>	
	2023	2022
At 1 January	37,789	83,803
Total gains recognised in		
- Income statement	-	893
- Equity	(399)	620
Purchases	7,601	-
Sales	-	(47,527)
Reclassification	(2,630)	-
<b>At 31 December</b>	<b>42,361</b>	<b>37,789</b>



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**7 INVESTMENT IN ASSOCIATES**

Investment in associates as adjusted for the Group's share of their results comprise:

<b>Name of company</b>	<b>2023</b>	<b>% holding</b>	<b>2022</b>	<b>% of Share-holding</b>	<b>Country of incorporation</b>	<b>Nature of business</b>
<b>Unlisted:</b>						
Citic International Assets Management Limited	20,072	20	25,381	20	Hong Kong	Asset management
Naseej B.S.C. (c)	68,231	31	70,438	31	Bahrain	Infrastructure
Faysal Stock Fund	24	11	1,167	32	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	-	-	3,727	32	Pakistan	Mutual funds
Faysal Islamic Stock Fund	446	29	426	21	Pakistan	Mutual funds
Faysal Saving Growth Fund (B)	-	-	3,179	29	Pakistan	Mutual funds
Faysal Halal Amdani Fund	5,468	4	-	-	Pakistan	Mutual funds
Faysal Islamic Financial Growth Fund FISP-1	401	29	-	-	Pakistan	Mutual funds
Faysal Islamic Sovereign Fund FISIP-1	11	0	-	-	Pakistan	Mutual funds
Faysal Islamic Special Income Fund FIFGP-I	6	5	-	-	Pakistan	Mutual funds
	<b>94,659</b>		<b>104,318</b>			

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

- Share of reserves of Investment in associates amount to \$1.6 million (31 December 2022: \$2 million).

- Investment in associates include conventional investments totalling \$88.3 million (31 December 2022: \$95.8 million).

Summarised financial position of significant associates that have been equity accounted:

Citic International Assets Management Limited

	<b>31 December 2023</b>	31 December 2022
Total assets	107,443	137,616
Total liabilities	7,082	10,713
Total revenues	(701)	6,528
Total net profit	(5,896)	1,864

Naseej B.S.C. (c)

	<b>31 December 2023</b>	31 December 2022
Total assets	235,501	251,552
Total liabilities	13,177	22,039
Total revenues	5,481	3,003
Total net profit	(1,991)	4,471

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**8 OTHER ASSETS**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Account receivable	154,681	217,272
Due from related parties (note 32)	146	183
Taxes – deferred	-	3,998
Taxes – current	702	13,341
Non-current assets held for sale	4,528	26,871
	<b>160,057</b>	<b>261,665</b>
Less: Allowance for impairment	<b>(66,222)</b>	<b>(77,770)</b>
	<b>93,835</b>	<b>183,895</b>

The movement in allowance for impairment is as follows:

	<b>31 December 2023</b>	<b>31 December 2022</b>
At 1 January	77,770	80,008
Charge for the year	5,278	3,959
Write back during the year	(7,139)	(1,735)
Utilised during the year	(21,205)	-
Reclassification*	9,499	(2,516)
Exchange differences and other movements	2,019	(1,946)
<b>At 31 December</b>	<b>66,222</b>	<b>77,770</b>

\*Represents assets reclassified from investment securities

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**9 INVESTMENT IN REAL ESTATE**

	31 December 2023	31 December 2022
Investment properties	256,604	252,978
Less: Allowance for impairment	(12,966)	(7,739)
	<b>243,638</b>	<b>245,239</b>

Fair value is determined by an external independent real estate valuer based on sales comparison approach and accordingly has been categorised as level 2 in the fair value hierarchy.

Certain assets totalling \$0.6 million (31 December 2022: \$0.6 million) included above are held by third parties as nominee on behalf of the Group.

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

	31 December 2023	31 December 2022
At 1 January	7,739	9,970
Write back during the year	-	(1,906)
Reclassification*	5,199	-
Exchange differences and other movements	28	(325)
<b>At 31 December</b>	<b>12,966</b>	<b>7,739</b>

\*Represents assets reclassified from investment securities

**10 DEVELOPMENT PROPERTIES**

	31 December 2023	31 December 2022
Land	138,715	138,715
Development costs	35,947	35,746
	<b>174,662</b>	<b>174,461</b>

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, management has estimated that the current carrying value is not lower than the net realisable value, and accordingly, no impairment has been considered necessary.

**11 PROPERTY AND EQUIPMENT**

	31 December 2023			31 December 2022		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building (revalued)	89,642	(3,834)	85,808	82,263	(2,270)	79,993
Leasehold improvements	27,635	(15,890)	11,745	28,463	(16,440)	12,023
Furniture and equipment	76,065	(48,906)	27,159	71,094	(50,996)	20,098
Motor vehicles	2,952	(1,723)	1,229	2,720	(1,837)	883
Right-of-use assets	50,223	(6,928)	43,295	64,022	(4,944)	59,078
	<b>246,517</b>	<b>(77,281)</b>	<b>169,236</b>	<b>248,562</b>	<b>(76,487)</b>	<b>172,075</b>

Depreciation charge for the year ended 31 December 2023 amounted to \$10.1 million (31 December 2022: \$10.4 million).

