



ITHMAAR BANK B.S.C. (c)

Public Disclosures as at 30 June 2024

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1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (c)'s (Ithmaar Bank/Bank/Group) consolidated financial statements for the period ended 30 June 2024, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio.
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process.
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Bank's Internal Capital Adequacy Assessment Process (ICAAP) policy provides the required guidelines and methodologies to assess the Bank's capital requirements for Pillar 1 and Pillar 2 risks and thereby ensures that the Bank meets the capital requirements as mandated by the CBB in line with the Capital Adequacy (CA) module for Pillar 1 risks and the ICAAP Module for all pillar 2 risks. Capital management also ensures that shareholders' value is protected and enhanced.

The Bank adopts a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines. Under this approach, the Bank calculates the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's capital adequacy guidelines as prescribed in the CA module of the CBB rulebook. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements as per CBB guidelines. To ensure that the business model is thoroughly examined and subject to sufficient analysis, ICAAP is supported with comprehensive Stress Testing in line with the Stress Testing Module of CBB rulebook.

A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar Bank supporting both current and future activities. Ithmaar Bank's capital position is monitored on a regular basis and reported to the management, the Audit, Governance, Risk, Nomination and Remuneration Committee (AGRNRC) and the Board of Directors.

3. **Capital management (continued)**

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 30% at aggregate level. Any exposure over and above the threshold are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted at 800%.

4. **Approaches adopted for determining regulatory capital requirements**

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. **Regulatory Capital components**

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,919,105	130,209	67	Pakistan	Banking	Aggregation
Dilmunia Development Fund I L.P.	65,484	56,994	92	Cayman Islands	Real estate	Risk weight

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	2,444,680
FAS 30 Transitional impact	21,630
Modification loss & ECL transitional impact	18,403
Aggregation	38,166
Balance sheet as in Regulatory Return	2,522,879

5. Regulatory Capital components (continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 30 June 2024

	As per published financial statements	As per Consolidated PIRI
Assets		
Cash and balances with banks and central banks	22,699	22,699
Commodity placements with banks, financial and other institutions	20,573	20,573
Financing Assets	325,288	325,288
Investment securities	36,505	36,505
Other assets	359	359
Property and equipment	51	51
Intangible assets	613	613
Assets classified as held for sale	2,038,592	2,038,592
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	38,166
Total Assets	2,444,680	2,522,879
Liabilities & Quasi equity		
Quasi equity	13,115	13,115
Quasi equity directly associated with assets classified as held for sale	1,046,942	1,046,942
Other liabilities	294,894	294,894
Other liabilities directly associated with assets classified as held for sale	991,842	991,842
Total Liabilities & URIA	2,346,793	2,346,793
Minority Interest	49,715	49,715
Owners' Equity		
Share capital	100,000	100,000
Reserves	(52,986)	(52,986)
of which eligible for CET1	-	(37,097)
Accumulated losses	1,158	1,158
of which eligible for CET1	-	(60,377)
FAS 30 Transitional impact	-	21,630
Modification loss & ECL transitional impact	-	18,403
Aggregation	-	38,166
Total Owners' Equity	48,172	126,371
Total Liabilities + Owners' Equity	2,444,680	2,522,879

5. Regulatory Capital components (continued)

Step 3: Common disclosure template as at 30 June 2024

Common Equity Tier 1 capital: instruments and reserves:	Amount
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	100,000
Retained earnings	(60,377)
of which Modification loss including ECL provisions relating to stage 1 & 2	18,403
Expected Credit Losses (ECL) Stages 1 & 2	(52,762)
of which FAS 30 Transitional impact	21,630
Reserves	(37,097)
Aggregation & deductions	129,159
Common Equity Tier 1 capital before regulatory adjustments	118,956
Total regulatory adjustments to Common equity Tier 1	118,956
Tier 1 capital (T1 = CET1 + AT1)	118,956
Tier 2 capital: instruments and provisions:	
FAS 30 Transitional impact	7,415
Tier 2 capital (T2)	7,415
Total capital (TC = T1 + T2)	126,371
Total Risk Weighted Assets (RWA)	834,678
Capital ratios and buffers:	
Common Equity Tier 1 (as a percentage of risk weighted assets)	14.25%
Tier 1 (as a percentage of risk weighted assets)	14.25%
Capital Adequacy Ratio (CaR)	15.14%
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
of which: capital conservation buffer requirement	2.5
of which: bank specific countercyclical buffer requirement	N/A
of which: D-SIB buffer requirement	N/A
National minimum including CCB (where different from Basel III)	
CBB Common Equity Tier 1 minimum ratio	9.0
CBB Tier 1 minimum ratio	10.0
CBB total capital minimum ratio	12.5

