

ITHMAAR HOLDING B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2025

Ithmaar Holding B.S.C.
Consolidated financial statements
for the year ended 31 December 2025

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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 Rajab 1446 H until 11 Rajab 1447 H, corresponding to 1 January 2025 until 31 December 2025 .

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 2025:

- 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 2025. 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.
- c. 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.

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 Rajab 1446 H until 11 Rajab 1447 H, corresponding to 1 January 2025 until 31 December 2025 .

Non-sharia compliant income:

To ensure compliance with the Fatwas and previous Directions of the Sharia Supervisory Board relating to conventional assets, the Sharia Supervisory Board has reviewed the consolidated income statement of Ithmaar for the year ended 31 December 2025 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note (35). And since most of these conventional assets were disposed on 7th of July 2022, and no gains made from sources prohibited by Sharia for the year 2025.

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 Thursday 17 Shaaban 1447 H, 5 February 2026.

Sharia Supervisory Board

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

Ithmaar Holding B.S.C.**Board of Directors' Report for the year ended 31 December 2025**

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. ("Ithmaar") for the year ended 31 December 2025, 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 2025, 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 \$27.1 million for the year ended 31 December 2025, as compared to a net profit of \$33.7 million for 2024. The net profit attributable to shareholders of the Company is \$1.1 million for 2025, as compared to a net profit of \$10.5 million for 2024. Total assets at 31 December 2025 amounted to \$7,584.2 million (31 December 2024: \$6,847.4 million).

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2025:

HRH Prince Amr Mohammed Al-Faisal (Chairman)

Tunku Yaacob Khyra

Dr. Amani Khaled Bouresli

Sheikh Mohamed Abdullah El Khereiiji

Ms. Elham Ebrahim Hasan

Mr. Juma Hasan Ali Abul

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 2025.

Ithmaar Holding B.S.C.
Board of Directors' Report for the year ended 31 December 2025

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	-	12,667	-	12,667	-	-	-	-	-	12,667	-
2. Ms. Elham Ebrahim Hasan	-	12,667	-	12,667	-	-	-	-	-	12,667	-
3. Tunku Yaacob Khyra	-	10,292	-	10,292	-	-	-	-	-	10,292	-
Second: Non-Executive Directors:											
1. HRH Prince Amr Mohammed Al-Faisal	-	7,917	-	7,917	-	-	-	-	-	7,917	-
2. Sheikh Mohamed Abdullah El Khareiji	-	7,917	-	7,917	-	-	-	-	-	7,917	-
Third: Executive Directors:											
1. Mr. Juma Hasan Ali Abul	-	7,917	-	7,917	-	-	-	-	-	7,917	-
Total	-	59,377	-	59,377	-	-	-	-	-	59,377	-

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. Ithmaar 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 2025	Aggregate Amount
Executive management				
Remunerations for top 6 executives, including CEO and Senior Financial Officer	-	-	-	-

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 2025 (continued)****Interests of Directors**

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

Name	Number of Shares	
	31 December 2025	31 December 2024
HRH Prince Amr Mohammed Al-Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100

Dividend

No dividend has been proposed for 2025 (2024: Nil).

Auditors

The Board of directors recommend KPMG Fakhro Bahrain to be appointed as auditors of the Group for the year ending 31 December 2026, subject to the regulatory and shareholder approvals.

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal
Chairman

11 February 2026



Elham Hasan
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*

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Ithmaar Holding B.S.C. (the "Company"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2025, the consolidated statements of income, comprehensive income, income and attribution related to quasi-equity, changes in owners' equity, cash flows and changes in off-balance sheet assets under management 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 2025, and consolidated results of its operations, income and attribution related to quasi-equity, changes in owners' equity, cash flows and changes in off-balance sheet assets 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 2025.

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"), as applicable to audits of the consolidated financial statements of public interest entities, together with the ethical requirements that are relevant to audits of the consolidated financial statements of public interest entities in the Kingdom of Bahrain. We have also 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.

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 31 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"> • of the significance of financing contracts to total assets; • impairment of financing contracts involves: <ul style="list-style-type: none"> ❖ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ❖ 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 ❖ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses. • 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 • adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. 	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice. • Confirming our understanding of management's processes, systems and controls over the ECL calculation process. <p>Control testing 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"> • Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process. • Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. • Testing controls over the modelling process, including governance over model monitoring, validation and approval. <p>Tests of details Key aspects of our testing involved:</p> <ul style="list-style-type: none"> • 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. • Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used. • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy.

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 our 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 contracts by reference to the requirements of the relevant accounting standards.

Emphasis of Matter - Basis of preparation

We draw attention to Notes 1.1 to the consolidated financial statements, which describes significant judgments and assumptions relating to the Board of Directors assessment of the appropriateness of the going concern assumption for preparation of the consolidated financial statements. Our opinion is not modified in respect of these matters.

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 board of directors' report and other sections 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 as part of our engagement to audit the consolidated financial statements.

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 issued by AAOIFI, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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 Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the board of 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 the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company 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
12 February 2026

Ithmaar Holding B.S.C.

Consolidated statement of financial position

as at 31 December 2025

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

	Note	At 31 December 2025	At 31 December 2024
		(Audited)	(Audited)
ASSETS			
Cash and balances with banks and central banks	3	457,309	439,459
Commodity placements with banks and other financial institutions	4	193,617	118,506
Financing contracts	5	3,546,721	2,794,953
Investment securities	6	2,451,824	2,634,441
Investment in associates	7	108,580	106,584
Other assets	8	218,031	127,697
Investment in real estate	9	153,770	200,482
Development properties	10	181,776	176,276
Property and equipment	11	258,779	232,179
Intangible assets	12	13,830	16,846
Total assets		7,584,237	6,847,423
LIABILITIES, QUASI-EQUITY AND OWNERS' EQUITY			
Customers' current accounts	13	2,453,658	1,981,786
Due to banks, financial and other institutions	14	1,108,605	1,718,905
Other liabilities	15	357,224	438,186
Total liabilities		3,919,487	4,138,877
Quasi-equity	16	3,483,667	2,527,680
OWNERS' EQUITY			
Share capital	17	757,690	757,690
Treasury shares	17	(30,149)	(30,149)
Reserves	18	112,045	112,527
Accumulated losses		(827,641)	(828,650)
Total equity attributable to shareholders of the Company		11,945	11,418
Non-controlling interests	19	169,138	169,448
Total owners' equity		181,083	180,866
Total liabilities, quasi-equity and owners' equity		7,584,237	6,847,423

These consolidated financial statements were approved by the Board of Directors on 11 February 2026 and signed on its behalf by:



HRH Prince Amr Mohammed Al-Faisal
Chairman



Elham Hasan
Director



Maysan Al Maskati
CEO

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

Ithmaar Holding B.S.C.