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

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

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**12 INTANGIBLE ASSETS**

	<b>31 December 2023</b>	31 December 2022
Goodwill	3,601	6,790
Customer relations	2,097	2,801
Core deposits	2,541	2,628
Others	9,312	10,507
	<b>17,551</b>	<b>22,726</b>

Amortisation charge for the year ended 31 December 2023 amounted to \$9.3 million (31 December 2022: \$14.5 million)

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.

**13 CUSTOMERS' CURRENT ACCOUNTS**

Customers' current accounts include balance relating to a customer amounting to \$198.3 million which is subject to sanctions under US measures (31 December 2022: \$191.5 million).

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**14 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Due to banks	1,102,995	1,002,024
Due to financial and other institutions	86,993	99,694
	<b>1,189,988</b>	<b>1,101,718</b>

Due to banks, financial and other institutions include balances totalling \$424.8 million from two counterparties which are subject to sanctions under US measures (31 December 2022: \$412.1 million).

Due to banks, financial and other institutions include \$96 million which have been repoed with another counterparty.

Due to banks as of 31 December 2022 included certain wakala deposits amounting to \$57 million which have been reclassified to Equity of unrestricted investment accountholders during the year and the comparatives have been restated.

Due to banks, financial and other institutions include conventional deposits totalling Nil (31 December 2022: \$26.1 million), accepted by a subsidiary of Ithmaar.

**15 OTHER LIABILITIES**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Accounts payable	170,792	294,289
Lease liabilities related to Right-of-use assets	68,482	64,887
Accrued expenses	42,124	43,834
Due to related parties (note 37)	23	43
Provision for taxation – current	12,720	22,859
Provision for taxation – deferred	5,327	1,212
	<b>299,468</b>	<b>427,124</b>

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**16 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS**

Equity of unrestricted investment accountholders comprise:

	<b>31 December 2023</b>	<b>31 December 2022</b>
Modaraba accounts - corporates	1,405,386	1,265,883
Modaraba accounts - financial institutions	629,183	530,703
Modaraba accounts - individuals	653,993	780,744
Wakala from financial institutions	57,890	39,286
Fair value & foreign exchange translation movement from investments attributable to unrestricted investment accountholders (i)	(26,954)	-
	<b>2,719,498</b>	<b>2,616,616</b>

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

	<b>31 December 2023</b>	<b>31 December 2022</b>
Cash and balances with banks and central banks	311,084	237,238
Commodity placements with banks, financial and other institutions	-	17,861
Financing assets	2,169,703	2,140,423
Investment securities	-	40,961
Other assets	23,907	25,125
Due from the Group	-	155,008
Investments in equity (i)	214,804	-
	<b>2,719,498</b>	<b>2,616,616</b>

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

The movement in reserves attributable to equity of unrestricted investment accountholders as follows:

	<b>Investments fair value reserve</b>	<b>Fixed assets fair value reserve</b>	<b>Investment in real estate fair value reserve</b>	<b>Foreign currency translation reserve</b>	<b>Total</b>
<b>At 1 January 2023</b>					
Movement in fair value of Investment securities	12,266	-	-	-	<b>12,266</b>
Movement in fair value of land and building	-	4,960	-	-	<b>4,960</b>
Foreign currency translation adjustments	903	(5,183)	(442)	(39,458)	<b>(44,180)</b>
<b>At 31 December 2023</b>	<b>13,169</b>	<b>(223)</b>	<b>(442)</b>	<b>(39,458)</b>	<b>(26,954)</b>

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**17 SHARE CAPITAL**

	<b>Number of shares (thousands)</b>	<b>Share capital</b>
Authorised	8,000,000	8,000,000
<b>Issued and fully paid</b>		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
<b>At 31 December 2023 (Audited)</b>	<b>2,910,160</b>	<b>727,541</b>
<b>Issued and fully paid</b>		
Total outstanding as at 1 January 2022	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
<b>At 31 December 2022 (Audited)</b>	<b>2,910,160</b>	<b>727,541</b>

Ithmaar's total issued and fully paid share capital at 31 December 2023 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 2023 (31 December 2022: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

Names and nationalities of the major shareholders and the number of equity shares held in which they have an profit of 5% or more of outstanding share as of 31 December 2022 is as follows:

<b>Shareholder</b>	<b>Nationality</b>	<b>No. of Shares</b>	<b>% of the outstanding shares</b>
Dar Al-Maal Al-Islami Trust	Bahamas	790,416,000	26.08%
Islamic Inv. Co. of the Gulf	Bahamas	594,129,224	19.60%

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2022 is presented below:

<b>Percentage</b>	<b>No. of shareholders</b>	<b>No. of shares</b>	<b>Percentage</b>
Less than 1%	4,132	1,295,432,785	42.74%
1 % to 5%	6	350,777,018	11.57%
More than 5%	2	1,384,545,224	45.68%
<b>Total</b>	<b>4,140</b>	<b>3,030,755,027</b>	

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

<b>Name</b>	<b>Number of Shares</b>
HRH Prince Amr Mohammed Al-Faisal	106,100
Tunku Yaacob Khyra	106,100
Mr. Mohammed A. Rahman Bucheerei	105,600

All shareholders have ordinary voting rights.