Ithmaar Bank B.S.C. (c)**Public Disclosures at 30 June 2024**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (continued)**Breakdown of total balance sheet between continuing and discontinued operations**

The CBB Rules and Guidelines do not specifically address the disclosure requirement for "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" in the form PIRI. Currently, the Bank has reported the amounts forming part of these two disclosures in the respective assets/liability in the form PIRI.

Assets	Continuing Operations	Assets classified as held for sale	As per PIRI
Cash and balances with banks and central banks	22,699	131,280	153,979
Commodity placements with banks, financial and other institutions	20,573	88	20,661
Financing Assets	325,288	845,572	1,170,860
Investment securities	36,505	882,182	918,687
Investment in associates	-	1,856	1,856
Other assets	359	53,316	53,675
Investment in real estate	-	3,923	3,923
Development properties	-	52,004	52,004
Property and equipment	51	63,494	63,545
Intangible assets	613	4,877	5,490
Total Assets	406,088	2,038,592	2,444,680
Liabilities & Quasi equity			
Quasi equity	13,115	1,046,942	1,060,057
Other liabilities	294,894	991,842	1,286,736
Total Liabilities & URIA	308,009	2,038,784	2,346,793

Ithmaar Bank B.S.C. (c)**Public Disclosures at 30 June 2024**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. Tier one capital ratios and Total capital ratios:

	Tier One	Total
	Capital	Capital
	Ratio (including	Ratio (including
	conservation	conservation
	buffer)	buffer)
Bank's consolidated	14.25%	15.14%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	16.70%	19.10%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Ithmaar Bank's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar Bank and seek to minimize the potential adverse effects on its financial performance. Ithmaar Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the CBB, sound principles of risk management issued by Bank of International Settlements, international best practices and AAOIFI wherever applicable.

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

Ithmaar Bank's Risk Management Charter lays the foundations for a risk governance structure. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the ICAAP report of Ithmaar Bank. The risk strategy is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Head - Risk Management with a direct reporting line to the AGRNRC. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for all transactions. Furthermore, the culture of risk is embedded in the business through a rigorous set of controls, checks and balances. As part of Ithmaar Bank's continuous improvement initiatives, Ithmaar Bank reviews existing risk policies and procedures and develops new policies and procedures by benchmarking the same to changes or new requirements in the regulatory and external environment. The Board reviews and approves the Business Discretionary Powers policy which establishes the approval authorities and limits for specific transactions.

7.2.2 Equity Risk in Banking Book

Ithmaar Bank's exposure to equity risk in the Banking book relates to its investment exposures. Ithmaar Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management committee or Board level committees depending on the asset value.

7.2.3 Material Transactions- Board Approval

All financing and investment exposures above a defined value requires the approval of the Board. Additionally, all related party transactions and irrespective of their value require the approval of the Board.

7. Risk Management (continued)

7.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank and to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies are in place. The risk policies set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country and industry. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

7.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. Ithmaar Bank has established a General Financing Policy which details the core business principles, which are central to the Bank's Credit culture, as well as general guidelines for permitted and restricted transactions. The Bank also has well documented policies which describe the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

7. Risk Management (continued)

7.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

Ithmaar Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a internal credit risk rating model. This enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status so that corrective actions can be implemented wherever required. The internal credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers. The Bank has in place policy guidelines to map the external ratings to internal ratings.

A centralized credit risk management system is in place where all corporate credit and financial institutions proposals are independently reviewed by the Risk Management Department (RMD) before the same are approved by appropriate approval authorities.

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

In respect of corporate performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application for the computation of ECL based on risk parameters configured in the application.

