

**Ithmaar Holding B.S.C.**



**Board of Directors Report on  
Capital Reduction of Ithmaar Holding B.S.C.**

Issued on 11 February 2026

<b>Date</b>	11 February 2026
<b>Company Name</b>	Ithmaar Holding B.S.C. ("Ithmaar" or the "Company")
<b>Trading Code</b>	ITHMR
<b>Subject</b>	Capital Reduction
<b>Historical Information &amp; Main Reasons Behind the Accumulated Losses</b>	<p>As at the date of the last audited accounts of the Company (year ended 31 December 2024), the accumulated losses of Ithmaar were 109% of the Company's paid-up share capital. The foregoing losses are primarily attributable to:</p> <ul style="list-style-type: none"> <li>• Impairment provisions related to non-core investments affected by historical financial crises;</li> <li>• The adoption of Financial Accounting Standards (FAS) 30 (Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the equivalent of International Financial Reporting Standards (IFRS) 9), which led to additional impairment charges; and</li> <li>• Economic disruptions caused by the COVID-19 pandemic</li> </ul> <p>The board of directors of the Company (the "Board") has been working on various initiatives to improve the share capital of Ithmaar, which will strengthen the Company's consolidated equity.</p> <p>On 17 March 2022, the Board convened an extraordinary general meeting ("EGM") pursuant to article 64(7) of the Company's articles of association. During the EGM, the Board made certain recommendations and proposed measures to the shareholders of the Company with respect to the losses of the Company, including the offsetting of accumulated losses against share capital. It was subsequently confirmed by the Company that the foregoing measures would be contemplated after the completion of the sale of Ithmaar's consumer banking business and certain other assets to Al Salam Bank B.S.C. It was agreed that the measures would be subject to further evaluation and presented to the shareholders for approval subject to receipt of any necessary regulatory consent(s).</p> <p>Another initiative of the Company to mitigate the losses was the proposed sale of Ithmaar's financing and investment portfolio. Negotiations commenced on 6 March 2024 between Ithmaar Holding B.S.C. and GFH Financial Group B.S.C. Shareholders were kept informed throughout the process. However, on 14 April 2025, both parties announced the mutual termination of discussions following preliminary due diligence, as the conditions required for execution of the acquisition were not met.</p> <p>Subsequently, the Board discussed and explored options for strengthening the Company's capital position with the Company's major shareholders,</p>

	<p>Dar Al-Maal Al-Islami Trust and Islamic Investment Company of the Gulf. These options included a potential capital reduction followed by a capital increase pursuant to a rights issue under the OFS Module in addition to other remedial measures, all of which remain subject to further review and regulatory approval.</p>
<b>Justification for Capital Reduction</b>	<p>The Company has experienced prolonged financial challenges over the past several years, resulting in significant accumulated losses. These losses have eroded a substantial portion of the Company's paid-up share capital and have reached levels that materially impact its financial standing and the status of its regulatory compliance.</p> <p>A capital reduction is therefore justified on the following grounds:</p> <ul style="list-style-type: none"> <li>• Reducing capital to offset accumulated losses will help restore the Company's capital structure in line with regulatory requirements and improve its standing with supervisory authorities.</li> <li>• The reduction will align the Company's paid-up capital with its actual net asset value, thereby presenting a more accurate and transparent financial position to shareholders, creditors, and potential investors.</li> <li>• A clean capital structure post-reduction will enable the Company to pursue capital increase initiatives (including in-kind contributions) more effectively, without the burden of historical losses.</li> <li>• The proposed reduction does not involve cash outflows or affect shareholder ownership percentages. It is a technical adjustment aimed at strengthening the Company's financial foundation and enabling long-term value creation.</li> <li>• The capital reduction forms part of a broader restructuring plan, which includes a capital increase pursuant to a rights issue.</li> </ul>
<b>Effect of Capital Reduction</b>	<ul style="list-style-type: none"> <li>• The Company's issued and paid-up share capital shall be adjusted by cancelling treasury shares, resulting in a revised share capital of USD\$ 727,539,947, equaling 2,910,159,789 shares.</li> <li>• The cancellation is based on the last audited financial accounts of the Company (year ending 31 December 2024).</li> <li>• Accumulated losses amounting to USD\$ 828,649,740 shall be set off against the available reserves of the Company, including share premium and legal reserve, totaling USD\$ 192,476,807.</li> <li>• The remaining accumulated losses of USD\$ 636,172,933 shall be set off against the share capital, resulting in the cancellation of 2,544,691,732 shares.</li> <li>• The set-off shall be allocated pro-rata between share capital (93%) and general reserve (7%), with USD\$ 680,119,740 set off against share capital and USD\$ 3,306,294 set off against the Company's general reserve.</li> <li>• Following the set-off against the general reserve, the remaining accumulated losses of USD\$ 632,866,639 shall be cancelled against</li> </ul>