Consolidated statement of income

for the year ended 31 December 2025

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

		Year ended	
	Note	31 December 2025	31 December 2024
		(Audited)	(Audited)
INCOME			
Income from financing contracts	21	311,800	381,993
Income from investments	22	372,333	472,925
Other income - net	23	81,215	80,434
Finance expense on placements from financial and non-financial institutions		(17,720)	(18,107)
Net income		747,628	917,245
Share of loss from equity accounted investees		(2,875)	(6,934)
Total income		744,753	910,311
EXPENSES			
Operating expenses	24	218,399	197,794
Depreciation and amortization		27,527	22,130
Total expenses		245,926	219,924
Profit before impairment allowances, income attribution to quasi-equity and tax		498,827	690,387
Allowances for impairment and expected credit losses, net	25	368	(32,755)
Profit before income attribution to quasi-equity and tax		499,195	657,632
Less: Net profit attributable to quasi-equity		(369,723)	(532,655)
Profit before overseas taxation		129,472	124,977
Tax expense	26	(102,343)	(91,258)
PROFIT FOR THE YEAR		27,129	33,719
Attributable to:			
Shareholders of the Company		1,121	10,459
Non-controlling interest		26,008	23,260
		27,129	33,719
Basic and diluted earnings per share	20	US Cts 0.04	US Cts 0.36



HRH Prince Amr Mohammed Al-Faisal
Chairman



Elham Hasan
Director



Maysan Al Maskati
CEO

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

Ithmaar Holding B.S.C.**Consolidated statement of comprehensive income****for the year ended 31 December 2025**

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

	Year ended	
	31 December 2025	31 December 2024
	(Audited)	(Audited)
Profit for the year	27,129	33,719
Other comprehensive income		
Items that will not be classified to statement of income		
Fair value changes on land and building	(1,789)	(647)
Attributable to quasi-equity	1,191	788
Items that are or may subsequently be classified to statement of income		
Exchange difference arising on translation of foreign operations	4,901	5,966
Fair value changes on investments in real estate	(2,438)	(931)
Fair value changes on investment in associates	275	1,185
Recycling of reserve on disposal of assets	(2,571)	-
Fair value changes on investments carried at fair value through OCI	(27,488)	32,514
Attributable to quasi-equity	17,785	(27,617)
Total other comprehensive income for the year	(10,134)	11,258
Total comprehensive income	16,995	44,977
Attributable to:		
Shareholders of the Company	527	7,083
Non-controlling interest	16,468	37,894
	16,995	44,977

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

Ithmaar Holding B.S.C.**Consolidated statement of income and attribution related to quasi-equity
for the year ended 31 December 2025**

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

	Year ended	
	31 December 2025	31 December 2024
	(Audited)	(Audited)
Profit before impairment allowances, income attribution to quasi-equity and tax	498,827	690,387
Adjusted for:		
Less: income not attributable to quasi-equity	(35,555)	(40,566)
Add: expenses not attributable to quasi-equity	245,926	219,924
Less: institution's share of loss for its own/ share of investments	3,821	7,268
Less: Finance expense on placements from financial and non-financial institutions	17,720	18,107
Less: allowance for impairment allowances attributable to quasi-equity	1,889	(23,411)
Total income available for quasi-equity holders	732,628	871,709
Less: Mudarib's share	(362,905)	(339,054)
Profit attributable to quasi-equity	369,723	532,655
Other comprehensive income that may subsequently be classified to income statement – attributable to quasi-equity	(18,976)	26,829
Total comprehensive income – attributable to quasi-equity	350,747	559,484
Less: Other comprehensive income not subject to immediate distribution	18,976	(26,829)
Total comprehensive income subject to immediate distribution	369,723	532,655

The accompanying notes 1 to 37 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 2025

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

	Share capital	Treasury shares	Reserves	Accumulated losses	Total equity attributable to shareholders of the Company	Non-controlling interests	Total owners' equity
At 1 January 2025	757,690	(30,149)	112,527	(828,650)	11,418	169,448	180,866
Profit for the year	-	-	-	1,121	1,121	26,008	27,129
Other comprehensive income for the year	-	-	(594)	-	(594)	(9,540)	(10,134)
Total comprehensive income for the year	-	-	(594)	1,121	527	16,468	16,995
Transfer to statutory reserve	-	-	112	(112)	-	-	-
Movement from dividend distribution by subsidiaries	-	-	-	-	-	(12,639)	(12,639)
Decrease in shareholding of subsidiary	-	-	-	-	-	(4,139)	(4,139)
At 31 December 2025	757,690	(30,149)	112,045	(827,641)	11,945	169,138	181,083

	Share capital	Treasury shares	Reserves	Accumulated losses	Total equity attributable to shareholders of the Company	Non-controlling interest	Total owners' equity
At 1 January 2024	757,690	(30,149)	114,857	(838,063)	4,335	157,804	162,139
Profit for the year	-	-	-	10,459	10,459	23,260	33,719
Other comprehensive income for the year	-	-	(3,376)	-	(3,376)	14,634	11,258
Total comprehensive income for the year	-	-	(3,376)	10,459	7,083	37,894	44,977
Transfer to statutory reserve	-	-	1,046	(1,046)	-	-	-
Movement from dividend distribution by subsidiaries	-	-	-	-	-	(11,543)	(11,543)
Decrease in shareholding of subsidiary	-	-	-	-	-	(14,707)	(14,707)
At 31 December 2024	757,690	(30,149)	112,527	(828,650)	11,418	169,448	180,866

The accompanying notes 1 to 37 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 2025
(Expressed in thousands of United States Dollars unless otherwise stated)

	Note	Year ended	
		31 December 2025	31 December 2024
		(Audited)	(Audited)
OPERATING ACTIVITIES			
Net profit before taxation from:		129,472	124,977
<u>Adjustments for:</u>			
Depreciation and amortization		27,527	22,130
Share of results after tax from associates		2,875	6,934
(Reversal of) / provision for impairment - net	25	(368)	32,755
Income from investments		(372,333)	(472,925)
Finance cost on net Ijarah liability		7,524	6,449
Gain on sale of property and equipment		(2,222)	(161)
Operating loss before changes in operating assets and liabilities		(207,525)	(279,841)
Net changes in operating assets and liabilities:			
Balances with banks maturing after 90 days and including with central banks relating to minimum reserve requirement		926	(4,637)
Financing contracts		(767,947)	(170,209)
Other assets		(74,655)	2,326
Customers' current accounts		477,254	245,365
Due to banks, financial and other institutions		(603,386)	523,788
Due to investors		-	(8,735)
Other liabilities		(45,493)	100,776
Quasi-equity		952,464	(204,781)
Taxes paid		(129,841)	(58,710)
Net cash (used in) / generated from operating activities		(398,203)	145,342
INVESTING ACTIVITIES			
Investment securities		548,865	124,902
Property and equipment		(41,310)	(76,995)
Net cash generated from investing activities		507,555	47,907
FINANCING ACTIVITIES			
Repayment of net Ijarah liability		(15,475)	(13,016)
Net cash used in financing activity		(15,475)	(13,016)
Foreign currency translation adjustments		(8,264)	431
Net increase in cash and cash equivalents		85,613	180,664
Cash and cash equivalents at the beginning of the year		515,303	334,639
Cash and cash equivalents at the end of the year		600,916	515,303
<u>Cash and cash equivalents comprise:</u>			
Cash and balances with banks and central banks		457,309	439,459
Commodity placements with banks and other financial institutions		193,726	118,848
Less: Placements with original maturing after 90 days and balances with central banks relating to minimum reserve requirement		(50,119)	(43,004)
		600,916	515,303

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

Ithmaar Holding B.S.C.

**Consolidated statement of changes in off-balance-sheet assets under management
for the year ended 31 December 2025**

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

	Shamil Bosphorus Modaraba*	European Real Estate Placements*	US Real Estate Placements*	Total
Balance at 1 January 2025	6,250	9,877	4,708	20,835
Additions	-	-	-	-
Foreign exchange movements	-	1,328	-	1,328
Recoveries/ disposals/ maturities	-	-	-	-
Net increase	-	1,328	-	1,328
Net income	-	-	-	-
Mudarib's share	-	-	-	-
Fixed agency fee	-	-	-	-
Variable agency fee	-	-	-	-
Total Group's management share	-	-	-	-
Distributions/ withdrawals	-	-	-	-
At 31 December 2025	6,250	11,205	4,708	22,163

	Shamil Bosphorus Modaraba*	European Real Estate Placements*	US Real Estate Placements*	Total
Balance at 1 January 2024	6,250	10,783	25,236	42,269
Additions	-	-	-	-
Foreign exchange movements	-	(906)	-	(906)
Recoveries/ disposals/ maturities	-	-	-	-
Net decrease	-	(906)	-	(906)
Net income	-	-	-	-
Mudarib's share	-	-	-	-
Fixed agency fee	-	-	-	-
Variable agency fee	-	-	-	-
Total Group's management share	-	-	-	-
Distributions/ withdrawals	-	-	(20,528)	(20,528)
At 31 December 2024	6,250	9,877	4,708	20,835

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

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

Ithmaar Holding B.S.C.
Notes to the consolidated financial statements
for the year ended 31 December 2025

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, fund management and real estate development.

