ITHMAAR BANK B.S.C. (C)

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2021

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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 31 March 2021 and the related interim condensed consolidated income statement for the three month period ended 31 March 2021 and the related interim condensed consolidated statements of changes in owners' equity, cash flows and changes in restricted investment accounts for the three month period then ended and explanatory notes (on pages 4 to 32). 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 32) is not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 to this interim condensed consolidated financial information.

Other matter

As per the communication to public shareholding companies and locally incorporated banks by the Central Bank of Bahrain dated 30 March 2020 on the preparation and publication of interim financial information, the Group opted for the exemption of not preparing and publishing the interim condensed consolidated financial information for the three month period ended 31 March 2020. The comparative information for the interim condensed consolidated statement of financial position is based on the audited consolidated financial statements as at 31 December 2020. The comparative information for the 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 and related explanatory notes for the three month period ended 31 March 2020 has not been audited or reviewed.

PricewaterhouseCoopers

PricewaterhouseCoopers M.E Limited
Partner's registration no. 196
Manama, Kingdom of Bahrain
11 May 2021

PricewaterhouseCoopers M.E Limited, Office no. 4701, Building no. 1459, Road no. 4626,
Block no. 346, P.O. Box 60771, Manama/Sea Front, Kingdom of Bahrain, Floor 47, West Tower,
Bahrain Financial Harbour, T: +973 17 118800, F: +973 17 540556, www.pwc.com/me, CR no. 47378

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

	Note	At 31 March 2021 (Reviewed)	At 31 December 2020 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	204,094	239,332
Commodity and other placements with banks, financial and other institutions	4	143,975	85,612
Murabaha and other financings	5	1,360,026	1,347,337
Musharaka financing	6	382,976	350,420
Sukuk and investment securities	7	857,423	755,225
Investment in associates	8	6,516	-
Assets acquired for leasing		149,265	145,346
Other assets	9	56,487	47,953
Investment in real estate		2,439	2,316
Development properties		71,529	73,359
Fixed assets	2	53,314	22,274
Intangible assets		24,625	25,603
Total assets		**3,312,669**	**3,094,777**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, NON-CONTROLLING INTEREST AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		708,246	661,739
Due to banks, financial and other institutions		540,149	435,764
Due to investors		526,537	514,234
Other liabilities	2	143,505	102,998
Total liabilities		**1,918,437**	**1,714,735**
Equity of unrestricted investment accountholders	11	1,282,118	1,275,162
Non-controlling interests		57,283	55,049
Total liabilities, equity of unrestricted investment accountholders and non-controlling interests		**3,257,838**	**3,044,946**
Share capital	12	100,000	100,000
Reserves		(29,481)	(34,033)
Accumulated losses		(15,688)	(16,136)
Total owners' equity		**54,831**	**49,831**
Total liabilities, equity of unrestricted investment accountholders, non-controlling interests and owners' equity		**3,312,669**	**3,094,777**

This interim condensed consolidated financial information was approved by the Board of Directors on 11 May 2021 and signed on its behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 17 on pages 11 to 32 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	Three months ended 31 March 2021 (Reviewed)	Three months ended 31 March 2020 (Not reviewed)
INCOME			
Income from unrestricted investment accounts		24,090	25,675
Less: return to unrestricted investment accountholders and impairment provisions		(15,040)	(15,089)
Group's share of income from unrestricted investment accounts as a Mudarib		**9,050**	**10,586**
Income from murabaha and other financings		9,244	17,831
Income from sukuk and investment securities		10,536	14,980
Other income		5,716	4,526
Total income		**34,546**	**47,923**
Less: profit paid to banks, financial and other institutions – net		(15,416)	(24,096)
Operating income		**19,130**	**23,827**
EXPENSES			
Administrative and general expenses		(14,694)	(15,220)
Depreciation and amortization		(2,442)	(2,249)
Total expenses		**(17,136)**	**(17,469)**
Net income before provision for impairment and overseas taxation		**1,994**	**6,358**
Reversal of/(provision for) impairment - net	10	2,753	(8,596)
Net income/(loss) before overseas taxation		**4,747**	**(2,238)**
Overseas taxation		(3,200)	(3,442)
NET INCOME/(LOSS) FOR THE PERIOD		**1,547**	**(5,680)**
Attributable to:			
Equity holders of the Bank		153	(6,710)
Non-controlling interests		1,394	1,030
		1,547	**(5,680)**
Basic and diluted earnings/(losses) per share	14	**Fils 0.15**	**Fils (6.71)**