All provisioning requirements for financing and investment exposures are discussed and approved by the Investment and Credit Committee of the Bank.

Unrestricted FUM assets

The Funds under Management Policy provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country and industry. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any proposed exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7. Risk Management (continued)

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit risk management process that enables Ithmaar Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. The Risk Management Department is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. The Risk Management Department seeks information from different business and support units on a regular basis to perform this function. The Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Risk Appetite Framework provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the AGRNRC at quarterly intervals.

7.4.5 Credit Risk Mitigation

Ithmaar Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Ithmaar Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets which meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be legally enforceable within the applicable laws;
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

Based on the above conditions, the following assets may be considered as Primary Collaterals:

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

In case of assets pledged as part of financing contracts, the Bank considers the pledged assets as collateral at a value determined post the valuation of the assets. The valuation guidelines and the haircuts applied on the pledged assets are as per the Credit Risk Mitigation Policy of the Bank.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

7. Risk Management (continued)

7.4.5 Credit Risk Mitigation (continued)

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charges over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets;
- Pledge of unlisted securities such as shares, bonds and debentures;
- Assignment of life insurance endowment policies -to the extent of cash surrender value;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks, Tamkeen, and the government;
- Assignment of contract proceeds, lease, or rent;
- Shares of companies, which are not quoted or traded regularly in an acceptable financial market;
- Shares in closed companies, partly paid up shares and shares whose sale is restricted in any way; and
- Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures.

7.4.5.1 Collateral valuation

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

7.4.5.2 Collateral Concentration

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

7.4.5.3 Collateral Management

Documents related to collaterals provided to Ithmaar Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. An adequate MIS supporting the management of the collateral is in place.

The Bank has defined practices for disposal or enforcement of collateral. On the Debtors default, the Bank (i.e. the secured party) can either take possession of the collateral or file a case against the debtor for enforcement of security. The Bank sends a reasonable authenticated notification of disposal through the court. The notice is intended to provide the debtor and other interested parties , an opportunity to monitor the disposition of the collateral. A specific amount of time is normally given to the borrowers during which they can pay off the debt or the property will be sold through the court. The final settlement of the matter will be in line with the decision taken by the court/judge.

7. Risk Management (continued)

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off. This policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any installment is past due for 90-days or more. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. Ithmaar Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

In respect of General Provisions, the Bank has subscribed to the provisions of FAS30 for the computation of Expected Credit Losses (ECL), as per the directives of Central Bank of Bahrain. In order to enable the computation of the ECL, a detailed policy 'FAS30 Expected Credit Policy' is in place. The Bank has automated the computation of the ECL by implementing a software application called the Loan Impairment Calculator with effect from 1 January 2018.

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar Bank. Definition also includes Issuer of securities held as collateral by Ithmaar Bank. The Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. The Credit Risk Mitigation Policy provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

7.4.8 ECAI Ratings

Ithmaar Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Moodys and Fitch ratings are considered while assigning the corresponding risk weights for the exposures. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy. ECAI ratings are applied, where applicable, to all credit and investment exposures.

7. Risk Management (continued)

7.4.9 Related party transactions

As per the Bank's policies, connected counterparties' includes legal and natural persons connected with the Bank, including, in particular; controllers of the Bank (and Board members, senior management and key staff of the controller, the controller's appointed Board representatives, subsidiaries and associated companies of controllers including their Board members, senior management and key staff), approved persons of the licensee, as defined by Module LR-1A, and their close family members (as defined by IFRS – IAS 24); associated companies not mentioned hereinabove, unconsolidated subsidiaries and members of the Shari'a Supervisory Board ('SSB'), if any.

The erstwhile Ithmaar Bank B.S.C. (now Ithmaar Holding B.S.C.) has undergone major reorganization in 2017. As part of this reorganization, Ithmaar Holding B.S.C. and its wholly owned subsidiaries Ithmaar Bank B.S.C. (c) and IB Capital B.S.C.(C) have executed certain contracts between three entities and as most of the Directors are common for all three entities, there is an apparent conflict of interest as these contracts were approved by Directors who represented both entities who were party to the contracts. Given the reorganization requirements, ownership structure and Directors being common, contracts between these entities are considered as related party transactions but the conflict of interest is not considered to be applicable to ensure minimum quorum for voting.