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**18 RESERVES**

	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 reserve	Total
<b>At 1 January 2023</b>	149,085	42,345	50,727	5,059	-	26,476	3,521	(171,433)	<b>105,780</b>
Movement in fair value of investment in real estate	-	-	-	-	-	-	(516)	-	(516)
Movement in fair value reserves of associates	-	-	-	(2,070)	-	-	-	-	(2,070)
Recycling of translation reserve on disposal of assets	-	-	-	-	-	-	-	5,744	5,744
Foreign currency translation adjustments	-	-	-	(32)	-	-	-	5,951	5,919
<b>At 31 December 2023</b>	<b>149,085</b>	<b>42,345</b>	<b>50,727</b>	<b>2,957</b>	<b>-</b>	<b>-</b>	<b>3,005</b>	<b>(159,738)</b>	<b>114,857</b>

	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 reserve	Total
<b>At 1 January 2022</b>	149,085	42,345	50,727	(2,882)	(3,581)	-	4,551	(131,236)	109,009
Movement in fair value of Investment securities	-	-	-	(11,016)	-	-	-	-	(11,016)
Movement in fair value of investment in real estate	-	-	-	-	-	-	(684)	-	(684)
Movement in hedging reserve	-	-	-	-	3,581	-	-	-	3,581
Movement in fair value of land and building	-	-	-	-	-	26,476	-	-	26,476
Movement in fair value reserves of associates	-	-	-	19,152	-	-	-	-	19,152
Foreign currency translation adjustments	-	-	-	(195)	-	-	(346)	(40,197)	(40,738)
<b>At 31 December 2022</b>	<b>149,085</b>	<b>42,345</b>	<b>50,727</b>	<b>5,059</b>	<b>-</b>	<b>26,476</b>	<b>3,521</b>	<b>(171,433)</b>	<b>105,780</b>



## 19 NON-CONTROLLING INTERESTS

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

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

	<b>31 December 2023</b>		<b>31 December 2022</b>	
	<b>Non-controlling %</b>		<b>Non-controlling %</b>	
Faysal Bank Limited	33	127,180	33	101,342
Health Island B.S.C. (c)	50	20,436	50	19,688
Dilmunia Development Fund I L.P.	8	11,419	8	11,676
Cityview Real Estate Development B.S.C. (c)	49	(3,181)	49	(3,175)
Sakana Holistic Housing Solutions B.S.C. (c)	50	1,618	50	1,618
Others		332		332
		<b>157,804</b>		<b>131,481</b>

Non-controlling interests in the consolidated income statement of \$22.7 million (31 December 2022: \$17.4 million) represent the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

## 20 BASIC AND DILUTED EARNINGS PER SHARE

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.

	<b>31 December 2023</b>	<b>31 December 2022</b>
Net loss attributable to shareholders (\$ '000)	(9,311)	(38,387)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
<b>Losses per share (Basic &amp; Diluted) - US Cents</b>	<b>(0.32)</b>	<b>(1.32)</b>

Earnings per share on non-sharia compliant income and expenses is included under note 35.

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

	<b>31 December 2023</b>	<b>31 December 2022</b>
Net loss attributable to shareholders (\$ '000)	(9,311)	(22,795)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
<b>Losses per share (Basic &amp; Diluted) - US Cents</b>	<b>(0.32)</b>	<b>(0.78)</b>

### BASIC AND DILUTED LOSSES PER SHARE FOR DISCONTINUED OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

	<b>31 December 2023</b>	<b>31 December 2022</b>
Net loss attributable to shareholders (\$ '000)	-	(15,592)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
<b>Losses per share (Basic &amp; Diluted) - US Cents</b>	<b>-</b>	<b>(0.54)</b>

**Ithmaar Holding B.S.C.****Notes to the consolidated financial statements****for the year ended 31 December 2023**

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**21 INCOME FROM FINANCING CONTRACTS**

	<b>31 December 2023</b>	31 December 2022
Income from Murabaha and tawarruq financings	99,877	98,391
Income from Istisna financings	19,872	12,634
Income from Musharaka financing	235,797	179,399
	<b>355,546</b>	290,424

**22 INCOME FROM INVESTMENTS**

	<b>31 December 2023</b>	31 December 2022
Income from investment securities at amortised cost	8,514	4,962
Income from investment securities at fair value through equity	331,230	234,610
Income from investment securities at fair value through income statement	22,767	16,966
Share of loss from associates	(2,425)	(164)
Income from investment in real estate	1,946	4,257
	<b>362,032</b>	260,631

**23 OTHER INCOME - NET**

	<b>31 December 2023</b>	31 December 2022
Income from banking services	31,224	41,810
Income from commodity placements	8,714	8,364
Foreign exchange gain/ (loss)	(9,690)	11,234
Gain on disposal of fixed assets	81	258
	<b>30,329</b>	61,666

**24 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>31 December 2023</b>	31 December 2022
Salaries and other benefits	66,196	65,158
Office expenses	67,404	71,107
Professional fees	8,317	9,226
Other administrative expenses	21,885	17,399
	<b>163,802</b>	162,890

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**25 IMPAIRMENT ALLOWANCE**

	<b>31 December 2023</b>	31 December 2022
At 1 January	713,834	831,427
Charge for the year	48,862	49,900
Write back during the year	(32,068)	(28,044)
Utilised during the year	(115,785)	(56,951)
Movement due to sale of assets	-	(51,030)
Exchange differences	(21,677)	(31,468)
<b>At 31 December</b>	<b>593,166</b>	<b>713,834</b>