	<p>the share capital, resulting in the cancellation of 2,531,466,555 shares.</p> <ul style="list-style-type: none"> <li>• The Company's share capital, net of treasury shares, shall be reduced to USD\$94,673,308.25, equaling 378,693,233 shares.</li> <li>• Please refer to Annexure 1 for details of the foregoing figures.</li> </ul>
<b>Shareholder Approval</b>	The Board recommends to the shareholders of the Company to approve the proposed capital reduction at the upcoming EGM, to be held on 5 March 2026.

**Annexure 1**

<b>Consolidated (000)</b>	<b>AS-IS</b>	<b>Set off accumulated losses</b>	<b>After Set off of accumulated losses</b>
Share capital	757,689	(663,016)	94,673
Treasury shares	(30,149)	30,149	-
Reserves			
- Share premium, Statutory & General reserve	243,203	(195,783)	47,420
- Other reserves	(130,676)	-	(130,676)
Accumulated losses	(828,650)	828,650	-
<b>Total owners' equity</b>	<b>11,417</b>	-	<b>11,417</b>
<b>No. of shares (000)</b>			
Total shares issued	3,030,755	(2,652,062)	378,693
Treasury shares	(120,595)	120,595	-
Number of issued shares (net of Treasury shares)	2,910,160	(2,531,467)	378,693
<b>Book value per share (\$)</b>	<b>0.00</b>		<b>0.03</b>
<b>Accumulated losses to share capital (%)</b>	<b>109%</b>		<b>0%</b>



KPMG Fakhro  
Advisory  
12<sup>th</sup> Floor, Fakhro Tower,  
P.O. Box 710, Manama,  
Kingdom of Bahrain

Telephone +973 17224807  
Telefax +973 17919614  
Website: [www.kpmg.com/bh](http://www.kpmg.com/bh)  
CR No. 6220

**To**  
**The shareholders of Ithmaar Holding B.S.C.**

12 February 2026

**Proposed capital reduction**

The Board of directors of Ithmaar Holding B.S.C. (the “Company”), in their meeting on 11 February 2026 resolved to recommend the writing off of accumulated losses of USD 828,649,740 through:

1. reducing statutory reserve by USD 43,391,453;
2. reducing share premium by USD 149,085,354;
3. reducing general reserve by USD 3,306,294;
4. cancelling 120,595,238 treasury shares of USD 30,148,810; and
5. reducing the Company’s paid-up capital by USD 632,866,639 by reducing the number of shares from 2,910,159,789 to 378,693,233 of USD 0.25 each.

Further details have been presented in Appendix A to the letter.

This reduction in paid-up capital of the Company is not expected to have any impact on the position of the creditors or the reported total net equity of the Company.

This letter is issued at the request of the Company for seeking preliminary regulatory approvals for its capital reduction exercise without any risk or financial obligation, whether express or implied and we accept no responsibility or liability to you or any other party in connection with this letter and do not intend to create any obligation, on KPMG Fakhro or on the undersigned for any purpose.

Yours sincerely,

Mahesh Balasubramanian  
*Partner*

**Appendix A: Impact of capital reorganization**

<b>Consolidated financial information (USD\$)</b>	<b>Balances as at 31 December 2024</b>	<b>Set off accumulated losses</b>	<b>Position after set-off of accumulated losses</b>
Share capital	757,688,757	(663,015,449)	94,673,308
Treasury shares	(30,148,810)	30,148,810	-
Reserves			
- Share premium, Statutory & General reserve	243,203,308	(195,783,101)	47,420,207
- Other reserves	(130,675,993)	-	(130,675,993)
Accumulated losses	(828,649,740)	828,649,740	-
<b>Total owners' equity</b>	<b>11,417,522</b>	-	<b>11,417,522</b>
<b>Number of shares (000s)</b>			
Total shares issued	3,030,755,027	(2,652,061,794)	378,693,233
Treasury shares	(120,595,238)	120,595,238	-
Number of issued shares (net of Treasury shares)	2,910,159,789	(2,531,466,556)	378,693,233
<b>Book value per share (USD\$ cents)</b>	<b>0.4</b>	-	<b>3.0</b>
<b>Accumulated losses to share capital (%)</b>	<b>109%</b>	-	<b>0%</b>