Declarations of Interest:

On taking office, Members of the Board of Directors of the Bank are required to disclose all interests and relationships which could or might be seen to affect their ability to perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit. This declaration of interest is updated on an annual basis.

Approval of Related Party Transactions:

- All related party transactions are approved by the Board of Directors.
- Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.
- Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.
- Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per CBB rulebook and the Limit Management Policy of the Bank.
- In particular, Members of the Board of Directors of the Bank disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors inform the Bank when there are changes in his / her interests, and the Shareholders affairs unit update the Register of Interests at least on an annual basis.

During 2024, Directors having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.

8. Disclosure of the regulatory capital requirements for credit risk under standardized approach:**Exposure funded by Self Finance**

	Risk weighted assets	Capital requirement
Claims on banks	18,387	2,298
Claims on corporate portfolio	7,875	984
Real Estate	90,943	11,368
Aggregation	471,593	58,949
Total	588,798	73,599

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	3,468	434
Past due facilities	897	112
Total	4,365	546

URIA assets are risk weighted as per the counterparty classification in line with CBB regulations using alpha factor of 30% in accordance with CA module CA-1.1.11.

9. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	22,699	20,219
Commodity placements with banks, financial and other institutions	20,573	19,826
Financing Assets	325,288	322,887
Investments	36,505	36,468
Other assets	359	525
Property and equipment	51	79
Intangible assets	613	600
Assets classified as held for sale	2,038,592	2,082,505
Total on balance sheet credit exposure	2,444,680	2,483,109
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	228,504	212,481
Financing commitments, Undrawn facilities and other credit related liabilities	533,396	531,275
Total off balance sheet credit exposure	761,900	743,756
Total credit exposure	3,206,580	3,226,865
Total credit exposure financed by URIA	1,060,057	1,068,723
Total credit exposure financed by URIA (%)	33.06%	33.12%

The average gross credit exposure represent average balances for 31 March 2024 and 30 June 2024 due to asset held for classification during 2024.

Exposures amounting to BD0.7 million are covered by guarantee.

9. 1 Eligible Collaterals Held (After Appropriate Haircuts)

Type of collateral	After Appropriate Haircuts
Lien On Modarabah/Current/Saving Account	22,075
Guarantee	315,444
Mortgage over property	1,415,129
Movable assets	75,942
Securities	142,756
Total collateral after appropriate haircuts	1,971,346

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

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(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. Geographical distribution of credit exposures:

	Asia	Middle East	Europe	Total
On-balance sheet items				
Cash and balances with banks and central banks	-	22,699	-	22,699
Commodity placements with banks, financial and other institutions	-	20,573	-	20,573
Financing Assets	-	324,568	720	325,288
Investment	-	36,505	-	36,505
Other assets	-	343	16	359
Property and equipment	-	51	-	51
Intangible assets	-	613	-	613
Assets classified as held for sale	1,919,105	119,487	-	2,038,592
Total on balance sheet items	1,919,105	524,839	736	2,444,680
Off balance sheet items	761,900	-	-	761,900
Total credit exposure	2,681,005	524,839	736	3,206,580

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

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(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. Industrial distribution of credit exposures:

	Banks and Financial Institutions	Trading and manufacturing	Property and construction	Services	Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	22,699	-	-	-	-	-	-	22,699
Commodity placements with banks, financial and other institutions	20,573	-	-	-	-	-	-	20,573
Financing Assets	260,593	25,721	29,285	8,894	795	-	-	325,288
Investments	36,322	-	-	-	-	-	183	36,505
Other assets	351	-	-	-	-	-	8	359
Property and equipment	-	-	51	-	-	-	-	51
Intangible assets	613	-	-	-	-	-	-	613
Assets classified as held for sale	1,789,647	2,468	62,008	181,391	338	2,576	164	2,038,592
Total on balance sheet items	2,130,798	28,189	91,344	190,285	1,133	2,576	355	2,444,680
Off balance sheet items	158,284	417,732	3,581	95,510	11,502	31,170	44,121	761,900
Total credit exposure	2,289,082	445,921	94,925	285,795	12,635	33,746	44,476	3,206,580