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CEO

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Ithmaar Bank B.S.C. (C)
Interim condensed consolidated statement of changes in owners' equity for the three month period ended 31 March 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Hedging reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2021 (Audited)	**100,000**	**299**	**7,309**	**(2,760)**	**721**	**(39,602)**	**(34,033)**	**(16,136)**	**49,831**
Net income for the period	-	-	-	-	-	-	**-**	153	**153**
Increase in shareholding of subsidiary (note 1)	-	-	-	-	-	-	**-**	295	**295**
Movement in fair value of sukuk and investment securities	-	-	(781)	-	-	-	**(781)**	-	**(781)**
Movement in hedging reserve	-	-	-	738	-	-	**738**	-	**738**
Foreign currency translation adjustments	-	-	130	-	34	4,431	**4,595**	-	**4,595**
At 31 March 2021 (Reviewed)	**100,000**	**299**	**6,658**	**(2,022)**	**755**	**(35,171)**	**(29,481)**	**(15,688)**	**54,831**

The notes 1 to 17 on pages 11 to 32 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 three month period ended 31 March 2020
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share Premium**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
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 (Audited)	**100,000**	**299**	**7,759**	**744**	**(37,473)**	**40,280**	**11,609**	**(28,419)**	**83,190**
Net loss for the period	-	-	-	-	-	-	**-**	(6,710)	**(6,710)**
Modification loss	-	-	-	-	-	-	**-**	(16,028)	**(16,028)**
Movement in fair value of sukuk and investment securities	-	-	(5,372)	-	-	-	**(5,372)**	-	**(5,372)**
Foreign currency translation adjustments	-	-	32	(46)	(5,204)	-	**(5,218)**	-	**(5,218)**
At 31 March 2020 (Not reviewed)	**100,000**	**299**	**2,419**	**698**	**(42,677)**	**40,280**	**1,019**	**(51,157)**	**49,862**

The notes 1 to 17 on pages 11 to 32 form an integral part of the interim condensed consolidated financial information.

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

		Three months ended	
	Notes	**31 March 2021**	**31 March 2020**
		(Reviewed)	**(Not reviewed)**
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		4,747	(2,238)
Adjustments for:			
Depreciation and amortization		2,442	2,249
(Reversal of)/provision for impairment - net	10	(2,753)	8,596
Income from sukuk and investment securities		(10,536)	(14,980)
Finance cost on net ijarah liability		1,024	-
Loss on sale of fixed assets		499	14
Operating loss before changes in operating assets and liabilities		(4,577)	(6,359)
Changes in operating assets and liabilities:			
Balances with banks maturing after ninety days including central banks balances relating to minimum reserve requirement		(15,207)	7,788
Murabaha and other financings		25,341	25,069
Musharaka financing		(13,508)	(6,235)
Other assets		(5,344)	(14,114)
Customers' current accounts		21,525	(35,370)
Due to banks, financial and other institutions		93,182	(20,314)
Due to investors		(14,401)	1,061
Other liabilities		6,704	(720)
Increase in equity of unrestricted investment accountholders		(9,747)	70,605
Taxes paid		(5,559)	(3,711)
Net cash generated from operating activities		**78,409**	**17,700**
INVESTING ACTIVITIES			
Net changes in:			
Investment in associates		(3,408)	-
Assets acquired for leasing		(3,918)	1,699
Sukuk and investment securities		(56,583)	(21,112)
Fixed assets		(39)	(1,409)
Net cash used in investing activities		**(63,948)**	**(20,822)**
FINANCING ACTIVITY			
Repayment of net Iajrah liability		(1,185)	-
Net cash used in financing activity		**(1,185)**	**-**
Foreign currency translation adjustments		2,382	(8,518)
Net increase/(decrease) in cash and cash equivalents		**15,658**	**(11,640)**
Cash and cash equivalents at the beginning of the period		**278,280**	**312,560**
Cash and cash equivalents at the end of the period	4	**293,938**	**300,920**

Non-cash items:

1. Additions to the fixed assets in relation to the recognition of right of use of assets amounted to BD30.6 million.
2. Recognition of lease liabilities amounted to BD30.6 million recorded in other liabilities.
3. Classification of investment securities to investment in associates amounted to BD2.9 million

