

ITHMAAR BANK B.S.C. (C)

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

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Review report on the interim condensed consolidated financial information to the Board of Directors of Ithmaar Bank B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Ithmaar Bank B.S.C. (c) (the “Bank”) and its subsidiaries (the “Group”) as at 30 June 2020 and the related interim condensed consolidated income statement, and the related interim condensed consolidated statements of changes in owners’ equity, cash flows and changes in restricted investment accounts for the six month period then ended and explanatory notes (on pages 4 to 28). The directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation stated in note 2 to this interim condensed consolidated financial information. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information (on pages 4 to 28) is not prepared, in all material respects, in accordance with basis of preparation stated in note 2 of this interim condensed consolidated financial information.

Partner’s registration no. 196
20 August 2020
Manama, Kingdom of Bahrain

Ithmaar Bank B.S.C. (C)

Interim condensed consolidated statement of financial position

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Note	At 30 June 2020	At 31 December 2019	At 30 June 2019
		(Reviewed)	(Audited)	(Reviewed)
ASSETS				
Cash and balances with banks and central banks	3	296,007	253,124	280,465
Commodity and other placements with banks, financial and other institutions	4	143,090	127,602	88,220
Murabaha and other financings	5	1,381,136	1,497,391	1,553,788
Musharaka financing		246,302	239,452	187,565
Sukuk and investment securities	6	591,865	523,702	354,367
Assets acquired for leasing		145,431	148,084	151,023
Other assets	7	56,654	55,544	79,540
Investment in real estate		2,216	2,398	2,878
Development properties		75,838	75,838	79,296
Fixed assets		21,120	22,235	17,381
Intangible assets		31,336	33,576	39,587
Total assets		2,990,995	2,978,946	2,834,110
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, NON-CONTROLLING INTEREST AND OWNERS' EQUITY				
Customers' current accounts		595,990	572,466	571,866
Due to banks, financial and other institutions		468,273	501,616	404,391
Due to investors		532,600	589,550	591,986
Other liabilities		103,453	104,908	140,589
Total liabilities		1,700,316	1,768,540	1,708,832
Equity of unrestricted investment accountholders	9	1,174,123	1,063,928	983,185
Non-controlling interest		54,877	67,307	65,890
Total liabilities, equity of unrestricted investment accountholders and non-controlling interest		2,929,316	2,899,775	2,757,907
Share capital	10	100,000	100,000	100,000
Reserves		5,626	7,590	2,888
Accumulated losses		(43,947)	(28,419)	(26,685)
Total owners' equity		61,679	79,171	76,203
Total liabilities, equity of unrestricted investment accountholders, non-controlling interest and owners' equity		2,990,995	2,978,946	2,834,110

This interim condensed consolidated financial information was approved by the Board of Directors on 20 August 2020 and signed on its behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Elham Hasan
Director




Ahmed Abdul Rahim
CEO


The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.


Ithmaar Bank B.S.C. (C)
Interim condensed consolidated income statement
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Note	Six months ended	
		30 June 2020 (Reviewed)	30 June 2019 (Reviewed)
INCOME			
Income from unrestricted investment accounts		40,450	39,700
Less: return to unrestricted investment accounts and impairment provisions		(21,536)	(26,926)
Group's share of income from unrestricted investment accounts as a Mudarib		18,914	12,774
Income from murabaha and other financings		32,061	37,654
Income from sukuk and investment securities		28,788	17,086
Other income		13,488	11,671
Total income		93,251	79,185
Less: profit paid to banks, financial and other institutions – net		(43,075)	(38,823)
Operating income		50,176	40,362
EXPENSES			
Administrative and general expenses		(29,119)	(27,703)
Depreciation and amortization		(4,530)	(4,213)
Total expenses		(33,649)	(31,916)
Net income before provision for impairment and overseas taxation		16,527	8,446
Provision for impairment – net	8	(10,669)	1,646
Net income before overseas taxation		5,858	10,092
Overseas taxation		(5,652)	(5,997)
NET INCOME FOR THE PERIOD		206	4,095
Attributable to:			
Equity holders of the Bank		(2,032)	2,108
Non-controlling interest		2,238	1,987
		206	4,095
Basic and diluted (losses)/earnings per share	12	Fils (2.03)	Fils 2.11

This interim condensed consolidated financial information was approved by the Board of Directors on 20 August 2020 and signed on its behalf by:


HRH Prince Amr Mohamed Al Faisal
Chairman


Elham Hasan
Director


Ahmed Abdul Rahim
CEO

The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.