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12. Contractual Maturity breakdown of credit exposures & funding liabilities:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	22,699	-	-	-	-	-	-	22,699
Commodity placements with banks, financial and other institutions	20,573	-	-	-	-	-	-	20,573
Financing Assets	145,032	2,514	125,988	51,754	-	-	-	325,288
Investments	-	-	-	36,505	-	-	-	36,505
Other assets	359	-	-	-	-	-	-	359
Property and equipment	-	-	-	-	51	-	-	51
Intangible assets	-	-	-	-	613	-	-	613
Assets classified as held for sale	487,226	144,386	250,998	1,016,082	100,339	39,561	-	2,038,592
Total on balance sheet items	675,889	146,900	376,986	1,104,341	101,003	39,561	-	2,444,680
Off balance sheet items	463,435	141,500	107,390	48,357	1,218			761,900
Total credit exposure	1,139,324	288,400	484,376	1,152,698	102,221	39,561	-	3,206,580
Customers' current accounts	79,161	-	-	-	-	-	-	79,161
Due to banks, financial and other institutions	152,970	3,210	2,851	38,803	-	-	-	197,834
Other liabilities	17,892	-	7	-	-	-	-	17,899
Liabilities directly associated with assets classified as held for sale	912,943	3,121	11,337	3,550	32,847	28,044	-	991,842
Total quasi equity	978,338	3,593	78,126	-	-	-	-	1,060,057
	2,141,304	9,924	92,321	42,353	32,847	28,044	-	2,346,793

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13. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 30 June 2024 were as follows:

Affiliated companies	332,794
Directors & key management	18
Total	332,812

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

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	28,334	20,809	7,525
Agriculture	1,174	935	239
Construction	17,616	9,018	8,598
Finance	1,692	336	1,356
Trade	11,016	5,447	5,569
Personal	2,181	1,617	564
Other sectors	15,527	4,528	10,999
Total	77,540	42,690	34,850

Ageing analysis

Over 3 months up to 1 year	19,575	8,306	11,269
Over 1 year up to 3 years	4,328	2,049	2,279
Over 3 years	53,637	32,335	21,302
Total	77,540	42,690	34,850

**Details of impairment provisions
at 30 June 2024**

	Total
At 1 January	42,570
Charge for the period	15,867
Write back during the period	(4,200)
Utilised during the period	(11,720)
Exchange differences	173
Closing balance	42,690

15. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	47,369	25,240	22,129
Middle East	30,171	17,450	12,721
Total	77,540	42,690	34,850

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

Restructured financings during the period ended 30 June 2024 aggregated to BD 45 million (31 December 2023: BD 29.8 million).

17. Credit exposures which are covered by eligible financial collateral:

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	338,138	5,025
Total	338,138	5,025

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	48,708	2,433
Total	48,708	2,433

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Foreign Exchange Contracts	664	-	-	664	631
Total	664	-	-	664	631

18. Market Risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Market Risk Management Policy address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the AGRNRC.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below

18.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department. Foreign exchange risk management in Ithmaar Bank is ensured through regular measurement and monitoring of open foreign exchange positions.

18.1.2 Profit rate risk:

Profit rate risk is the risk that Ithmaar Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar Bank's results may not allow Ithmaar to distribute profits in line with the market rates.

18.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of Ithmaar Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk:

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy is approved by the Board and amendments to the policies are approved by the Board. The senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

- 1 The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.
- 2 A limit structure has been established to monitor and control the market risk in its portfolio.
- 3 Each new product/process is reviewed to manage the market risk.
- 4 Appropriate measurement techniques are in place to proactively measure and monitor market risk.
- 5 Stress testing is conducted regularly to assess the impact of changes in the market variables.
- 6 Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

18. Market Risk (continued)

18.3 Market risk management measurement and monitoring

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight forex open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management Department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar Bank's overall exposure to market risk. Reports of such review is submitted to the ALCO and the AGRNRC.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the ALCO and AGRNRC. The reports provide Ithmaar Bank's ALCO and AGRNRC an update on the market risk exposure in the books.