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

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

	<b>31 December 2023</b>	31 December 2022
Commodity placements with banks, financial and other institutions	112	112
Financing assets	214,980	312,731
Investment in mudaraba	176	176
Investment in associates	1,474	1,624
Investment securities	149,515	166,174
Restricted investment accounts	49,735	49,735
Other assets	66,222	77,770
Development properties	25,916	24,703
Investment in real estate	12,966	7,739
Fixed assets	1,000	2,000
Intangible assets	71,070	71,070
	<b>593,166</b>	<b>713,834</b>

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**25 IMPAIRMENT ALLOWANCE(continued)**

**Loss allowance**

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

**31 December 2023**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Commodity placements with banks, financial and other institutions</b>				
Gross exposure	13,089	-	-	<b>13,089</b>
Less: expected credit loss	(112)	-	-	<b>(112)</b>
<b>Net exposure</b>	<b>12,977</b>	<b>-</b>	<b>-</b>	<b>12,977</b>
<b>Financing assets</b>				
Gross exposure	1,874,036	685,859	261,659	<b>2,821,554</b>
Less: expected credit loss	(10,158)	(91,902)	(112,920)	<b>(214,980)</b>
<b>Net exposure</b>	<b>1,863,878</b>	<b>593,957</b>	<b>148,739</b>	<b>2,606,574</b>
<b>Other assets</b>				
Gross exposure	35,857	68,036	56,164	<b>160,057</b>
Less: expected credit loss	(9,860)	(198)	(56,164)	<b>(66,222)</b>
<b>Net exposure</b>	<b>25,997</b>	<b>67,838</b>	<b>-</b>	<b>93,835</b>
<b>Total gross exposure</b>	<b>1,922,982</b>	<b>753,895</b>	<b>317,823</b>	<b>2,994,700</b>
<b>Less: Total expected credit loss</b>	<b>(20,130)</b>	<b>(92,100)</b>	<b>(169,084)</b>	<b>(281,314)</b>
<b>Total Net exposure</b>	<b>1,902,852</b>	<b>661,795</b>	<b>148,739</b>	<b>2,713,386</b>

**31 December 2022**

<b>Commodity placements with banks, financial and other institutions</b>				
Gross exposure	48,983	-	-	48,983
Less: expected credit loss	(112)	-	-	(112)
<b>Net exposure</b>	<b>48,871</b>	<b>-</b>	<b>-</b>	<b>48,871</b>
<b>Financing assets</b>				
Gross exposure	1,186,268	1,330,677	366,130	2,883,075
Less: expected credit loss	(14,273)	(86,865)	(211,593)	(312,731)
<b>Net exposure</b>	<b>1,171,995</b>	<b>1,243,812</b>	<b>154,537</b>	<b>2,570,344</b>
<b>Other assets</b>				
Gross exposure	149,718	53,314	58,633	261,665
Less: expected credit loss	(19,033)	(104)	(58,633)	(77,770)
<b>Net exposure</b>	<b>130,685</b>	<b>53,210</b>	<b>-</b>	<b>183,895</b>
<b>Total gross exposure</b>	<b>1,384,969</b>	<b>1,383,991</b>	<b>424,763</b>	<b>3,193,723</b>
<b>Less: Total expected credit loss</b>	<b>(33,418)</b>	<b>(86,969)</b>	<b>(270,226)</b>	<b>(390,613)</b>
<b>Total Net exposure</b>	<b>1,351,551</b>	<b>1,297,022</b>	<b>154,537</b>	<b>2,803,110</b>

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**26 OVERSEAS TAXATION**

	<b>31 December 2023</b>	31 December 2022
Current taxes	80,281	50,043
Deferred taxes	(10,088)	5,237
	<b>70,193</b>	55,280

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

**Current tax receivable/(payable)**

	<b>31 December 2023</b>	31 December 2022
At 1 January	(9,518)	(4,555)
Charge for the year	(80,281)	(50,043)
Payments made	62,794	53,519
Exchange differences and other movements	14,987	(8,439)
<b>At 31 December</b>	<b>(12,018)</b>	(9,518)

**Deferred tax asset/(liability)**

	<b>31 December 2023</b>	31 December 2022
At 1 January	2,786	7,134
Charge for the year	10,088	(5,237)
Charges due to fair value reserve	(17,368)	623
Exchange differences and other movements	(833)	266
<b>At 31 December</b>	<b>(5,327)</b>	2,786

## 27 SEGMENT REPORTING

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 2023				31 December 2022			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income/(loss)	281,812	1,339	321	283,472	189,608	67,235	479	257,322
Total expenses	(167,486)	(15,439)	(205)	(183,130)	(165,433)	(19,880)	(245)	(185,558)
Net income/(loss) before provision and overseas taxation	114,326	(14,100)	116	100,342	24,175	47,355	234	71,764
Provision and overseas taxation	(88,072)	1,115	(30)	(86,987)	(58,146)	(18,369)	(621)	(77,136)
<b>Net income/(loss) from continuing operations</b>	<b>26,254</b>	<b>(12,985)</b>	<b>86</b>	<b>13,355</b>	<b>(33,971)</b>	<b>28,986</b>	<b>(387)</b>	<b>(5,372)</b>
Net results for the period from discontinued operations	-	-	-	-	14,893	(35,314)	4,829	(15,592)
<b>Net income/(loss) for the year</b>	<b>26,254</b>	<b>(12,985)</b>	<b>86</b>	<b>13,355</b>	<b>(19,078)</b>	<b>(6,328)</b>	<b>4,442</b>	<b>(20,964)</b>
<b>Attributable to:</b>								
Equity holders of Ithmaar	2,006	(11,403)	86	(9,311)	(35,656)	(4,134)	1,403	(38,387)
Non-controlling interests	24,248	(1,582)	-	22,666	16,578	(2,194)	3,039	17,423
	<b>26,254</b>	<b>(12,985)</b>	<b>86</b>	<b>13,355</b>	<b>(19,078)</b>	<b>(6,328)</b>	<b>4,442</b>	<b>(20,964)</b>
Total assets	5,158,738	945,084	752	6,104,574	5,029,147	1,023,014	3,328	6,055,489
Total liabilities and equity of unrestricted investment account holders	5,889,936	51,832	667	5,942,435	5,861,131	57,811	497	5,919,439