Ithmaar Bank B.S.C. (C)

Interim condensed consolidated statement of changes in owners' equity for the six month period ended 30 June 2020

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Reserves							Accumulated losses	Total owners' equity
	Share capital	Statutory reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Share Premium	Total reserves		
At 1 January 2020 (Audited)	100,000	299	3,740	744	(37,473)	40,280	7,590	(28,419)	79,171
Adjustments resulting from reclassification of investments on adoption of FAS 33	-	-	4,019	-	-	-	4,019	-	4,019
At 1 January 2020 (Reviewed)	100,000	299	7,759	744	(37,473)	40,280	11,609	(28,419)	83,190
Net loss for the period	-	-	-	-	-	-	-	(2,032)	(2,032)
Modification loss net of Government assistance (note 3)	-	-	-	-	-	-	-	(14,782)	(14,782)
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	1,286	1,286
Movement in fair value of sukuk and investment securities	-	-	(503)	-	-	-	(503)	-	(503)
Foreign currency translation adjustments	-	-	(206)	(51)	(5,223)	-	(5,480)	-	(5,480)
At 30 June 2020 (Reviewed)	100,000	299	7,050	693	(42,696)	40,280	5,626	(43,947)	61,679

The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.

Ithmaar Bank B.S.C. (C)**Interim condensed consolidated statement of changes in owners' equity for the six month period ended 30 June 2019**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Reserves							Accumulated losses	Total owners' equity
	Share capital	Statutory reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Share Premium	Total reserves		
At 1 January 2019 (Audited)	100,000	299	3,446	808	(30,655)	40,280	14,178	(28,793)	85,385
Net income for the period	-	-	-	-	-	-	-	2,108	2,108
Movement in fair value of sukuk and investment securities	-	-	(237)	-	-	-	(237)	-	(237)
Foreign currency translation adjustments	-	-	107	(194)	(10,966)	-	(11,053)	-	(11,053)
At 30 June 2019 (Reviewed)	100,000	299	3,316	614	(41,621)	40,280	2,888	(26,685)	76,203

The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.

Ithmaar Bank B.S.C. (C)**Interim condensed consolidated statement of changes in restricted investment accounts
for the six month period ended 30 June 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2020	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net deposits / (Redemptions)	At 30 June 2020
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	2,356
European Real Estate Placements*	5,333	-	-	455	-	5,788
US Real Estate Placements*	9,514	-	-	-	-	9,514
TOTAL	17,203	-	-	455	-	17,658
Funds managed on agency basis	23,848	-	-	-	-	23,848
	41,051	-	-	455	-	41,506

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

The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.

Ithmaar Bank B.S.C. (C)**Interim condensed consolidated statement of changes in restricted investment accounts
for the six month period ended 30 June 2019**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2019	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 30 June 2019
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	2,356
European Real Estate Placements*	5,896	-	-	(615)	-	5,281
US Real Estate Placements*	9,514	-	-	-	-	9,514
TOTAL	17,766	-	-	(615)		17,151
Funds managed on agency basis	23,848	-	-	-	-	23,848
	41,614	-	-	(615)		40,999

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

The notes 1 to 14 on pages 11 to 28 form an integral part of the interim condensed consolidated financial information.

Ithmaar Bank B.S.C. (C)

Notes to interim condensed consolidated financial information for the six month period ended 30 June 2020

1 INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (c) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry, Commerce & Tourism under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016.

Ithmaar Holding B.S.C. ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the "Group") include a wide range of financial services, including retail, commercial and private banking services.