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 quasi equity and off-balance-sheet assets under management. In respect of quasi equity, 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 off-balance-sheet assets under management, 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 off-balance-sheet assets under management.

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
	2025	2024		
<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

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

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.

Ithmaar Holding B.S.C.
Notes to the consolidated financial statements
for the year ended 31 December 2025

1 REPORTING ENTITY (continued)

1.1 Going Concern

As of 31 December 2025, the total consolidated owners' equity of the Group stood at \$181.1 million (2024: \$180.9 million) however, its accumulated losses are in excess of its paid-up capital. Further the Group continue to earn low profits along with negative operating cash flows during the year ended 31 December 2025. These events and conditions required the Group's management to undertake a detailed going concern assessment.

The Board of Directors is working on various initiatives to strengthen the Group's consolidated equity, meet the minimum regulatory capital requirement of its licensed group entities and liquidity profile in the next twelve months from the reporting date of these consolidated financial statements ("Equity Strengthening Plans"). These initiatives include, amongst others, the following:

- Cancellation of accumulated losses against share capital;
- Issuance of additional share capital by way of Rights issue of up to \$100 million to existing shareholders. The majority shareholder – DMIT, has committed to support the Group and has expressed its intention to subscribe to its pro-rata share in the rights issue which is approx. \$50 million. DMIT's intended participation comprises a combination of cash and an in-kind contribution, with the in-kind component supported by independent valuation. The Group is currently in the process of completion of all necessary legal and regulatory formalities;
- Continuing regulatory support on matters related to capital and liquidity requirements on licensed group entities;
- Focusing on recovery of financing exposures by way of sale / realization of underlying collateral;
- Development of a restructuring plan (phase 2) with the assistance of external consultants to further enhance the Group's financial position and support long term value creation.

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 these consolidated financial statements. Management's assessment includes the following significant assumptions:

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

These represent the key assumptions underlying management's going concern assessment. In concluding that the going concern-basis remains appropriate, the management and the Board have exercised significant judgment, particularly in evaluating the feasibility and expected timing of the capital plan, the recoverability of financing exposures, and the reasonableness of projected liquidity flows.

The Board of Directors has reviewed the above assumptions and events, along with mitigating factors and concluded that there are no material uncertainties related 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 will be able to meet its obligations for the next twelve months from the date of reporting of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 2025 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 Bahraini Dinars and that of one subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

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

2.2 BASIS OF CONSOLIDATION

(i) Subsidiaries

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

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

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

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

(ii) Non-controlling interests

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

(iii) Assets under management

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

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 statement of income. 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 statement of income.

(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 statement of income. 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 statement of income. Translation gains on non-monetary assets classified as "fair value through statement of income" are directly recognised in the consolidated statement of income 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 quasi equity 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 other comprehensive income (FVTOCI)

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value of unquoted equity

The Group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cash flows, 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 (continued)

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 Income Statement (FVTIS), 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 other comprehensive income ("FVTOCI") or (c) fair value through income statement ("FVTIS").

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 FVTIS. 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 contracts

Financing contracts 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 contracts 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 contracts (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 statement of income.

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 statement of income.

(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 ('FVTIS') or 2) at fair value through other comprehensive income ('FVTOCI'), 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 statement of income. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, equity-type investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTIS are recognised in the consolidated statement of income 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 statement of income.

(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 statement of income 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 statement of income 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 statement of income.

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 statement of income. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated statement of income 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 statement of income. 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 statement of income 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 statement of income.

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 statement of income. 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 statement of income.

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 statement of income.

(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 quasi equity 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 statement of income 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.

Pensions and other social Benefits for Bahraini employees are covered by the Social Insurance Organisation ("SIO") scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector, based on length of service and final remuneration. The provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee benefits, is made by calculating the notional liability had all employees left at the reporting date. Effective 1 March 2024, all Bahrain based employers are required to make monthly contributions in relation to the expatriate indemnity to SIO, who would be responsible to settle leaving indemnities for expatriates at the time of end of service. Any indemnity liability prior to 1 March 2024 and pending transfer to the SIO in subsequent periods remains the obligation of the Company.

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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(v) Quasi-equity

Quasi-equity are funds held by the Group in one common pool of quasi equity, 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 quasi equity.

(w) Off-balance-sheet assets under management

Under the off-balance-sheet assets under management, 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 off-balance-sheet assets under management.

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 Commercial Companies Law 2001 (as amended), 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 Commercial Companies Law 2001 (as amended) and other applicable statutory regulations.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 off-balance-sheet assets under management and quasi equity as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on financing contracts

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

Income from other financings is accrued based on the effective yield method over the period of 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Revenue recognition (continued)

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.

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, quasi equity and off-balance-sheet assets under management. 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, Quasi equity and Off-balance-sheet assets under management

Assets are transferred between Owner's equity, Quasi equity and Off-balance-sheet assets under management at agreed values.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 consolidated 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 statement of income 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 consolidated 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 statement of income. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

Hedges directly affected by variable profit rate benchmark reforms

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 income statement (FVTIS)
- Financial guarantee contracts that are not measured at fair value through income statement (FVTIS).
- 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 contracts 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 contracts 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 other comprehensive income.

(ak) Profit Equalisation Reserve (PER)

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

Contribution to PER is recognised in consolidated statement of income allocated to owners or quasi equity 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 statement of income allocated to owners or quasi equity accountholders as appropriate.

PER is disclosed as part of quasi equity 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.

(al) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or quasi equity 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 statement of income allocated to owners' equity or quasi equity 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 statement of income allocated to owners or quasi equity as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the quasi equity 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)

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

(i) 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.

(ii) 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 effective for the financial 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.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) 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.

(iv) FAS 48: Promotional Gifts and Prizes

This standard prescribes accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions. The standard categorizes them into a) promotional gifts where entitlement occurs instantly; b) promotional prizes that are announced in advance to be awarded at a future date and c) loyalty programs where the obligation is accumulated over the period.

This standard is 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.

(v) FAS 49: Financial Reporting for Institutions Operating in Hyperinflationary Economies

This standard establishes the principles of financial reporting for the institutions operating in hyperinflationary economies. This standard is applicable to the institutions whose functional currency is the currency of a hyperinflationary economy, and on consolidated financial statements of an institution to the extent of impacts relating to a subsidiary(ies) whose functional currency(ies) is the currency(ies) of a hyperinflationary economy(ies).

The standard prescribes pertinent factors for determination of hyperinflationary economy(ies).

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

AAOIFI recommended that all institutions operating in the same hyperinflationary economy shall apply this standard from the same date to ensure that comparability between their results is possible.

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(vi) FAS 50: Financial reporting for Islamic Investment institutions (including investment funds)

This standard replaces FAS 14 – Investment Funds and updates the financial reporting framework for Islamic investment institutions.

Key enhancements include alignment with revised FAS 1 and the AAOIFI Conceptual Framework, removal of the separate statement of portfolio investments (now included in the notes), elimination of the cash-equivalent-value concept, and introduction of quasi-equity accounting principles.