The notes 1 to 17 on pages 11 to 32 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 three month period ended 31 March 2021
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2021	Foreign exchange movements	At 31 March 2021
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	4,806	671	5,477
US Real Estate Placements*	9,514	-	9,514
TOTAL (Reviewed)	**16,676**	**671**	**17,347**

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

The notes 1 to 17 on pages 11 to 32 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 three month period ended 31 March 2020

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2020	Foreign exchange movements	At 31 March 2020
Shamil Bosphorus Modaraba*	2,356	-	2,356
European Real Estate Placements*	5,333	(11)	5,322
US Real Estate Placements*	9,514	-	9,514
TOTAL (Unreviewed)	**17,203**	**(11)**	**17,192**

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

The notes 1 to 17 on pages 11 to 32 form an integral part of the interim condensed consolidated financial information.

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, 14 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	31 March 2021	**31 December 2020**	**Country of Incorporation**	**Principal business activity**
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	91	90	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	50	50	Kingdom of Bahrain	Mortgage finance

During the period, the Groups' holding increased in Dilmunia Development Fund I L.P.due to in-kind redemption by investors.

1.1 As of 31 March 2021, the consolidated equity of the Group stood at BD54.8 million, which is below the minimum regulatory capital required by the CBB of BD100 million as per LR module of Volume 2 rulebook. To meet the regulatory minimum requirement, the Board of Directors is in the process of issuing Additional Tier 1 capital instruments (AT1) up to BD62 million. This has been approved by the CBB on 1 October 2020 and by the shareholders at the Extraordinary General Meeting held on 20 September 2020 (which also approved the offset of accumulated losses amounting to BD 40.3 million out of the Group's total accumulated losses of BD 43.9 million as of 30 June 2020 against the available balance in the share premium account). This initiative has currently been put on hold pending the outcome of the transaction in process (refer 1.2 below).

The Group’s management assessed its liquidity and equity projections for the coming twelve months from the date of the interim condensed consolidated financial information including various stress scenarios as follows:

- Assuming the lifting of sanctioned deposits and partial repayments
- Stressing the expected outflows of the liabilities
- Stressing the expected inflows from financings
- Increased availability of liquid assets in the form of government securities
- Stressing the estimated change in fair values of equity and debt instruments

The Board of Directors has reviewed the above projections and believes that the Group will be able to 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.

1.2 On 14 September 2020, Ithmaar Holding signed a non legally binding Memorandum of Understanding (MoU) with the Bank of Bahrain and Kuwait B.S.C. (BBK) where BBK is interested in considering the acquisition of certain assets forming part of the Bahrain operations of Ithmaar Bank B.S.C (c) and other specific assets of a related party. The potential acquisition, which is subject to the Board of Directors, shareholders and regulatory approvals is still currently in its preliminary stage and subject to the completion of all necessary due diligence as well as signing a detailed and legally binding sale and purchase agreement by the concerned parties, as appropriate, incorporating all the terms of the proposed transaction. During March 2021, the MoU was extended for a further period of 3 months until June 2021. Currently the initial due diligence is in progress with the assistance of appointed financial and legal advisors.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial information of the Group has 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 all financing 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.

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 interim condensed consolidated income statement. Any other financial assistance is recognised in accordance with the requirements of FAS.

The above framework for basis of preparation of the interim condensed consolidated 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 has 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 2020 were in accordance with FAS as modified by the CBB. Except for the applcation 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 2020. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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 three month period ended 31 March 2021 as appropriate.

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 this interim condensed consolidated financial information are set out below:

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group audited consolidated financial statements as at and for the year ended 31 December 2020, except for adoption of following standards and amendments to standards effective from 1 January 2021. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021

1. FAS 32 Ijarah

AAOIFI issued FAS 32 "Ijarah" in 2020, this standard is effective for financial periods beginning on or after 1 January 2021. The standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

FAS 32 sets out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah (Ijarah asset, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic financial institutions as a lessor and lessee.

The Group has applied FAS 32 "Ijarah" from 1 January 2021. The impact of adoption of this standard is disclosed in below.

a) Change in accounting policy

Identifying an Ijarah

At inception of a contract, the Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Group accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

Measurement

For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Group allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net ijarah liability.