The Bank's activities are regulated by the CBB and are subject to the supervision of Shari'a Supervisory Board.

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

The Group carries out its business activities through the Bank's head office, 15 commercial branches in Bahrain and its following principal subsidiary companies:

	<u>% owned</u>		Country of Incorporation	Principal business activity
	Voting	Economic		
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	85	85	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance

During the period the Group acquired additional 2,547 units of Dilmunia Development Fund I L.P. as part of settlement of certain financings. The acquisition resulted in increase of shareholding from 66% to 85% without change in control.

- 1.1** As of 30 June 2020, the total interim condensed consolidated equity of the Group stood at BD61.7 million, which is below the minimum required capital by the CBB of BD100 million as per LR module of Volume 2 rulebook. The Board of Directors is working on various strategic initiatives to strengthen the Group's consolidated equity to meet the regulatory minimum requirements through the issuance of additional tier 1 capital instruments (AT1) up to BD 67 million which is subject to regulatory approval.

The Board of Directors believe that the Group will continue its business without any significant curtailment of operations and meet its obligations for a period of at least one year from the date of issue of this interim condensed consolidated financial information. Accordingly, this interim condensed consolidated financial information is prepared on a going concern basis.

Ithmaar Bank B.S.C. (C)
Notes to interim condensed consolidated financial information
for the six month period ended 30 June 2020

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial information of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (“CBB”) including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS), except for:

- a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note (2 D v) for further details; and
- b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on “Accounting implications of the impact of COVID-19 pandemic” issued by AAOIFI. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note (2 D v) for further details.

The above framework for basis of preparation of the interim condensed financial information is hereinafter referred to as ‘Financial Accounting Standards as modified by CBB’.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). Accordingly, the interim condensed consolidated financial information of the Group have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’, using ‘Financial Accounting Standards as modified by CBB’ framework.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with FAS as issued by AAOIFI. Except for the above-mentioned modifications to accounting policies and the application of the new standards, all other accounting policies remain the same and have been consistently applied in this interim condensed consolidated financial information.

The interim condensed consolidated financial information of the Group does not contain all information and disclosures required for the annual audited consolidated financial statements and should be read in conjunction with the Group’s annual audited consolidated] financial statements for the year ended 31 December 2019. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar (the parent) converted to an Islamic retail bank in April 2010. These are currently presented in accordance with FAS as modified by the CBB in the interim condensed consolidated financial information for the six month period ended 30 June 2020.

The Shari'a Supervisory Board has approved the Shari'a Compliance Plan (“Plan”) for conversion of assets and liabilities which are not Sharia Compliant. The Shari'a Supervisory Board is monitoring the implementation of this Plan.

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

FAS 31 “Investment Agency (Al-Wakala Bi-Al – Istithmar)”

The Group has early adopted FAS 31 as issued by AAOIFI effective 1 January 2021. This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Allstithmar) transactions and instruments, in the hands of both the principal and the agent. This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent.

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

The adoption of this standard did not have a significant impact on the consolidated financial statements.

FAS 33 “Investments in Sukuk, Shares and Similar Instruments”

FAS 33 “Investments in Sukuk, Shares and Similar Instruments” supersedes earlier FAS 25 “Investments in Sukuk, Shares and Similar Instruments” and produces revised guidance for classification and measurement of investments to align with international practices.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The implementation of FAS33 has resulted in re-classification of investment securities amounting to BD427 million from amortized cost to investments held at fair value through equity. Accordingly, the cumulative changes in fair value of BD4 million have been recognized in opening balance of fair value reserve in the owners' equity.

The adoption of this standard has resulted in amendment of the following accounting policies:

Investments carried at amortised cost

Sukuk and debt-type instruments (monetary or non-monetary) are carried at amortised cost where the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the investment and having reasonably determinable effective yield. These investments are measured using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the interim condensed consolidated income statement. These investments are tested for impairment at each reporting period in accordance with FAS 30 “Impairment, credit losses and onerous

Investments carried at fair value through equity

These represent investments (Equity-type or debt-type instruments) held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment.