The standard also provides guidance for Islamic investment institutions (IIIs) with multiple virtual entities or sub-funds, introduces requirements on NAV differential, removes earlier governance and stakeholder reporting requirements, and grants exemptions from consolidation or equity-accounting based on the unique business model and investment intent of the III.

This standard is effective for the financial periods beginning on or after 1 January 2027, with an option to early adopt.

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

(vii) FAS 51: Participatory Ventures

FAS 51 replaces FAS 3 (Mudaraba Financing) and FAS 4 (Musharaka Financing), it provides guidance for accounting in the books of the working partner and the venture. The scope of this standard is expanded to include additional venture types, for example, Running Musharaka, Diminishing Musharaka and restricted Mudaraba.

This standard is effective for the financial periods beginning on or after 1 January 2027, with an option to early adopt.

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

(viii) FAS 52: Deferred Delivery Sales: Salam and Istisna

The replaces FAS 7 “Salam and Parallel Salam” and FAS 10 “Istisna’a and Parallel Istisna’a”. This standard introduces guidance for accounting in the book of buyers and sellers including the treatment of parallel Salam and Istisna. This standard is aligned with the requirements of FAS 30 “Impairment, credit losses and onerous commitments”.

This standard is effective for the financial periods beginning on or after 1 January 2027, with an option to early adopt.

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

(ix) Withdrawal of FAS 26 – Investment in Real Estate and Related Transitional Provisions

AAOIFI issued a guidance relating to withdrawal of FAS 26 – Investment in Real Estate and related transitional provisions (“Guidance”). Following the withdrawal, investment in real estate shall be accounted for in accordance with IAS 40 – Investment property.

This guidance is effective for the periods beginning on or after 1 January 2027 and 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
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3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2025	31 December 2024
Cash reserve with central banks	46,343	43,004
Cash and balances with banks and central banks	410,966	396,455
	457,309	439,459

4 COMMODITY PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2025	31 December 2024
Commodity placements/contracts	193,726	118,848
Less: Allowance for impairment	(109)	(342)
	193,617	118,506

5 FINANCING CONTRACTS

	31 December 2025	31 December 2024
Murabaha and tawarruq financings	1,981,483	1,536,054
Musharaka financing	1,395,359	1,229,122
Istisna financings	380,749	241,965
	3,757,591	3,007,141
Less: Allowance for impairment	(210,870)	(212,188)
	3,546,721	2,794,953

Financing contracts includes restructured facilities amounting to \$19.1 million (31 December 2024: \$127.8 million).

The movement in allowance for impairment is as follows:

	31 December 2025	31 December 2024
At 1 January	212,188	214,980
Charge for the year	37,730	67,676
Write back during the year	(32,471)	(37,767)
Utilised during the year	(5,138)	(30,751)
Exchange differences	(1,439)	(1,950)
At 31 December	210,870	212,188

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6 INVESTMENT SECURITIES

	31 December 2025	31 December 2024
Investment securities at fair value through income statement		
Debt-type instruments - unlisted	3,783	10,537
Equity-type securities – listed	79	2,814
	3,862	13,351
Investment securities at fair value through other comprehensive income		
Debt-type instruments – listed	-	144,090
Debt-type instruments – unlisted	2,246,210	2,291,361
Equity-type securities – listed	35,025	39,306
Equity-type securities – unlisted	171,735	169,826
	2,452,970	2,644,583
Less: Allowance for impairment	(141,748)	(144,674)
	2,311,222	2,499,909
Investment securities carried at amortised cost		
Debt-type instruments – listed	116,957	96,290
Debt-type instruments – unlisted	19,783	29,935
	136,740	126,225
Less: Allowance for impairment	-	(5,044)
	136,740	121,181
	2,451,824	2,634,441

Investment securities include \$324 million (31 December 2024: \$553.3 million) Sukuk which have been repoed with another counterparty.

Sovereign Sukuk comprises 97% of the total debt-type instruments (31 December 2024: 97%).

Investment securities include conventional investments totaling \$9.1 million (31 December 2024: \$2.5 million) made by a subsidiary of the Group.

Certain assets totaling \$4.5 million (31 December 2024: \$4.5 million) included above are held by third parties as nominee on behalf of the Group.

The movement in allowance for impairment is as follows:

	31 December 2025	31 December 2024
At 1 January	149,718	149,515
Charge for the year	21	5,514
Write back during the year	(6,618)	(5,652)
Utilised during the year	(1,272)	-
Exchange differences and other movements	(101)	341
At 31 December	141,748	149,718

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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
At 31 December 2025				
Investment securities at fair value through income statement				
Debt-type instruments	-	3,783	-	3,783
Equity securities	79	-	-	79
Investment securities at fair value through other comprehensive income				
Debt-type instruments	-	2,242,659	-	2,242,659
Equity-type securities	33,397	-	35,166	68,563
	33,476	2,246,442	35,166	2,315,084

Investments not measured at fair value

Investment securities carried at amortised cost				
Debt-type instruments	113,185	19,843	-	133,028

	Level 1	Level 2	Level 3	Total
At 31 December 2024				
Investment securities at fair value through income statement				
Debt-type instruments	-	10,537	-	10,537
Equity securities	2,814	-	-	2,814
Investment securities at fair value through other comprehensive income				
Debt-type instruments	-	2,431,659	-	2,431,659
Equity-type securities	36,617	4,536	27,097	68,250
	39,431	2,446,732	27,097	2,513,260

Investments not measured at fair value				
Investment securities carried at amortised cost				
Debt-type instruments	90,137	24,891	-	115,028

Reconciliation of Level 3

	Investment securities at fair value through equity	
	2025	2024
At 1 January	27,097	42,361
Total gains recognised in		
- Income statement	6	(484)
- Equity	3,548	595
Reclassification	4,515	(15,375)
At 31 December	35,166	27,097

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7 INVESTMENT IN ASSOCIATES

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

Name of company	2025	% of Share- holding	2024	% of Share- holding	Country of incorporation	Nature of business
Unlisted:						
Citic International Assets Management Limited	12,115	20	12,964	20	Hong Kong	Asset management
Naseej B.S.C. (c)	65,956	31	68,231	31	Bahrain	Infrastructure
Dilmunia Eduprop Company W.L.L.	18,976	50	18,993	50	Bahrain	Real estate
Faysal Halal Amdani Fund	4,790	4	2,423	1	Pakistan	Mutual funds
Faysal Islamic Saving Growth Fund	2,408	12	-	-	Pakistan	Mutual funds
Faysal Islamic Sovereign Fund FISIP-1	2,403	50	2,949	0	Pakistan	Mutual funds
Faysal Islamic Cash Fund	1,138	0	978	1	Pakistan	Mutual funds
Faysal Islamic Asset Allocation Fund - III	361	100	-	-	Pakistan	Mutual funds
Faysal Islamic Pension Fund - Money Market	194	12	-	-	Pakistan	Mutual funds
Faysal Islamic Pension Fund - Debt	188	26	-	-	Pakistan	Mutual funds
Faysal Islamic Stock Fund	16	-	18	-	Pakistan	Mutual funds
Faysal Islamic Stock Fund II	16	1	-	-	Pakistan	Mutual funds
Faysal Islamic Financial Growth Fund FISP-1	-	-	12	0	Pakistan	Mutual funds
Faysal Islamic Mehmood Muddat Plan -1	13	0	12	0	Pakistan	Mutual funds
Faysal Islamic Sovereign Fund FISIP-II	-	-	4	0	Pakistan	Mutual funds
Others	6	0	-	-	Pakistan	Mutual funds
	108,580		106,584			

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

- Share of reserves of Investment in associates amount to \$4.2 million (31 December 2024: \$4.4 million).