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

	31 December 2023				31 December 2022			
	Middle East & Africa	Rest of Asia	Others	Total	Middle East & Africa	Rest of Asia	Others	Total
Operating income/(loss)	(15,075)	296,224	2,323	283,472	23,190	232,407	1,725	257,322
Total expenses	(32,484)	(148,156)	(2,490)	(183,130)	(46,639)	(136,892)	(2,027)	(185,558)
Net income/(loss) before provision and overseas taxation	(47,559)	148,068	(167)	100,342	(23,449)	95,515	(302)	71,764
Provision and overseas taxation	(8,251)	(77,923)	(813)	(86,987)	(33,049)	(44,856)	769	(77,136)
<b>Net income/(loss) from continuing operations</b>	<b>(55,810)</b>	<b>70,145</b>	<b>(980)</b>	<b>13,355</b>	<b>(56,498)</b>	<b>50,659</b>	<b>467</b>	<b>(5,372)</b>
Net results for the period from discontinued operations	-	-	-	-	(15,592)	-	-	(15,592)
<b>Net income/(loss) for the year</b>	<b>(55,810)</b>	<b>70,145</b>	<b>(980)</b>	<b>13,355</b>	<b>(72,090)</b>	<b>50,659</b>	<b>467</b>	<b>(20,964)</b>
<b>Attributable to:</b>								
Equity holders of the Ithmaar	(54,321)	45,990	(980)	(9,311)	(72,569)	33,715	467	(38,387)
Non-controlling interests	(1,489)	24,155	-	22,666	479	16,944	-	17,423
	<b>(55,810)</b>	<b>70,145</b>	<b>(980)</b>	<b>13,355</b>	<b>(72,090)</b>	<b>50,659</b>	<b>467</b>	<b>(20,964)</b>
Total assets	1,251,301	4,816,719	36,554	6,104,574	821,034	4,869,185	365,270	6,055,489
Total liabilities and equity of unrestricted investment account holders	1,119,234	4,488,902	334,299	5,942,435	1,215,078	4,413,631	290,730	5,919,439

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**28 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.

**29 CONTINGENT LIABILITIES AND COMMITMENTS**

**Contingent liabilities**

	<b>31 December 2023</b>	31 December 2022
Acceptances and endorsements	46,785	30,584
Guarantees and irrevocable letters of credit	466,553	458,390
Customer and other claims	104,286	140,240
	<b>617,624</b>	629,214

**Commitments**

	<b>31 December 2023</b>	31 December 2022
Undrawn facilities, financing lines and other commitments to finance	<b>1,214,024</b>	1,294,925

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

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**30 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:

	<b>Banks and financial institutions</b>	<b>Trading and manu- facturing</b>	<b>Property and Cons- truction</b>	<b>Government &amp; Services</b>	<b>Private individuals</b>	<b>Textile</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2023</b>								
Cash and balances with banks and central banks	367,962	-	-	-	-	-	-	367,962
Commodity placements with banks, financial and other institutions	12,977	-	-	-	-	-	-	12,977
Financing assets	380,963	844,232	101,381	918,122	164,710	179,896	17,270	2,606,574
Investment securities	25,866	18,120	17,093	2,260,598	-	613	1,190	2,323,480
Investment in associates	94,659	-	-	-	-	-	-	94,659
Other assets	26,722	8,897	16,048	-	42,147	-	21	93,835
Investment in real estate	6,020	-	185,623	-	-	-	51,995	243,638
Development properties	-	-	174,662	-	-	-	-	174,662
Fixed assets	153,205	-	16,031	-	-	-	-	169,236
Intangible assets	15,112	-	-	-	-	-	2,439	17,551
<b>Total assets</b>	<b>1,083,486</b>	<b>871,249</b>	<b>510,838</b>	<b>3,178,720</b>	<b>206,857</b>	<b>180,509</b>	<b>72,915</b>	<b>6,104,574</b>
Customer current accounts	383,440	632,619	87,629	238,035	311,292	11,174	60,640	1,724,829
Due to banks, financial and other institutions	1,177,006	-	-	-	-	-	12,982	1,189,988
Due to investors	-	1,531	77	2,933	4,081	30	-	8,652
Other liabilities	109,302	11,419	69,398	47,290	5,468	-	56,591	299,468
<b>Total liabilities</b>	<b>1,669,748</b>	<b>645,569</b>	<b>157,104</b>	<b>288,258</b>	<b>320,841</b>	<b>11,204</b>	<b>130,213</b>	<b>3,222,937</b>
Equity of unrestricted investment accountholders	641,881	749,700	111,979	427,419	327,011	13,133	448,375	2,719,498
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>2,311,629</b>	<b>1,395,269</b>	<b>269,083</b>	<b>715,677</b>	<b>647,852</b>	<b>24,337</b>	<b>578,588</b>	<b>5,942,435</b>
<b>Contingent liabilities and commitments</b>	<b>516,349</b>	<b>1,017,004</b>	<b>4,232</b>	<b>127,463</b>	<b>3,420</b>	<b>36,677</b>	<b>126,503</b>	<b>1,831,648</b>
<b>31 December 2022</b>								
Total assets	1,096,490	1,184,647	558,907	2,628,201	224,690	157,361	205,193	6,055,489
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