These investments are initially recognised at fair value plus transaction costs. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under “Investments fair value reserve”, taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

These investments are tested for impairment at each reporting period in accordance with FAS 30 “Impairment, credit losses and onerous commitments”. As part of impairment assessment, the Group assesses at the end of each reporting date whether there is any objective evidence that an investment carried at fair value through equity is impaired. Among other factors that may be considered for impairment, a significant or prolonged decline in the fair value of an equity investment below its cost is also an objective evidence of impairment.

Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if not classified as fair value through equity or amortised cost. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the interim condensed consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

FAS 34 “Financial Reporting for Sukuk-holders”

FAS 34 “Financial Reporting for Sukuk-holders” aims to establish the principles of accounting and financial reporting for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including Sukuk-holders.

The adoption of this standard did not have a significant impact on the interim condensed consolidated financial information.

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

FAS 32 “Ijarah”

FAS 32 “Ijarah” supersedes the earlier FAS 8 “Ijarah and Ijarah Muntahia Bittamleek” and is effective from the financial periods beginning on or after 1 January 2021.

This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee.

This standard brings significant changes from its predecessor standard (FAS 8), inter alia, in the following aspects:

- a. Changes in the classification. Ijarah transactions under in this standard are classified into the following:
 - i. Operating Ijarah;
 - ii. Ijarah MBT with expected transfer of ownership after the end of the Ijarah term –either through a sale or gift; and
 - iii. Ijarah MBT with gradual transfer –with gradual transfer ownership during the Ijarah term including Diminishing Musharaka Ijarah;
- b. New recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting;
- c. Requirement to identify and separate Ijarah and non-Ijarah components, if needed;
- d. New recognition and measurement principles for an Ijarah MBT through gradual transfer / Diminishing Musharaka Ijarah, whereby the lessee shall recognize the ‘combined asset’ (including the right-of-use asset and the proportionate asset already owned by the lessee) whereas the lessor shall recognize the proportionate asset owned. FAS 8 requirements of recording monthly depreciation and gain and loss for such transactions are done away with;
- e. Allowing effective rate of return/ profit rate method for accounting for rental income, in the hand of the lessor;
- f. Testing for impairment of right-of-use asset shall be subject to requirements of FAS 30 “Impairment, Credit Losses and Onerous Commitments”; and
- g. Detailed guidelines are provided for presentation and disclosures with enhanced disclosure by lessor and lessee of information as compared to previous requirements in FAS 8.

The Group is in process of assessing the impact of this standard on the interim condensed consolidated financial information.

C. FINANCIAL RISK MANAGEMENT

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

Considering this evolving situation, 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. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

Ithmaar Bank B.S.C. (C)
Notes to interim condensed consolidated financial information
for the six month period ended 30 June 2020

SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

C. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

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

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

Liquidity risk and capital management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

Operational risk management

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

D. Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The areas of significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2019. However, the process of making the required estimates and assumptions involved further judgement due to the prevailing uncertainties arising from COVID -19.

The following considerations are applicable in addition to the annual disclosures:

i) Expected credit Losses

The economic uncertainties caused by COVID-19 have required the Group to update the inputs and assumptions used for the determination of ECL as at 30 June 2020. ECL were estimated based on a range of forecast economic conditions available as at latest available date. A scenario analysis has been conducted with various stress assumptions.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

ii) Significant increase in credit risk (SICR)

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

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

iii) Forward Looking Information

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

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

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

The Group has reviewed its portfolio which is expected to be most impacted due to COVID-19 to determine if any specific provisions are necessary. The Group continues to individually assess significant exposures to adequately safeguard against any adverse movements due to COVID-19.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

D. Accounting estimates and judgements (continued)

iv) Covid-19 impact

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

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

In preparing the interim condensed consolidated financial information, 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.