- Investment in associates include conventional investments totaling \$78.1 million (31 December 2024: \$81.2 million).

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

Naseej B.S.C. (c)

	31 December 2025	31 December 2024
Total assets	234,944	244,920
Total liabilities	20,035	22,596
Total revenues	4,050	3,512
Total net profit	(1,912)	(2,339)

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8 OTHER ASSETS

	31 December 2025	31 December 2024
Account receivable	246,723	155,329
Due from related parties (note 32)	114	98
Taxes – deferred	8,335	13,570
Taxes – current (advance tax)	15,723	14,026
Non-current assets held for sale	2,676	2,722
	273,571	185,745
Less: Allowance for impairment	(55,540)	(58,048)
	218,031	127,697

The movement in allowance for impairment is as follows:

	31 December 2025	31 December 2024
At 1 January	58,048	66,222
Charge for the year	691	251
Write back during the year	(251)	(8,177)
Utilised during the year	(3,721)	-
Exchange differences and other movements	773	(248)
At 31 December	55,540	58,048

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9 INVESTMENT IN REAL ESTATE

	31 December 2025	31 December 2024
Investment properties	164,482	222,379
Less: Allowance for impairment	(10,712)	(21,897)
	153,770	200,482

During the year, investment in real estate represented by an office building in Geneva, held by the Group's subsidiary, was sold at \$47.3 million, on deferred payment terms.

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 totaling \$0.6 million (31 December 2024: \$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 2025	31 December 2024
At 1 January	21,897	12,966
Charge for the year	-	11,747
Write back during the year	-	(837)
Utilised during the year	(11,747)	(1,731)
Exchange differences and other movements	562	(248)
At 31 December	10,712	21,897

10 DEVELOPMENT PROPERTIES

	31 December 2025	31 December 2024
Land	129,716	129,716
Development costs	52,060	46,560
	181,776	176,276

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 2025			31 December 2024		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building (revalued)	109,856	(3,789)	106,067	102,542	(5,642)	96,900
Leasehold improvements	47,298	(21,958)	25,340	39,325	(18,479)	20,846
Furniture and equipment	101,496	(54,206)	47,290	100,792	(56,736)	44,056
Motor vehicles	27,927	(5,467)	22,460	21,110	(2,401)	18,709
Right-of-use assets	100,604	(42,982)	57,622	89,845	(38,177)	51,668
	387,181	(128,402)	258,779	353,614	(121,435)	232,179

Depreciation charge for the year ended 31 December 2025 amounted to \$19.1 million (31 December 2024: \$13.8 million).

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12 INTANGIBLE ASSETS

	31 December 2025	31 December 2024
Goodwill	3,587	3,633
Customer relations	944	1,523
Core deposits	601	1,587
Softwares and other intangibles	8,698	10,103
	13,830	16,846

Amortisation charge for the year ended 31 December 2025 amounted to \$8.5 million (31 December 2024: \$8.3 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 statement of income.

13 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a customer amounting to \$186.8 million which is subject to sanctions under US measures (31 December 2024: \$186.9 million).

14 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2025	31 December 2024
Due to banks	1,075,026	1,686,527
Due to financial and other institutions	33,579	32,378
	1,108,605	1,718,905

Due to banks, financial and other institutions include balances totaling \$419.2 million from two counterparties which are subject to sanctions under US measures (31 December 2024: \$419.5 million).

Due to banks, financial and other institutions include \$324 million (31 December 2024: \$553.3million) consisting of a repo with another counterparty.

15 OTHER LIABILITIES

	31 December 2025	31 December 2024
Accounts payable	233,186	282,619
Lease liabilities related to right-of-use assets	67,529	59,212
Accrued expenses	37,990	44,647
Provision for taxation – current	60	249
Provision for taxation – deferred	18,459	51,459
	357,224	438,186

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16 QUASI-EQUITY

Quasi-equity comprise:	31 December 2025	31 December 2024
Modaraba accounts - corporates	1,915,294	1,258,016
Modaraba accounts - financial institutions	770,621	500,022
Modaraba accounts - individuals	789,541	745,220
Wakala from financial institutions	27,312	24,547
Fair value & foreign exchange translation movement from investments attributable to quasi equity	(19,101)	(125)
	3,483,667	2,527,680

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

	31 December 2025	31 December 2024
Cash and balances with banks and central banks	388,046	390,205
Commodity placements with banks and other financial institutions	-	313
Financing contracts	2,822,477	1,872,915
Investments in equity (i)	273,144	264,247
	3,483,667	2,527,680

(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 quasi equity 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 Quasi-equity assets of the parent company also include investments in its banking subsidiary (refer i above), hence the distribution of assets by ownership has been disclosed accordingly.

Distribution of income by ownership

	Year ended					
	31 December 2025			31 December 2024		
	Self-financed	Quasi-equity financed	Total	Self-financed	Quasi-equity financed	Total
INCOME						
Income from financing contracts	3,577	308,223	311,800	3,696	378,297	381,993
Income from investments	10,231	362,102	372,333	1,511	471,414	472,925
Other income - net	21,747	59,468	81,215	35,359	45,075	80,434
Finance expense on placements from financial and non-financial institutions	(17,720)	-	(17,720)	(18,107)	-	(18,107)
Net income	17,835	729,793	747,628	22,459	894,786	917,245
Share of loss from equity accounted investees	(3,821)	946	(2,875)	(7,268)	334	(6,934)
Total income	14,014	730,739	744,753	15,191	895,120	910,311
Operating expenses	218,399	-	218,399	197,794	-	197,794
Depreciation and amortization	27,527	-	27,527	22,130	-	22,130
Total expenses	245,926	-	245,926	219,924	-	219,924
Profit before impairment allowances, income attribution to quasi-equity and tax	(231,912)	730,739	498,827	(204,733)	895,120	690,387
Allowances for impairment and expected credit losses, net	(1,521)	1,889	368	(9,344)	(23,411)	(32,755)
Group's share as mudarib and wakil	362,905	(362,905)	-	339,054	(339,054)	-
Profit before income attribution to quasi-equity and tax	129,472	369,723	499,195	124,977	532,655	657,632

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16 QUASI-EQUITY (continued)

The movement in reserves attributable to quasi-equity as follows:

	Investments fair value reserve	Fixed assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation reserve	Total
At 1 January 2025	34,832	(1,011)	(145)	(33,801)	(125)
Movement in fair value of investment securities	(18,096)	-	-	-	(18,096)
Movement in fair value of land and building	-	(2,916)	-	-	(2,916)
Transfer during the year	-	1,838	(1,838)	-	-
Foreign currency translation adjustments	(202)	(113)	(16)	2,367	2,036
At 31 December 2025	16,534	(2,202)	(1,999)	(31,434)	(19,101)

	Investments fair value reserve	Fixed assets fair value reserve	Investment in real estate fair value reserve	Foreign currency translation reserve	Total
At 1 January 2024	13,169	(223)	(442)	(39,458)	(26,954)
Movement in fair value of investment securities	21,606	-	-	-	21,606
Movement in fair value of investment in real estate	-	(1,024)	-	-	(1,024)
Movement in fair value of land and building	-	-	281	-	281
Foreign currency translation adjustments	57	236	16	5,657	5,966
At 31 December 2024	34,832	(1,011)	(145)	(33,801)	(125)

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17 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding as at 1 January 2025	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2025 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2024	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2024 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2025 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757 (31 December 2024: \$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 2025 (31 December 2024: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

The major shareholder, Dar Al-Maal Al-Islami Trust, owns directly and through nominee arrangements with below companies, 49.51% of the total outstanding shares with voting powers (net of treasury shares) of 51.56%. The shareholding of DMIT as of 31 December

Shareholder	Nationality	No. of Shares	% of the outstanding shares
Dar Al-Maal Al-Islami Trust	Bahamas	790,416,000	26.08%
Islamic Inv. Co. of the Gulf	Bahamas	594,129,224	19.60%
Faisal Finance (Maroc) S.A.	Morocco	78,729,704	2.60%
Darinvest (Jersey) Ltd (formerly: Isalmic Investment Co. Ltd.)	Jersey	34,848,000	1.15%
Almadina AlMunawwarah Commercial Investment and Development Co.	Saudi	2,415,505	0.08%
Total			49.51%

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2025 is presented

Percentage	No. of shareholder	No. of shares	Percentage
Less than 1%	4,167	1,297,866,118	42.82%
1 % to 5%	5	348,343,685	11.49%
More than 5%	2	1,384,545,224	45.68%
Total	4,174	3,030,755,027	

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

Name	Number of Shares
HRH Prince Amr Mohammed Al-Faisal (on behalf of DMIT)	106,100
Tunku Yaacob Khyra	106,100

All shareholders have ordinary voting rights.