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (continued)

1. FAS 32 Ijarah (continued)

• Extension periods if it is reasonably certain that the Group will exercise that option; and/ or
• Termination options if it is reasonably certain that the Group will not exercise that option.

The Group carries out impairment assessment in line with the requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 "Impairment, Credit Losses and Onerous Commitments"

ii) Net ijarah liability

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability are initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

• Fixed Ijarah rentals less any incentives receivable;
• Variable Ijarah rentals including supplementary rentals; and
• Payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted-off with the gross Ijarah liability.

After the commencement date, the Group measures the net Ijarah liability by:

• Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
• Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
• Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Group recognises the following in the interim condensed consolidated income statement:

• Amortisation of deferred Ijarah cost; and
• Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications

After the commencement date, the Group accounts for Ijarah contract modifications as follows:

• Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
• Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of- use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (continued)

1. FAS 32 Ijarah (continued)

For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de- recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Group, are recognised by the Group in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

Recognition exemptions and simplified accounting for the lessee

The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and net Ijarah liability for the following:

• Short-term Ijarah; and
• Ijarah for which the underlying asset is of low value.

Short-term Ijarah exemption is applied on a whole class of underlying assets which have similar characteristics and operational utility. However, low-value Ijarah exemption is applied on an individual asset/Ijarah transaction, and not on group/ combination basis.

b) Impact of on adoption of FAS 32

The management of the Group has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by BD30.6 million. The lease contracts comprise of Head office, ATM sites and branches.

	Total assets	**Total liabilities**
As at 31 December 2020	3,094,777	2,989,897
Impact on adoption:		
Right-of-use assets	30,625	-
Net Ijarah liability	-	30,625
Opening balance under FAS 32 on date of initial application of 1 January 2021	**3,125,402**	**3,020,522**

	Right-of-use assets	**Net Ijarah liability**
As at 1 January 2021	30,625	30,625
Depreciation during the period	(1,105)	
Finance cost	-	1,024
Net ijarah rentals	-	(1,185)
As at 31 March 2021	**29,520**	**30,464**

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

(i) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to shariah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha,

b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products.

The Group is currently evaluating the impact of adopting this standard.

2.1 ASSOCIATES

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group’s investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group’s share of net assets of the associate. The interim condensed consolidated income statement reflects the Group’s share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the interim condensed consolidated statement of changes in owners’ equity.

2.2 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 has been 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 been 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.

2.3 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2020.

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.

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).

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.

2.4 JUDGMENT AND ESTIMATES

Preparation of the interim condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the 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 2020.

2.4 JUDGMENT AND ESTIMATES (continued)

Expected credit Losses

Due to the economic uncertainties caused by COVID-19, Group has updated its inputs and assumptions used for the determination of ECL as at 31 March 2021. ECL were estimated based on a range of forecast economic conditions as at that date and considering the uncertainty of the situation, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly. Given the fact that the client base is primarily based in Bahrain, all Government relief efforts to mitigate the impact of COVID-19 will also have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts into its ongoing ECL assessment.

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.

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 unlikeliness 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 instalments up to six months, this is third in the series of payment holidays granted since March 2020. 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. Sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Reasonableness of 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, applying expert judgement in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis, unless there is significant change in credit risk.

Macro-economic variables are checked for correlation with the probability of default and only those variables for which the movement can be rationalised statistically are used. Stress has been applied on existing macro-economic variable in ECL review exercise. Management has used its judgement to determine the relevant macroeconomic variables which were used in the ECL model based on information published by external agencies or government agencies.

2.4 JUDGMENT AND ESTIMATES (continued)

Probability weights

Management judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projections.

2.5 COMPARATIVE INFORMATION

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, as per the communication to public shareholding companies and locally incorporated banks by the Central Bank of Bahrain dated 30 March 2020 on the preparation and publication of interim financial information, the Group opted for the exemption of not preparing and publishing the interim condensed consolidated financial information for the three month period ended 31 March 2020. The comparative information for the interim condensed consolidated statement of financial position is based on the audited consolidated financial statements as at 31 December 2020. The comparative information for the 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 and related explanatory notes for the three month period ended 31 March 2020 has not been audited or reviewed.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Cash reserve with central banks	37,177	4,348	41,525	38,265	3,720	41,985
Cash and balances with banks and central banks	112,448	50,121	162,569	146,304	51,043	197,347
	149,625	**54,469**	**204,094**	**184,569**	**54,763**	**239,332**