18.7 Stress Testing

Ithmaar Bank conduct stress testing of its portfolio as part of the ICAAP process in accordance with stress testing module of the CBB

The Bank's stress testing framework is embedded in the overall risk management process. The Bank has established an adequate governance process for effective oversight and implementation of the stress testing framework.

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted assets			Capital requirement		
	30 June 2024	Maximum Value	Minimum Value	30 June 2024	Maximum Value	Minimum Value
Foreign exchange risk	18,614	18,614	18,667	2,327	2,327	2,333
Aggregation						
Foreign exchange risk	1,802	1,802	581	225	225	73
Profit Rate Risk (Trading Book)	57,309	57,309	44,154	7,164	7,164	5,519
Equity Position Risk	2,565	2,565	13,989	321	321	1,749
Total	80,290	80,290	77,391	10,037	10,037	9,674

20. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 30 June 2024 amounted to BD77.6 million (31 December 2023: BD77.2 million) (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 30 June 2024 were as follows:

	<u>Long/(Short)</u>
Pakistani Rupee	129,411
United States Dollars	49,374

21. Equity position in Banking book

At 30 June 2024, the Group's investment securities aggregated to BD918.6 million (31 December 2023: BD860.7 million). Out of the total investment securities, BD106.5 million (31 December 2023: BD98.7 million) were listed investment securities and the remaining BD812.1 million (31 December 2023: BD762 million) represented unlisted investment securities.

Cumulative realized gain from sale of investment securities during the period ended 30 June 2024 amounted to BD88.4 million (31 December 2023: BD124.4 million). Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD12.7 million (31 December 2023: BD12.7 million).

At 30 June 2024, capital requirements using standardized approach aggregated to BD0.19 million (31 December 2023: BD0.18 million) for listed investment securities and BD0.04 million (31 December 2023: BD0.03 million) for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

22. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk:

- Maturity mismatch: The non-alignment of maturities/re-pricing dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar Bank in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar Bank's counterparties, to make prepayments or early withdrawals can leave Ithmaar Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

22.2. Profit rate risk strategy

The Board of Ithmaar Bank approves and reviews the profit rate risk strategy and amendments to the Market risk policies. The ALCO is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch gap between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar Bank wishes to engage in

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs).
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar Bank will adopt EVE measure using duration (weighted-average term to-maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings.

Ithmaar Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the AGRNRC.

22.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. The impact of every 200 basis point change is as follows:

	USD	PKR	AED
Total profit rate exposure	49,374	129,411	122,931
Rate shock (assumed) (+/-)	2.00%	2.00%	2.00%
Total estimated impact (+/-)	987	2,588	2,459

23. Operational Risk

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

Ithmaar Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar Bank is able to manage the operational risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar Bank.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

23.2 Operational risk monitoring and reporting

Report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar Bank's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process are identified and evaluated taking into consideration the inherent risk and residual

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile.

The Bank has an Operational Risk Management Committee (ORMC) which supervises the effective implementation of the Operational Risk across all banking activities. Results of all Operational Risk monitoring and management activities and initiatives are presented to the ORMC

The AGRNRC is periodically updated on the operational risk profile which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associated activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile.

23. Operational Risk (continued)

23.4 Business Continuity Plan

Ithmaar Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

A Business Continuity Steering Committee has been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar Bank.

23.5 Information Security

Ithmaar Bank's Information Security and compliance function is to prevent disruptions and protect data stored in the Information Security systems as it would impact Bank's business objective, its operations and also impede the main pillars of Information Security (Confidentiality, Integrity, Availability and Privacy).

The function continually strengthens and improves the overall capabilities of the information security management system by ensuring that Ithmaar Bank's Information Security process is complete, reliable

It is also ensured that information security related operations continue to be carried out in line with international standards such as (IEC/ISO 27001 and PCI-DSS). It is also ensured that on-going training and awareness on information security is provided to the employees of the Bank. Towards this end on-line training and awareness sessions on information security is provided to the employees of the Bank.

The Bank is IEC/ISO 27001 and PCI-DSS certified, this reflects the importance assigned to information security by the Bank.