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18 RESERVES

	31 December 2025	31 December 2024
Share premium	149,085	149,085
Statutory reserve	43,503	43,391
General reserve	50,727	50,727
Investments fair value reserve	4,491	4,245
Fixed assets fair value reserve	26,941	26,476
Investment in real estate fair value reserve	2,260	2,290
Foreign currency translation reserve	(164,962)	(163,687)
	112,045	112,527

19 NON-CONTROLLING INTERESTS

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

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

	31 December 2025		31 December 2024	
			Non-controlling %	
	Non-controlling %			
Faysal Bank Limited	33	136,525	33	136,173
Health Island B.S.C. (c)	50	21,707	50	21,806
Dilmunia Development Fund I L.P.	8	11,087	8	11,251
Others		(181)		218
		169,138		169,448

Non-controlling interests in the consolidated statement of income of \$26 million (31 December 2024: \$23.3 million) represent the non-controlling shareholders' share of the earnings of these subsidiaries for the respective years.

20 BASIC AND DILUTED EARNINGS PER SHARE

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

	31 December 2025	31 December 2024
Net profit attributable to shareholders (\$ '000)	1,121	10,459
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
Profit per share (Basic & Diluted) - US Cents	0.04	0.36

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

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21 INCOME FROM FINANCING CONTRACTS

	31 December 2025	31 December 2024
Income from Murabaha and tawarruq financings	108,577	99,002
Income from Istisna financings	25,241	28,652
Income from Musharaka financing	177,982	254,339
	311,800	381,993

22 INCOME FROM INVESTMENTS

	31 December 2025	31 December 2024
Income from investment securities at amortised cost	7,784	8,470
Income from investment securities at fair value through other comprehensive income	330,031	438,283
Income from investment securities at fair value through income statement	28,664	22,710
Income from investment in real estate	5,854	3,462
	372,333	472,925

23 OTHER INCOME - NET

	31 December 2025	31 December 2024
Income from banking services	66,472	55,304
Income from commodity placements	9,644	6,630
Foreign exchange gain	2,877	18,339
Gain on disposal of fixed assets	2,222	161
	81,215	80,434

24 OPERATING EXPENSES

	31 December 2025	31 December 2024
Salaries and other benefits	86,076	81,922
Office expenses	98,355	81,192
Professional fees	10,927	9,860
Other administrative expenses	23,041	24,820
	218,399	197,794

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25 IMPAIRMENT ALLOWANCE

	31 December 2025	31 December 2024
At 1 January	583,315	593,166
Charge for the year*	38,972	85,188
Write back during the year	(39,340)	(52,433)
Utilised during the year	(21,878)	(32,482)
Exchange differences	1,200	(10,124)
At 31 December	562,269	583,315

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

*In 2024, provision charge for the period includes an amount of \$30.7 million resulting from modification loss from restructuring of a sovereign exposure of a subsidiary.

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

	31 December 2025	31 December 2024
Commodity placements with banks and other financial institutions	109	342
Financing contracts	210,870	212,188
Investment in mudaraba	176	176
Investment in associates	1,473	1,472
Investment securities	141,748	149,718
Investment in Off-balance-sheet assets under management	49,735	49,735
Other assets	55,540	58,048
Development properties	17,679	17,679
Investment in real estate	10,712	21,897
Fixed assets	3,157	990
Intangible assets	71,070	71,070
	562,269	583,315

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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 2025

	Stage 1	Stage 2	Stage 3	Total
Commodity placements with banks and other financial institutions				
Gross exposure	193,726	-	-	193,726
Less: expected credit loss	(109)	-	-	(109)
Net exposure	193,617	-	-	193,617
Financing contracts				
Gross exposure	2,663,935	827,459	266,197	3,757,591
Less: expected credit loss	(5,162)	(70,849)	(134,859)	(210,870)
Net exposure	2,658,773	756,610	131,338	3,546,721
Other assets				
Gross exposure	213,222	7,010	53,339	273,571
Less: expected credit loss	(2,195)	(6)	(53,339)	(55,540)
Net exposure	211,027	7,004	-	218,031
Total gross exposure	3,070,883	834,469	319,536	4,224,888
Less: Total expected credit loss	(7,466)	(70,855)	(188,198)	(266,519)
Total Net exposure	3,063,417	763,614	131,338	3,958,369

31 December 2024

Commodity placements with banks and other financial institutions				
Gross exposure	118,848	-	-	118,848
Less: expected credit loss	(342)	-	-	(342)
Net exposure	118,506	-	-	118,506
Financing contracts				
Gross exposure	1,963,501	770,108	273,532	3,007,141
Less: expected credit loss	(4,341)	(80,107)	(127,740)	(212,188)
Net exposure	1,959,160	690,001	145,792	2,794,953
Other assets				
Gross exposure	129,645	-	56,100	185,745
Less: expected credit loss	(1,948)	-	(56,100)	(58,048)
Net exposure	127,697	-	-	127,697
Total gross exposure	2,211,994	770,108	329,632	3,311,734
Less: Total expected credit loss	(6,631)	(80,107)	(183,840)	(270,578)
Total Net exposure	2,205,363	690,001	145,792	3,041,156

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26 TAXATION

	31 December 2025	31 December 2024
Current taxes	108,420	97,093
Deferred taxes	(6,077)	(5,835)
	102,343	91,258

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

	31 December 2025	31 December 2024
At 1 January	13,777	(12,018)
Charge for the year	(108,420)	(97,093)
Payments made	129,841	58,710
Exchange differences and other movements	(19,535)	64,178
At 31 December	15,663	13,777

Deferred tax liability

	31 December 2025	31 December 2024
At 1 January	(37,889)	(5,327)
Charge for the year	6,077	5,835
Charges due to fair value reserve	20,173	(38,467)
Exchange differences and other movements	1,515	70
At 31 December	(10,124)	(37,889)

In line with the requirements of GloBE rules, the Kingdom of Bahrain has issued and enacted Decree Law No. (11) of 2024 ("Bahrain DMTT law") on 1 September 2024 introducing a domestic minimum top-up tax ("DMTT") of up to 15% on the taxable income of the Bahrain resident entities within the Group for fiscal years beginning on or after 1 January 2025.

As per the Group's assessment of applicability of the Bahrain DMTT law and global anti-base erosion model (GloBE) rules, it has assessed and concluded that it is not in scope for fiscal year 2025 as it does not have total annual consolidated revenue exceeding EUR 750 million in at least two of the four preceding fiscal years

Accordingly, it does not expect to be subject to the Bahrain DMTT law and GloBE rules for the current fiscal year (2025).

Based on the Group's assessment, the Group has determined that it that it will be in scope of the Bahrain DMTT law effective 1 January 2026.