As of 30 June 2020, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 30 June 2020, the Group had NSFR ratio of 118%.

v) Modification loss net of Government assistance

During the current period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD16 million arising from the 6-month payment holidays provided to financing customers without charging additional profits has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD555 million as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to BD1.2 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

Ithmaar Bank B.S.C. (C)

**Notes to interim condensed consolidated financial information
for the six month period ended 30 June 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	40,872	1,336	42,208	62,643	1,112	63,755
Cash and balances with banks and central banks	216,925	36,874	253,799	156,993	32,376	189,369
	257,797	38,210	296,007	219,636	33,488	253,124

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

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	138,877	4,306	143,183	123,284	4,411	127,695
Less: Expected credit loss	(93)	-	(93)	(93)	-	(93)
	138,784	4,306	143,090	123,191	4,411	127,602

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

	30 June 2020			30 June 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	257,797	38,210	296,007	252,886	27,579	280,465
Commodity and other placements with banks, financial and other institutions - net	138,784	4,306	143,090	83,107	5,113	88,220
Less: Placement maturing after ninety days	-	(4,306)	(4,306)	-	(5,113)	(5,113)
Less: Balances with central banks relating to minimum reserve requirement	(40,872)	(1,336)	(42,208)	(60,415)	(890)	(61,305)
	355,709	36,874	392,583	275,578	26,689	302,267

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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5 MURABAHA AND OTHER FINANCINGS

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	998,308	519,507	1,517,815	1,137,602	490,852	1,628,454
Less: Expected credit loss	(125,371)	(11,308)	(136,679)	(121,026)	(10,037)	(131,063)
	872,937	508,199	1,381,136	1,016,576	480,815	1,497,391

The movement in expected credit loss is as follows:

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	121,026	10,037	131,063	131,029	12,874	143,903
Charge for the period/year	11,655	1,251	12,906	15,283	1,030	16,313
Write back during the period/year	(875)	(9)	(884)	(18,386)	-	(18,386)
Utilised during the period/year	(1,755)	(54)	(1,809)	(554)	(3,676)	(4,230)
Exchange differences and other movements	(4,680)	83	(4,597)	(6,346)	(191)	(6,537)
	125,371	11,308	136,679	121,026	10,037	131,063

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6 SUKUK AND INVESTMENT SECURITIES

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Debt-type instruments – unlisted	56,441		56,441	75,652	-	75,652
Equity-type securities – listed	1,566		1,566	222	-	222
	58,007	-	58,007	75,874	-	75,874
Investment securities at fair value through equity						
Debt-type instruments – listed	106,799	-	106,799	-	-	-
Debt-type instruments – unlisted	273,452	48,536	321,988	-	-	-
Equity-type securities – listed	17,771	-	17,771	21,482	-	21,482
Equity-type securities – unlisted	3,123	-	3,123	1,989	-	1,989
	401,145	48,536	449,681	23,471	-	23,471
Expected credit loss	(5,744)	-	(5,744)	(3,990)	-	(3,990)
	395,401	48,536	443,937	19,481	-	19,481
Investment securities carried at amortised cost						
Sukuk – unlisted	1,239	24,601	25,840	79,647	72,732	152,379
Other debt-type instruments – listed	-	64,298	64,298	37,256	-	37,256
Other debt-type instruments – unlisted	3,299	-	3,299	243,945	-	243,945
	4,538	88,899	93,437	360,848	72,732	433,580
Expected credit loss	(3,516)	-	(3,516)	(5,233)	-	(5,233)
	1,022	88,899	89,921	355,615	72,732	428,347
	454,430	137,435	591,865	450,970	72,732	523,702

During the period ended 30 June 2020, the management of the Group has adopted Financial Accounting Standard (FAS) 33: 'Investments in Sukuk, shares and similar instruments. In accordance with the classification and measurement principles of FAS 33, the Group has reassessed the business model and reclassified certain investments in debt instruments amounting to BD427 million from amortised cost to fair value through equity. As a result, fair value of the investments is measured at the reclassification date and net gain of BD4 million have been recognized in the investment fair value reserve.