The Information Security Function actively performs various tasks in terms of:

- Cyber and Information security training
- Security Certification compliance and assurance
- Review and preparation of Information security policies and procedures
- Incident response management
- Active monitoring and auditing of Applications and systems
- Provides reports and assistance to the information security steering committee
- Engagement in Bank's on-going projects
- Bank's compliance with Bahrain Information security laws and Regulatory requirements

23.6 Reputation Risk

The Reputational Risk Management is defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organization and exposure to reputational risk is essentially a function of the adequacy of the bank's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on bank-related transactions. Reputational risk also may affect a bank's liabilities, since market confidence and a bank's ability to fund its business are closely related to its reputation.

The Bank has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/nonfiduciary clients.

The Bank also adopts risk mitigation approaches that refer to shaping products, business transactions and other processes that may result in a reputational risk.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 30 June 2024 aggregated to BD 20.15 million (31 December 2023: BD19.9 million).

25. Liquidity Risk

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

Liquidity risk arises either:

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

Liquidity risk management ensures that funds are available at all times to meet the funding requirements. Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO. ALCO is responsible for setting the framework and for effective monitoring of Ithmaar Bank's liquidity risk. Ithmaar Bank's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. The Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified. The Bank monitors and manages the funding from each of the funding sources such as current accounts and URIA accounts and has established appropriate limits to prevent concentration of funding sources and ensure diversification of funding.

The Liquidity Risk Management Policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and various other liquidity ratios as required under the provisions of the LM Module and the funding maturity profile on a regular basis. Risk Management Department submits a quarterly report to the AGRNRC which includes an analysis of Ithmaar Bank's adherence to various liquidity risk metrics established in the Risk Appetite Framework of the Bank.

25.2. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar Bank based on certain Board approved parameters is also performed and presented to the AGRNRC on a quarterly basis.

25.3. Liquidity Contingency Management

Ithmaar Bank has also a Liquidity Contingency Policy which provides guidelines to manage either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

25.4. Liquidity ratios:

	<u>30 June 2024</u>
Liquid assets to total assets	7.14%
Short term assets to short term liabilities	53.48%

25.5. Liquidity ratios:

The detailed breakdown of the average 90 day LCR as of 30 June 2024 is detailed below.

Description		Total Unweighted Value (average)	Total Weighted Value (average)
HIGH-QUALITY LIQUID ASSETS (HQLA)			
1	Total HQLA	-	596,205
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	545	16
4	Less stable deposits	638,302	67,086
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	34,232	8,558
7	Non-operational deposits (all counterparties)	840,462	517,445
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	1,957	1,957
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	82,668	6,027
14	Other contractual funding obligations	75,371	75,371
15	Other contingent funding obligations	494,784	24,740
16	TOTAL CASH OUTFLOWS	-	701,200
CASH INFLOWS			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	231,764	131,709
19	Other cash inflows	-	-
20	TOTAL CASH INFLOWS	231,764	131,709
21	TOTAL HQLA	-	596,205
22	TOTAL NET CASH OUTFLOWS	-	569,491
23	LIQUIDITY COVERAGE RATIO (%)	-	105%

25.6. Net Stable Funding Ratio:

The detailed breakdown of the NSFR as of 30 June 2024 is detailed below.

No.	Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
		Nov specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
1	Capital:	118,956	-	-	7,415	126,371
2	Regulatory Capital	118,956	-	-	-	118,956
3	Other Capital Instruments	-	-	-	7,415	7,415
4	Retail deposits and deposits from small business customers:	-	652,548	47,341	2,502	635,021
5	Stable deposits	-	51,666	687	16	49,752
6	Less stable deposits	-	600,882	46,654	2,486	585,269
7	Wholesale funding:	-	671,726	290,079	360,325	699,242
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	671,726	290,079	360,325	699,242
10	Other liabilities:	-	277,246	-	5,834	5,834
11	NSFR Shari'a-compliant hedging contract liabilities	-	8,579	-	-	-
12	categories	-	268,667	-	5,834	5,834
13	Total Available Stable Funding (ASF):	-	-	-	-	1,466,468
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	39,724
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing loans and securities:	-	391,389	168,693	649,130	794,901
17	Performing loans to financial institutions secured by Level 1 HQLA	-				
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	27,678	5,386	7,378	14,222
19	Performing loans to non- financial corporate clients, loans to retail and small business	-	363,711	163,307	498,179	686,961
20	¹ - With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	116,682	75,843
21	Performing residential mortgages, of which:					
22	¹ - With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	25,761	16,745
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,130	1,130
24	Other assets:	-	262,887	-	-	262,887
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-		-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	1,716	-	-	1,716
29	All other assets not included in the above categories	-	261,171	-		261,171
30	Off Balance Sheet items	-	597,179	-	-	29,859
31	Total RSF					1,127,371
32	Net Stable Funding Ratio (%)					130%