Effective tax rate for a foreign subsidiary is 53.4% (31 December 2024: 54.4%)

Ithmaar Holding B.S.C.

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27 SEGMENT REPORTING

The Group constitutes of two main business segments, namely;

- (i) Retail/ Commercial 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 2025			31 December 2024		
	Retail & Corporate Banking	Asset Management / Investment Banking	Total	Retail & Corporate Banking	Asset Management / Investment Banking	Total
Operating income	721,658	23,095	744,753	885,757	24,554	910,311
Total expenses	223,653	22,273	245,926	198,339	21,585	219,924
Net income before provision and overseas taxation	498,005	822	498,827	687,418	2,969	690,387
Provision and overseas taxation	(99,160)	(2,815)	(101,975)	(113,898)	(10,115)	(124,013)
Less: Net income attributable to quasi-equity	(369,723)	-	(369,723)	(532,655)	-	(532,655)
Net income for the year	29,122	(1,993)	27,129	40,865	(7,146)	33,719
Attributable to:						
Equity holders of the Company	1,384	(263)	1,121	18,042	(7,583)	10,459
Minority interests	27,738	(1,730)	26,008	22,823	437	23,260
	29,122	(1,993)	27,129	40,865	(7,146)	33,719
 Total assets	 6,655,515	 928,722	 7,584,237	 5,935,600	 911,823	 6,847,423
 Total liabilities, quasi equity and equity	 7,354,182	 48,972	 7,403,154	 6,635,762	 30,795	 6,666,557

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27 SEGMENT REPORTING (continued)

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

	31 December 2025			31 December 2024		
	Middle East & Others	Asia	Total	Middle East & Others	Asia	Total
Operating income	24,589	720,164	744,753	29,933	880,378	910,311
Total expenses	34,966	210,960	245,926	34,701	185,223	219,924
Net income before provision and overseas taxation	(10,377)	509,204	498,827	(4,768)	695,155	690,387
Provision and overseas taxation	(21,081)	(80,894)	(101,975)	(12,893)	(111,120)	(124,013)
Less: Net income attributable to quasi-equity	(27,098)	(342,625)	(369,723)	(23,022)	(509,633)	(532,655)
Net income for the year	(58,556)	85,685	27,129	(40,683)	74,402	33,719
Attributable to:						
Equity holders of the Company	(55,902)	57,023	1,121	(38,427)	48,886	10,459
Minority interests	(2,654)	28,662	26,008	(2,256)	25,516	23,260
	(58,556)	85,685	27,129	(40,683)	74,402	33,719
 Total assets	 1,374,796	 6,209,441	 7,584,237	 1,316,849	 5,530,574	 6,847,423
 Total liabilities, quasi equity and equity	 1,565,738	 5,837,416	 7,403,154	 1,495,086	 5,171,471	 6,666,557

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28 ZAKAH

Zakah is directly borne by the owners and investors in off-balance-sheet assets under management and quasi equity. Ithmaar does not collect or pay Zakah on behalf of its owners and its investment accountholders.

29 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2025	31 December 2024
Acceptances and endorsements	96,167	86,350
Guarantees and irrevocable letters of credit	925,816	572,112
Customer and other claims	39,325	14,795
	1,061,308	673,257

Commitments

	31 December 2025	31 December 2024
Undrawn facilities, financing lines and other commitments to finance	2,051,198	1,786,459

As at 31 December 2025, 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 quasi equity, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2025	Banks and financial institutions	Trading and manufacturing	Property and Construction	Government & Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	457,309	-	-	-	-	-	-	457,309
Commodity placements with banks and other financial institutions	193,617	-	-	-	-	-	-	193,617
Financing contracts	318,970	1,608,973	57,359	1,058,685	243,612	236,590	22,532	3,546,721
Investment securities	144,713	25,256	1,497	2,280,304	-	-	54	2,451,824
Investment in associates	96,465	-	12,115	-	-	-	-	108,580
Other assets	10,685	95,830	45,611	23,373	42,502	-	30	218,031
Investment in real estate	-	-	153,770	-	-	-	-	153,770
Development properties	-	-	181,776	-	-	-	-	181,776
Fixed assets	248,451	-	10,328	-	-	-	-	258,779
Intangible assets	12,518	-	4	-	-	-	1,308	13,830
Total assets	1,482,728	1,730,059	462,460	3,362,362	286,114	236,590	23,924	7,584,237
Customer current accounts	530,407	965,781	144,391	234,198	523,738	15,725	39,418	2,453,658
Due to banks, financial and other institutions	1,100,265	-	-	-	-	-	8,340	1,108,605
Other liabilities	195,955	-	64,417	68,459	3,739	-	24,654	357,224
Total liabilities	1,826,627	965,781	208,808	302,657	527,477	15,725	72,412	3,919,487
Quasi equity	1,029,424	756,605	81,440	826,972	689,258	37,425	62,543	3,483,667
Total liabilities and quasi equity	2,856,051	1,722,386	290,248	1,129,629	1,216,735	53,150	134,955	7,403,154
Contingent liabilities and commitments	704,946	1,720,254	29,037	399,822	-	176,289	82,158	3,112,506
31 December 2024								
Total assets	1,378,387	1,180,594	503,442	3,285,341	258,593	211,532	29,534	6,847,423
Total liabilities and quasi equity	2,824,246	1,468,263	258,495	1,254,899	635,529	10,206	214,919	6,666,557
Contingent liabilities and commitments	547,677	1,358,140	33,152	313,833	5,207	187,995	13,712	2,459,716

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

	Asia / Pacific	Middle East	Europe	Others	Total
31 December 2025					
Cash and balances with banks and central banks	388,046	50,132	19,131	-	457,309
Commodity placements with banks and other financial institutions	-	190,522	3,095	-	193,617
Financing contracts	3,108,388	436,401	1,932	-	3,546,721
Investment securities	2,308,420	143,350	54	-	2,451,824
Investment in associates	11,533	97,047	-	-	108,580
Other assets	135,852	22,974	59,205	-	218,031
Investment in real estate	-	153,770	-	-	153,770
Development properties	-	181,776	-	-	181,776
Fixed assets	248,450	10,328	1	-	258,779
Intangible assets	8,752	5,078	-	-	13,830
Total assets	6,209,441	1,291,378	83,418	-	7,584,237
Customer current accounts	2,120,956	144,160	188,286	256	2,453,658
Due to banks, financial and other institutions	442,685	639,399	26,521	-	1,108,605
Other liabilities	266,552	27,687	62,985	-	357,224
Total liabilities	2,830,193	811,246	277,792	256	3,919,487
Quasi equity	3,007,223	472,348	3,510	586	3,483,667
Total liabilities and quasi equity	5,837,416	1,283,594	281,302	842	7,403,154
Contingent liabilities and commitments	3,078,757	33,749	-	-	3,112,506
31 December 2024					
Total assets	5,530,574	1,281,213	35,636	-	6,847,423
Total liabilities and quasi equity	5,171,471	1,199,296	282,846	12,944	6,666,557
Contingent liabilities and commitments	2,392,599	67,117	-	-	2,459,716

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 Quasi equity, is as follows:

	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
31 December 2025							
Cash and balances with banks and central banks	40,647	336,070	33,746	6,977	9,433	30,436	457,309
Commodity placements with banks and other financial institutions	-	-	186,369	7,208	-	40	193,617
Financing contracts	377,185	2,972,924	196,612	-	-	-	3,546,721
Investment securities	24,897	2,308,420	118,453	-	-	54	2,451,824
Investment in associates	-	11,533	97,047	-	-	-	108,580
Other assets	700	167,879	26	895	14	48,517	218,031
Investment in real estate	15,079	-	138,691	-	-	-	153,770
Development properties	-	-	181,776	-	-	-	181,776
Fixed assets	-	248,449	10,310	1	-	19	258,779
Intangible assets	611	8,752	4,467	-	-	-	13,830
Total assets	459,119	6,054,027	967,497	15,081	9,447	79,066	7,584,237
Customer current accounts	311,681	1,990,213	106,824	18,073	8,828	18,039	2,453,658
Due to banks, financial and other institutions	309,501	436,291	14,788	688	341,372	5,965	1,108,605
Other liabilities	1,471	266,581	60,758	11,660	10,748	6,006	357,224
Total liabilities	622,653	2,693,085	182,370	30,421	360,948	30,010	3,919,487
Quasi equity	160,659	2,901,357	408,274	4,858	-	8,519	3,483,667
Total liabilities and quasi equity	783,312	5,594,442	590,644	35,279	360,948	38,529	7,403,154
Contingent liabilities and commitments	1,112,969	1,896,929	33,750	45,885	842	22,131	3,112,506
31 December 2024							
Total assets	414,026	5,467,285	890,852	8,094	1,218	65,948	6,847,423
Total liabilities and quasi equity	462,831	5,034,910	514,667	311,766	338,153	4,230	6,666,557
Contingent liabilities and commitments	866,923	1,391,549	67,117	64,045	5,060	65,022	2,459,716

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 Quasi equity, is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2025						
Cash and balances with banks and central banks	441,449	15,860	-	-	-	457,309
Commodity placements with banks and other financial institutions	179,512	14,105	-	-	-	193,617
Financing contracts	392,860	425,091	1,078,291	1,292,528	357,951	3,546,721
Investment securities	1,093	-	590,473	1,739,239	121,019	2,451,824
Investment in associates	-	-	30,509	-	78,071	108,580
Other assets	94,216	31,809	71,322	1,600	19,084	218,031
Investment in real estate	-	-	-	15,079	138,691	153,770
Development properties	-	-	38,552	143,224	-	181,776
Fixed assets	3,214	8	40,750	53,872	160,935	258,779
Intangible assets	-	-	3,872	8,754	1,204	13,830
Total assets	1,112,344	486,873	1,853,769	3,254,296	876,955	7,584,237
Customer current accounts	2,453,658	-	-	-	-	2,453,658
Due to banks, financial and other institutions	704,134	122,113	52,019	134,030	96,309	1,108,605
Other liabilities	171,091	73,971	2,462	52,999	56,701	357,224
Total liabilities	3,328,883	196,084	54,481	187,029	153,010	3,919,487
Quasi equity	2,512,386	410,397	503,057	57,827	-	3,483,667
Total liabilities and quasi equity	5,841,269	606,481	557,538	244,856	153,010	7,403,154
Net position	(4,728,925)	(119,608)	1,296,231	3,009,440	723,945	181,083
Contingent liabilities and commitments	2,171,014	523,304	389,833	27,246	1,109	3,112,506
31 December 2024						
Total assets	1,232,443	769,969	574,319	3,395,985	874,707	6,847,423
Total liabilities and quasi equity	5,415,595	168,273	782,955	110,916	188,818	6,666,557
Net position	(4,183,152)	601,696	(208,636)	3,285,069	685,889	180,866

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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.

31 December 2025	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	457,309	457,309
Commodity placements with banks and other financial institutions	193,617	-	-	-	-	-	193,617
Financing contracts	1,660,203	601,421	794,478	321,214	159,578	9,827	3,546,721
Investment securities	262,109	18,601	1,459,137	495,206	141,459	75,312	2,451,824
Other assets	1,629	1,629	1,629	20,962	17,215	174,967	218,031
Total financial assets	2,117,558	621,651	2,255,244	837,382	318,252	717,415	6,867,502
Customer current accounts	-	-	-	-	-	2,453,658	2,453,658
Due to banks, financial and other institutions	704,636	107,906	65,726	215,763	14,574	-	1,108,605
Other liabilities	-	-	-	-	-	357,224	357,224
Total financial liabilities	704,636	107,906	65,726	215,763	14,574	2,810,882	3,919,487
Quasi equity	593,107	447,636	769,075	1,127,821	546,028	-	3,483,667
Total liabilities and quasi equity	1,297,743	555,542	834,801	1,343,584	560,602	2,810,882	7,403,154
Total repricing gap	819,815	66,109	1,420,443	(506,202)	(242,350)	(2,093,467)	(535,652)
31 December 2024							
Total financial assets	1,887,048	502,523	1,814,312	878,735	233,090	799,348	6,115,056
Total liabilities and quasi equity	2,002,621	165,324	706,386	859,911	509,327	2,422,988	6,666,557
Total repricing gap	(115,573)	337,199	1,107,926	18,824	(276,237)	(1,623,640)	(551,501)

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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:

	31 December 2025				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Financing contracts	373,422	-	-	-	373,422
Investment in associates	-	108,580	-	-	108,580
Other assets	-	-	-	114	114
Liabilities					
Customers' current accounts	9,330	48	-	-	9,378
Due to banks, financial and other institutions	-	2,424	-	-	2,424
Quasi equity	49,050	6,116	-	-	55,166
Income					
Return to quasi equity	(865)	-	-	-	(865)
Income from financing contracts	3,688	-	-	-	3,688
Share of loss after tax from associates	-	(2,875)	-	-	(2,875)
Profit paid to banks, financial and other institutions	-	(346)	-	-	(346)
Expenses					
Administrative and general expenses	(325)	-	(233)	-	(558)

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32 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2024				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Financing contracts	370,381	-	-	-	370,381
Investment in associates	-	106,584	-	-	106,584
Other assets	-	-	-	98	98
Liabilities					
Customers' current accounts	13,007	60	-	-	13,067
Due to banks, financial and other institutions	-	7,489	-	-	7,489
Other liabilities	24,548	-	-	-	24,548
Income					
Return to quasi equity	(839)	-	-	-	(839)
Income from financing contracts	3,805	-	-	-	3,805
Share of profit after tax from associates	-	(6,934)	-	-	(6,934)
Profit paid to banks, financial and other institutions	-	(457)	-	-	(457)
Expenses					
Administrative and general expenses	(325)	-	(298)	-	(623)

Certain collaterals against financing facilities amounting to \$448.4 million (31 December 2024: \$379.4 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 2024: \$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.

34 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2025 (31 December 2024: Nil).

Ithmaar Holding B.S.C.
Notes to the consolidated financial statements
for the year ended 31 December 2025
(Expressed in thousands of United States Dollars unless otherwise stated)

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:

	Year ended	
	31 December 2025	31 December 2024
INCOME		
Income from other financings	949	916
Share of loss after tax from associates	(3,365)	(7,267)
Income / (loss) from investments	72	(104)
Other income	347	83
Gross income	(1,997)	(6,372)
Less: profit paid to banks, financial and other institutions	(357)	(1,760)
Total loss	(2,354)	(8,132)
EXPENSES		
Administrative and general expenses	(3,367)	(4,245)
Depreciation and amortisation	-	-
Total expenses	(3,367)	(4,245)
Net loss before provision for impairment and overseas taxation	(5,721)	(12,377)
Provision for impairment (net)	5,628	5,868
Net loss before overseas taxation	(93)	(6,509)
Overseas taxation	(1,643)	(955)
NET LOSS FOR THE YEAR	(1,736)	(7,464)
Attributable to:		
Equity holders of the Company	(2,180)	(7,493)
Non-controlling interests	444	29
	(1,736)	(7,464)
Basic and diluted losses per share	US Cts (0.07)	US Cts (0.26)

36 SOCIAL RESPONSIBILITY

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

37 COMPARATIVES

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or total equity.