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

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Commodity placements	135,938	8,101	144,039	80,933	4,743	85,676
Less: expected credit loss	(64)	-	(64)	(64)	-	(64)
	135,874	**8,101**	**143,975**	**80,869**	**4,743**	**85,612**

Cash and cash equivalents for the purpose of interim condensed consolidated cash flow statements are as follows:

	31 March 2021			31 March 2020		
	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	149,625	54,469	204,094	187,877	31,984	219,861
Commodity and other placements with banks, financial and other institutions - net	135,874	8,101	143,975	125,956	4,220	130,176
Less: Placements with original maturing after ninety days	(7,487)	(5,119)	(12,606)	54	(4,220)	(4,166)
Less: Balances with central banks relating to minimum reserve requirement	(37,177)	(4,348)	(41,525)	(43,673)	(1,278)	(44,951)
	240,835	**53,103**	**293,938**	**270,214**	**30,706**	**300,920**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5 MURABAHA AND OTHER FINANCINGS

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Murabaha and other financings	918,464	579,386	1,497,850	955,985	530,847	1,486,832
Less: expected credit loss	(117,457)	(20,367)	(137,824)	(121,648)	(17,847)	(139,495)
	801,007	**559,019**	**1,360,026**	**834,337**	**513,000**	**1,347,337**

The movement in expected credit loss is as follows:

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	121,648	17,847	139,495	121,026	10,037	131,063
Charge for the period/year	1,320	2,385	3,705	15,513	7,747	23,260
Write back during the period/year	(3,702)	(62)	(3,764)	(3,469)	(22)	(3,491)
Utilised during the period/year	(4,154)	-	(4,154)	(11,619)	-	(11,619)
Reclassification	(124)	-	(124)	2,194	79	2,273
Exchange differences and other movements	2,469	197	2,666	(1,997)	6	(1,991)
	117,457	**20,367**	**137,824**	**121,648**	**17,847**	**139,495**

6 MUSHARAKA FINANCING

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Musharaka financing	106	387,789	387,895	101	354,318	354,419
Less: expected credit loss	-	(4,919)	(4,919)	-	(3,999)	(3,999)
	106	**382,870**	**382,976**	**101**	**350,319**	**350,420**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 SUKUK AND INVESTMENT SECURITIES

	31 March 2021			31 December 2020		
	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	112,276	-	112,276	15,441	-	15,441
Equity-type securities – listed	391	-	391	1,451	-	1,451
	112,667	**-**	**112,667**	**16,892**	**-**	**16,892**
Investment securities at fair value through equity						
Debt-type instruments – listed	79,412	35,224	114,636	77,034	38,302	115,336
Debt-type instruments – unlisted	402,713	105,093	507,806	380,573	94,543	475,116
Equity-type securities – listed	10,121	248	10,369	22,572	-	22,572
Equity-type securities – unlisted	3,566	-	3,566	3,353	-	3,353
	495,812	140,565	636,377	483,532	132,845	616,377
Less: expected credit loss	(5,588)	-	(5,588)	(5,645)	-	(5,645)
	490,224	**140,565**	**630,789**	**477,887**	**132,845**	**610,732**
Investment securities carried at amortised cost						
Sukuk – unlisted	1,302	25,083	26,385	1,254	23,427	24,681
Other debt-type instruments – listed	-	85,578	85,578	-	102,141	102,141
Other debt-type instruments – unlisted	3,272	2,526	5,798	3,270	1,119	4,389
	4,574	113,187	117,761	4,524	126,687	131,211
Less: expected credit loss	(3,794)	-	(3,794)	(3,610)	-	(3,610)
	780	**113,187**	**113,967**	**914**	**126,687**	**127,601**
	603,671	**253,752**	**857,423**	**495,693**	**259,532**	**755,225**

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.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 SUKUK AND INVESTMENT SECURITIES (continued)

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 March 2021				
Investment securities at fair value through income statement				
Debt-type instruments	-	112,276	-	112,276
Equity-type securities	391	-	-	391
Investment securities at fair value through equity				
Debt-type instruments – listed	113,857	-	-	113,857
Debt-type instruments – unlisted	-	507,806	-	507,806
Equity-type securities	2,811	6,315	-	9,126
	117,059	**626,397**	**-**	**743,456**