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

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

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

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

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

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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6 SUKUK AND INVESTMENT SECURITIES (continued)**Investments measured at fair value****At 30 June 2020****Investment securities at fair value
through income statement**

	Level 1	Level 2	Level 3	Total
Debt-type instruments	-	56,441	-	56,441
Equity-type securities	1,566	-	-	1,566

**Investment securities at fair value
through equity**

Debt-type instruments – listed	106,799	-	-	106,799
Debt-type instruments – unlisted	-	321,381	-	321,381
Equity-type securities	10,223	5,534	-	15,757

118,588	383,356	-	501,944
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Investments measured at fair value**At 31 December 2019****Investment securities at fair value
through income statement**

	Level 1	Level 2	Level 3	Total
Debt-type instruments	-	75,652	-	75,652
Equity-type securities	222	-	-	222

**Investment securities at fair value
through equity**

Equity-type securities	19,286	195	-	19,481
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19,508	75,847	-	95,355
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Ithmaar Bank B.S.C. (C)

**Notes to interim condensed consolidated financial information
for the six month period ended 30 June 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 OTHER ASSETS

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	31,737	27,231	58,968	33,922	21,122	55,044
Due from related parties (note 11)	5,694	-	5,694	8,209	-	8,209
Taxes – deferred	200	-	200	3,519	-	3,519
Taxes – current	6,939	-	6,939	4,589	-	4,589
Assets acquired against claims	2,787	-	2,787	3,103	-	3,103
	47,357	27,231	74,588	53,342	21,122	74,464
Expected credit loss	(13,355)	(4,579)	(17,934)	(14,340)	(4,580)	(18,920)
	34,002	22,652	56,654	39,002	16,542	55,544

8 PROVISION FOR IMPAIRMENT

	30 June 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	171,798	16,914	188,712	176,184	18,830	195,014
Charge for the period/year	12,458	2,850	15,308	21,349	2,199	23,548
Write back during the period/year	(1,789)	(310)	(2,099)	(18,570)	(63)	(18,633)
Utilised during the period/year	(1,755)	(54)	(1,809)	(4,073)	(3,676)	(7,749)
Exchange differences	(5,139)	(247)	(5,386)	(3,092)	(376)	(3,468)
	175,573	19,153	194,726	171,798	16,914	188,712

Ithmaar Bank B.S.C. (C)

**Notes to interim condensed consolidated financial information
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8 PROVISION FOR IMPAIRMENT (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

30 June 2020

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	439,190	-	-	439,190
Financings (funded and unfunded exposure) Corporate				
Low risks (1-3)	225,234	83,329	-	308,563
Acceptable risks (4-6)	1,304,389	24,815	151	1,329,355
Watch list (7)	-	37,569	-	37,569
Non performing (8-10)	-	-	138,988	138,988
Carrying amount - corporate	1,529,623	145,713	139,139	1,814,475
Retail (un-rated)	269,956	7,075	29,722	306,753
Carrying amount	1,799,579	152,788	168,861	2,121,228
Sukuk and investment securities	89,949	-	3,488	93,437
Other receivables	44,976	3,467	13,535	61,978
Loss allowance	(41,349)	(3,181)	(117,515)	(162,045)
Total financial assets carrying amount	2,332,345	153,074	68,369	2,553,788

31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	380,819	-	-	380,819
Financings (funded and unfunded exposure) Corporate				
Low risks (1-3)	366,113	15,680	-	381,793
Acceptable risks (4-6)	1,048,966	51,389	151	1,100,506
Watch list (7)	-	40,756	-	40,756
Non performing (8-10)	-	-	159,480	159,480
Carrying amount - corporate	1,415,079	107,825	159,631	1,682,535
Retail (un-rated)	506,051	7,404	21,395	534,850
Carrying amount	1,921,130	115,229	181,026	2,217,385
Sukuk and investment securities	428,283	-	5,297	433,580
Other receivables	44,232	4,911	13,916	63,059
Loss allowance	(38,184)	(3,487)	(116,414)	(158,085)
Total financial assets carrying amount	2,736,280	116,653	83,825	2,936,758

Gross financings (funded) as of 30 June 2020 amounted to BD1 billion, BD0.3 billion and BD0.2 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: BD1.1 billion, BD0.3 billion and BD0.2 billion). Collateral coverage for gross financing as of 30 June 2020 was 82%, 20% and 100% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: 83%, 46% and 49%).