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25.7. Leverage Ratio

S No.	Description	Amount
1	Tier 1 Capital	118,956
	On Balance Sheet Assets	
2	Self Finance	1,402,620
3	URIA	1,056,053
4	Off Balance (with conversion CCFs)	316,998
5	Total Assets (2+3*(0.3)+4)	2,036,434
6	Leverage Ratio (1/5)	5.84%

26. Legal contingencies

At 30 June 2024, the Group had contingent liabilities towards customer and other claims aggregating to BD40.2 million (31 December 2023: BD39.3 million). The management is of the view that these claims are not likely to result into potential liabilities.

During the period, the Bank was subject to financial penalty of Nil (31 December 2023: Nil).

27. Displaced Commercial Risk

Ithmaar Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. As per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are borne by the IAHs, Ithmaar Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar Bank may forgo its share of profits as modareb to match the IAHs.

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank:

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIA products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar Bank. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risk.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

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28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	30 June 2024		31 December 2023		31 December 2022		31 December 2021		31 December 2020	
	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount
Income from unrestricted investment accounts	15.8%	169,089	26.9%	276,999	17.8%	176,985	4.0%	85,843	5.6%	91,603
Less: return to unrestricted investment accounts & provisions	-10.6%	<u>(113,036)</u>	-16.4%	<u>(169,301)</u>	-9.5%	<u>(93,914)</u>	-1.8%	<u>(38,293)</u>	-3.4%	<u>(55,655)</u>
Group's share of income from unrestricted investment accounts as a Mudarib	5.2%	<u>56,053</u>	10.5%	<u>107,698</u>	8.4%	<u>83,071</u>	2.9%	<u>47,550</u>	2.2%	<u>35,948</u>

For the period ended 30 June 2024 the return generated from unrestricted investment accountholders based on the average balance outstanding during the period stood at 2.4% per annum (30 June 2023: 2.3%). The return paid to unrestricted investment accountholders based on the average balance outstanding during the period at 3.2% per annum (30 June 2023: 2.9%).

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

29. Average declared rate of return on General Mudaraba deposits:

	30 June 2024	31 December 2023	31 December 2022	31 December 2021	31 December 2020
30 Days	1.50	1.50	1.45	1.25	1.27
90 Days	1.75	1.75	1.70	1.50	1.55
180 Days	1.90	1.90	1.85	1.68	1.80
360 Days	2.55	2.55	2.50	2.33	2.45
3 Years	2.85	2.85	2.80	2.58	2.75

30. Movement in Profit Equalization Reserve and Investment Risk Reserve:

30 June 2024

Profit Equalization Reserve

As at 30 June 2024 Nil

Investment Risk Reserve

As at 30 June 2024 Nil

30 June 2024, the ratio of financings to URIA stood at 78%.

30 June 2024, the percentage of each type of Islamic financing to total URIA financing was as follows:

**Percentage
Financing to
Total URIA
Financing**

Murabaha and other financings 100.00%

The following table summarizes the breakdown of URIA

30 June 2024

Exposure : Banks 219,548
Exposure : Non-Banks 840,509

31. Performance ratios

	30-Jun-24	31 December			
		2023	2022	2021	2020
Return on average assets	0.57%	0.53%	0.30%	0.16%	-0.36%
Return on average Shareholders' equity	17.63%	10.39%	7.77%	-1.09%	-23.71%
Cost to operating income ratio	52.54%	58.00%	69.40%	84.72%	83.36%

32. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

Deposits and Unrestricted Investment Accounts held with the Bank in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB in accordance with Resolution No.(34) of 2010.

During the period, Group had non-sharia income of BD95k (30 June 2023: BD295k)