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**30 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)**

<b>31 December 2023</b>	<b>Asia / Pacific</b>	<b>Middle East</b>	<b>Europe</b>	<b>Others</b>	<b>Total</b>
Cash and balances with banks and central banks	311,084	47,935	8,943	-	367,962
Commodity placements with banks, financial and other institutions	-	9,423	3,554	-	12,977
Financing assets	2,076,834	527,837	1,903	-	2,606,574
Investment securities	2,184,748	137,542	1,190	-	2,323,480
Investment in associates	6,355	88,304	-	-	94,659
Other assets	71,039	3,511	19,285	-	93,835
Investment in real estate	6,020	237,300	318	-	243,638
Development properties	-	174,662	-	-	174,662
Fixed assets	151,844	16,031	1,361	-	169,236
Intangible assets	8,795	8,756	-	-	17,551
<b>Total assets</b>	<b>4,816,719</b>	<b>1,251,301</b>	<b>36,554</b>	<b>-</b>	<b>6,104,574</b>
Customer current accounts	1,271,312	231,531	200,833	21,153	1,724,829
Due to banks, financial and other institutions	603,183	559,477	27,328	-	1,189,988
Due to investors	8,647	5	-	-	8,652
Other liabilities	215,009	24,082	60,377	-	299,468
<b>Total liabilities</b>	<b>2,098,151</b>	<b>815,095</b>	<b>288,538</b>	<b>21,153</b>	<b>3,222,937</b>
Equity of unrestricted investment accountholders	2,390,751	304,139	19,354	5,254	2,719,498
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>4,488,902</b>	<b>1,119,234</b>	<b>307,892</b>	<b>26,407</b>	<b>5,942,435</b>
<b>Contingent liabilities and commitments</b>	<b>1,791,125</b>	<b>40,523</b>	<b>-</b>	<b>-</b>	<b>1,831,648</b>
<b>31 December 2022</b>					
Total assets	4,869,185	821,034	184,017	181,253	6,055,489
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 FINANCIAL 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.

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

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

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**31 FINANCIAL RISK MANAGEMENT** (continued)

**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).

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

<b>31 December 2023</b>	<b>United States Dollar</b>	<b>Pakistan Rupee</b>	<b>Bahraini Dinar</b>	<b>Euro</b>	<b>UAE Dirham</b>	<b>Other</b>	<b>Total</b>
Cash and balances with banks and central banks	38,839	273,684	38,922	2,053	223	14,241	367,962
Commodity placements with banks, financial and other institutions	9,970	-	-	3,007	-	-	12,977
Financing assets	321,936	2,076,834	207,804	-	-	-	2,606,574
Investment securities	120,657	2,184,748	16,885	-	-	1,190	2,323,480
Investment in associates	-	6,355	88,304	-	-	-	94,659
Other assets	2,069	83,921	-	7,845	-	-	93,835
Investment in real estate	15,954	6,020	170,525	-	-	51,139	243,638
Development properties	-	-	174,662	-	-	-	174,662
Fixed assets	-	151,844	17,392	-	-	-	169,236
Intangible assets	8,756	8,795	-	-	-	-	17,551
<b>Total assets</b>	<b>518,181</b>	<b>4,792,201</b>	<b>714,494</b>	<b>12,905</b>	<b>223</b>	<b>66,570</b>	<b>6,104,574</b>
Customer current accounts	181,993	1,161,930	145,405	216,071	161	19,269	1,724,829
Due to banks, financial and other institutions	136,597	595,612	31,946	98,100	327,259	474	1,189,988
Due to investors	900	7,607	5	61	-	79	8,652
Other liabilities	-	215,715	70,011	11,832	-	1,910	299,468
<b>Total liabilities</b>	<b>319,490</b>	<b>1,980,864</b>	<b>247,367</b>	<b>326,064</b>	<b>327,420</b>	<b>21,732</b>	<b>3,222,937</b>
Equity of unrestricted investment accountholders	100,675	2,301,819	304,216	4,882	-	7,906	2,719,498
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>420,165</b>	<b>4,282,683</b>	<b>551,583</b>	<b>330,946</b>	<b>327,420</b>	<b>29,638</b>	<b>5,942,435</b>
<b>Contingent liabilities and commitments</b>	<b>687,771</b>	<b>982,940</b>	<b>40,523</b>	<b>35,052</b>	<b>7,721</b>	<b>77,641</b>	<b>1,831,648</b>
<b>31 December 2022</b>							
Total assets	625,416	4,637,858	568,203	35,137	1,591	187,284	6,055,489
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 FINANCIAL RISK MANAGEMENT (continued)**

#### **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 are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

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.

#### **Collateral Valuation**

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

#### **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.

#### **Reputational Risk**

The Reputational Risk Management is defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Group has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems.

#### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

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**31 FINANCIAL RISK MANAGEMENT** (continued)

**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.

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

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>31 December 2023</b>						
Cash and balances with banks and central banks	360,302	7,660	-	-	-	367,962
Commodity placements with banks, financial and other institutions	9,525	3,452	-	-	-	12,977
Financing assets	1,165,260	352,673	567,268	384,877	136,496	2,606,574
Investment securities	1,285	-	190,726	1,868,936	262,533	2,323,480
Investment in associates	-	-	6,355	-	88,304	94,659
Other assets	13,421	8,708	10,844	44,860	16,002	93,835
Investment in real estate	-	-	-	25,429	218,209	243,638
Development properties	-	-	-	174,662	-	174,662
Fixed assets	-	16,168	12,402	20,967	119,699	169,236
Intangible assets	3,667	5	61	4,297	9,521	17,551
<b>Total assets</b>	<b>1,553,460</b>	<b>388,666</b>	<b>787,656</b>	<b>2,524,028</b>	<b>850,764</b>	<b>6,104,574</b>
Customer current accounts	1,724,829	-	-	-	-	1,724,829
Due to banks, financial and other institutions	773,129	105,095	8,410	142,270	161,084	1,189,988
Due to investors	7,736	183	653	80	-	8,652
Other liabilities	13,605	52	55,882	71,820	158,109	299,468
<b>Total liabilities</b>	<b>2,519,299</b>	<b>105,330</b>	<b>64,945</b>	<b>214,170</b>	<b>319,193</b>	<b>3,222,937</b>
Equity of unrestricted investment accountholders	1,781,282	431,616	456,017	50,583	-	2,719,498
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>4,300,581</b>	<b>536,946</b>	<b>520,962</b>	<b>264,753</b>	<b>319,193</b>	<b>5,942,435</b>
<b>Net position</b>	<b>(2,747,121)</b>	<b>(148,280)</b>	<b>266,694</b>	<b>2,259,275</b>	<b>531,571</b>	<b>162,139</b>
<b>Contingent liabilities and commitments</b>	<b>1,142,157</b>	<b>370,066</b>	<b>193,406</b>	<b>122,783</b>	<b>3,236</b>	<b>1,831,648</b>
<b>31 December 2022</b>						
Total assets	1,168,745	271,884	815,604	2,762,994	1,036,262	6,055,489
Total liabilities and equity of unrestricted investment accountholders	4,119,794	589,857	739,802	128,903	341,083	5,919,439
<b>Net position</b>	<b>(2,951,049)</b>	<b>(317,973)</b>	<b>75,802</b>	<b>2,634,091</b>	<b>695,179</b>	<b>136,050</b>
Contingent liabilities and commitments	1,120,491	334,905	288,857	170,640	9,246	1,924,139

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**31 FINANCIAL RISK MANAGEMENT (continued)**

**Profit rate risk**

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

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
<b>31 December 2023</b>							
Cash and balances with banks and central banks	-	-	-	-	-	367,962	367,962
Commodity placements with banks, financial and other institutions	-	-	-	-	-	12,977	12,977
Financing assets	839,684	271,143	440,399	859,207	196,141	-	2,606,574
Investment securities	160,329	236,109	1,504,669	313,417	72,744	36,212	2,323,480
Other assets	-	-	-	-	-	93,835	93,835
<b>Total financial assets</b>	<b>1,000,013</b>	<b>507,252</b>	<b>1,945,068</b>	<b>1,172,624</b>	<b>268,885</b>	<b>510,986</b>	<b>5,404,828</b>
Customer current accounts	-	-	-	-	-	1,724,829	1,724,829
Due to banks, financial and other institutions	865,004	108,674	30,338	30,934	155,038	-	1,189,988
Due to investors	668	158	972	4,133	2,715	6	8,652
Other liabilities	-	-	-	-	-	299,468	299,468
<b>Total financial liabilities</b>	<b>865,672</b>	<b>108,832</b>	<b>31,310</b>	<b>35,067</b>	<b>157,753</b>	<b>2,024,303</b>	<b>3,222,937</b>
Equity of unrestricted investment accountholders	673,494	389,791	554,283	741,838	360,092	-	2,719,498
<b>Total financial liabilities and equity of unrestricted investment accountholders</b>	<b>1,539,166</b>	<b>498,623</b>	<b>585,593</b>	<b>776,905</b>	<b>517,845</b>	<b>2,024,303</b>	<b>5,942,435</b>
<b>Total repricing gap</b>	<b>(539,153)</b>	<b>8,629</b>	<b>1,359,475</b>	<b>395,719</b>	<b>(248,960)</b>	<b>(1,513,317)</b>	<b>(537,607)</b>
<b>31 December 2022</b>							
Total financial assets	715,000	788,295	741,817	1,209,000	1,265,979	616,579	5,336,670
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
<b>Total repricing gap</b>	<b>(196,201)</b>	<b>176,140</b>	<b>123,343</b>	<b>604,128</b>	<b>257,327</b>	<b>(1,547,506)</b>	<b>(582,769)</b>

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

Significant balances with related parties comprise:

	<b>31 December 2023</b>				
	<b>Shareholders &amp; Affiliates</b>	<b>Associates and other investments</b>	<b>Directors and related entities</b>	<b>Senior management</b>	<b>Total</b>
<b>Assets</b>					
Financing assets	374,833	-	-	-	374,833
Investment in associates	-	94,659	-	-	94,659
Other assets	-	-	-	146	146
<b>Liabilities</b>					
Customers' current accounts	14,290	832	-	-	15,122
Due to banks, financial and other institutions	26,487	13,009	-	-	39,496
Other liabilities	23	-	-	-	23
<b>Equity</b>					
Fair value reserves	-	(4,221)	-	-	(4,221)
<b>Income</b>					
Income from financing assets	3,765	-	-	-	3,765
Share of profit after tax from associates	-	(2,425)	-	-	(2,425)
Profit paid to banks, financial and other institutions	(1,398)	(821)	-	-	(2,219)
<b>Expenses</b>					
Administrative and general expenses	(700)	-	(248)	-	(948)

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**32 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	31 December 2022				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
<b>Assets</b>					
Financing assets	372,963	-	-	-	372,963
Investment in associates	-	104,318	-	-	104,318
Other assets	-	-	-	183	183
<b>Liabilities</b>					
Customers' current accounts	11,365	3,124	-	-	14,489
Due to banks, financial and other institutions	37,741	-	-	-	37,741
Other liabilities	43	-	-	-	43
<b>Equity</b>					
Fair value reserves	-	(1,953)	-	-	(1,953)
<b>Income</b>					
Income from financing assets	3,773	-	-	-	3,773
Share of profit after tax from associates	-	469,457	-	-	469,457
Profit paid to banks, financial and other institutions	(1,668)	-	-	-	(1,668)
<b>Expenses</b>					
Administrative and general expenses	(800)	-	(399)	-	(1,199)

Certain collaterals against financing facilities amounting to \$437.8 million (31 December 2022: \$405.6 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

Certain investment assets amounting to \$5.1 million (31 December 2022: \$5.1 million) are legally held by related parties for the beneficial interest of the Group.

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

**33 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.

Refer note 1 regarding the management plan to raise additional capital in 2024

**34 PROPOSED DIVIDEND**

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



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**35 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:

	<b>Year ended</b>	
	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>INCOME</b>		
Income from other financings	5,593	30,436
Share of profit after tax from associates	(2,813)	5,281
Income from investments	9,999	60,380
Other income	687	17,324
<b>Gross income</b>	<b>13,466</b>	<b>113,421</b>
Less: profit paid to banks, financial and other institutions - note (i)	(3,330)	(78,893)
<b>Total income</b>	<b>10,136</b>	<b>34,528</b>
<b>EXPENSES</b>		
Administrative and general expenses - note (i)	(944)	(29,062)
Depreciation and amortisation	(7,544)	(14,531)
<b>Total expenses</b>	<b>(8,488)</b>	<b>(43,593)</b>
<b>Net income before provision for impairment and overseas taxation</b>	<b>1,648</b>	<b>(9,065)</b>
Provision for impairment (net)	(457)	4,294
<b>Net income before overseas taxation</b>	<b>1,191</b>	<b>(4,771)</b>
Overseas taxation	(3,561)	1,552
<b>NET INCOME FOR THE YEAR</b>	<b>(2,370)</b>	<b>(3,219)</b>
<b>Attributable to:</b>		
Equity holders of the Bank	(397)	(1,258)
Non-controlling interests	(1,973)	(1,961)
	<b>(2,370)</b>	<b>(3,219)</b>
<b>Basic and diluted earnings per share</b>	<b>US Cts (0.01)</b>	<b>US Cts (0.04)</b>

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

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

**36 SOCIAL RESPONSIBILITY**

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

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**37 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:

<b>Assets transferred</b>	<b>As of 7 July 2022</b>
<b>Consumer business</b>	
Cash and balances with banks and central banks	167,745
Financing assets	783,321
Investment securities	83,761
Assets acquired for leasing	378,740
Other assets	82,875
Fixed assets	14,454
<b>Total</b>	<b>1,510,896</b>
Investment in subsidiary (Takaful business)	103,090
Investment in associate (investment assets)	500,042
<b>Total Assets transferred - A</b>	<b>2,114,028</b>
<b>Consumer business</b>	
Customers' current accounts	93,560
Due to banks, financial and other institutions	38,111
Other liabilities	51,297
<b>Total liabilities</b>	<b>182,968</b>
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
<b>Total liabilities transferred - B</b>	<b>2,185,119</b>
Estimated balancing payment - C	5,864
<b>Gain recognised on transfer (B+C-A)</b>	<b>76,955</b>

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**37 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:

Description	Year ended 31 December 2022			Total
	Consumer business	Takaful business	Investment assets	
Total income	13,114	20,601	5,446	39,161
Total expenses	(13,613)	(15,470)	-	(29,083)
	<b>(499)</b>	<b>5,131</b>	<b>5,446</b>	<b>10,078</b>
Provision for impairment - net	(294)	(302)	-	(596)
	<b>(793)</b>	<b>4,829</b>	<b>5,446</b>	<b>9,482</b>
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)
	<b>(25,795)</b>	<b>3,828</b>	<b>(70,580)</b>	<b>(92,547)</b>
Gain recognised on transfer				76,955
<b>Net results from discontinued operations</b>				<b>(15,592)</b>

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.

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 2023	31 December 2022
Net cash from operating activities	-	12,099
Net cash used by investing activities	(39,903)	(13,551)
<b>Net cash movement</b>	<b>(39,903)</b>	<b>(1,452)</b>

**38 COMPARATIVES**

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