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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9 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	30 June 2020	31 December 2019
Cash and balances with banks and central banks	38,210	33,488
Commodity and other placements with banks, financial and other institutions	4,306	4,411
Murabaha and other financings	508,199	480,815
Musharaka financing	246,218	234,446
Sukuk and investment securities	137,435	72,732
Assets acquired for leasing	144,236	146,876
Other assets	22,652	16,542
Due from the Owners (net)	354,424	299,648
	1,455,680	1,288,958
Customers' current accounts	(151,425)	(134,169)
Due to banks, financial and other institutions	(97,443)	(64,861)
Other liabilities	(32,689)	(26,000)
Equity of unrestricted investment accountholders	1,174,123	1,063,928

10 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 1 January 2020	1,000,000	100,000
At 30 Jun 2020 (Reviewed)	1,000,000	100,000
Issued and fully paid		
Total outstanding as at 1 January 2019	1,000,000	100,000
At 31 December 2019 (Audited)	1,000,000	100,000

The Bank's total issued and fully paid share capital at 30 June 2020 comprises 1,000,000,000 shares at 100 fils per share amounting to BD 100,000,000.

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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11 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 the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- (c) Associated companies of the Bank.
- (d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	30 June 2020				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	582,272	-	-	771	583,043
Sukuk and investment securities	331	-	-	-	331
Other assets	5,517	-	-	177	5,694
Liabilities					
Customers' current accounts	7,605	8,390	-	273	16,268
Due to banks, financial and other institutions	19,060	12,129	-	-	31,189
Other liabilities	36	-	-	-	36
Equity of unrestricted investment accounts	9,014	-	-	1,849	10,863
Commitments	1,281	-	-	-	1,281
30 June 2020					
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	(175)	-	-	(28)	(203)
Income from murabaha and other financings	4,837	-	-	-	4,837
Profit paid to banks, financial and other institutions	(123)	(489)	-	-	(612)
Other Income - Management fees	(365)	-	-	-	(365)
Expenses					
Administrative and general expenses	(102)	-	(11)	-	(113)

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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11 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2019				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	586,602	-	4,828	790	592,220
Sukuk and investment securities	331	-	-	-	331
Other assets	8,053	-	-	156	8,209
Liabilities					
Customers' current accounts	4,520	4,004	-	311	8,835
Due to banks, financial and other institutions	20,505	27,194	-	-	47,699
Other liabilities	60	-	-	-	60
Equity of unrestricted investment accounts	7,406	-	-	1,564	8,970
Commitments	1,281	-	-	-	1,281
					30 June 2019
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	119	-	-	20	139
Income from murabaha and other financings	4,975	-	-	-	4,975
Profit paid to banks, financial and other institutions – net	(594)	(570)	-	-	(1,164)
Expenses					
Administrative and general expenses	(103)	-	(10)	-	(113)

Ithmaar Bank B.S.C. (C)**Notes to interim condensed consolidated financial information
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12 EARNINGS PER SHARE (BASIC & DILUTED)

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

	Six month period ended	
	30 June 2020	30 June 2019
Net (loss)/income attributable to shareholders (BD'000)	(2,032)	2,108
Weighted average number of issued and fully paid up ordinary shares ('000)	1,000,000	1,000,000
(Losses)/earnings per share (Basic & Diluted) – Fils	(2.03)	2.11

13 CONTINGENT LIABILITIES AND COMMITMENTS**Contingent liabilities**

	30 June 2020	31 December 2019
Acceptances and endorsements	27,293	22,257
Guarantees and irrevocable letters of credit	167,954	165,417
Customer and other claims	78,086	83,242
	273,333	270,916

Commitments

	30 June 2020	31 December 2019
Undrawn facilities, financing lines and other commitments to finance	499,842	540,196