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2020				
Investment securities at fair value through income statement				
Debt-type instruments	-	15,441	-	15,441
Equity-type securities	1,451	-	-	1,451
Investment securities at fair value through equity				
Debt-type instruments – listed	113,552	-	-	113,552
Debt-type instruments – unlisted	-	476,413	-	476,413
Equity securities	14,496	6,271	-	20,767
	129,499	**498,125**	**-**	**627,624**

8 INVESTMENT IN ASSOCIATES

Investment in associated entities, as adjusted for the Group's share of their results comprise:

Name of entity	31 March 2021	31 December 2020	% of Shareholding	Country	Activity
Unlisted:					
Faysal Money Market Fund	3,710	-	20	Pakistan	Mutual funds
Faysal Saving Growth Fund	1,721	-	28	Pakistan	Mutual funds
Faysal Income & Growth Fund	832	-	45	Pakistan	Mutual funds
Faysal Cash Fund	253	-	50	Pakistan	Mutual funds
	6,516	**-**			

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9 OTHER ASSETS

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Accounts receivable	30,093	29,859	59,952	25,841	29,348	55,189
Due from related parties (note 11)	6,789	-	6,789	5,121	-	5,121
Taxes – deferred	3,237	-	3,237	521	-	521
Taxes – current	37	-	37	66	-	66
Assets acquired against claims	2,502	-	2,502	2,912	-	2,912
	42,658	29,859	72,517	34,461	29,348	63,809
Less: expected credit loss	(11,528)	(4,502)	(16,030)	(11,355)	(4,501)	(15,856)
	31,130	**25,357**	**56,487**	**23,106**	**24,847**	**47,953**

10 PROVISION FOR IMPAIRMENT

	31 March 2021			31 December 2020		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	174,267	26,346	200,613	171,798	16,914	188,712
Charge for the period/year	1,688	2,960	4,648	21,809	9,850	31,659
Write back during the period/year	(4,441)	(70)	(4,511)	(6,222)	(320)	(6,542)
Utilised during the period/year	(4,154)	-	(4,154)	(11,619)	-	(11,619)
Exchange differences	3,015	551	3,566	(1,499)	(98)	(1,597)
	170,375	**29,787**	**200,162**	**174,267**	**26,346**	**200,613**

During the three month period ended 31 March 2020, the Group has recorded a net provisoin for impairment amounting to BD8.6 million.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 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.

31 March 2021

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	**348,133**	**-**	**-**	**348,133**
Financings (funded and unfunded exposure) Corporate				
Low risks (1-3)	252,962	71,965	-	324,927
Acceptable risks (4-6)	1,121,954	124,584	151	1,246,689
Watch list (7)	-	44,436	-	44,436
Non performing (8-10)	-	-	124,126	124,126
Carrying amount - corporate	**1,374,916**	**240,985**	**124,277**	**1,740,178**
Retail (un-rated)	526,081	28,349	27,182	581,612
Carrying amount	**1,900,997**	**269,334**	**151,459**	**2,321,790**
Sukuk and investment securities	**113,986**	**-**	**3,775**	**117,761**
Other receivables	**41,876**	**3,135**	**13,954**	**58,965**
Loss allowance	**(36,083)**	**(9,489)**	**(117,593)**	**(163,165)**
Total	**2,368,909**	**262,980**	**51,595**	**2,683,484**

31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	**325,008**	**-**	**-**	**325,008**
Financings (funded and unfunded exposure) Corporate				
Low risks (1-3)	254,605	25,545	-	280,150
Acceptable risks (4-6)	1,211,143	21,993	151	1,233,287
Watch list (7)	-	43,950	-	43,950
Non performing (8-10)	-	-	113,916	113,916
Carrying amount - corporate	**1,465,748**	**91,488**	**114,067**	**1,671,303**
Retail (un-rated)	489,158	51,457	37,992	578,607
Carrying amount	**1,954,906**	**142,945**	**152,059**	**2,249,910**
Sukuk and investment securities	**127,617**	**-**	**3,594**	**131,211**
Other receivables	**34,797**	**1,087**	**12,810**	**48,694**
Loss allowance	**(36,416)**	**(8,406)**	**(118,873)**	**(163,695)**
Total	**2,405,912**	**135,626**	**49,590**	**2,591,128**

Gross financings (funded) as of 31 March 2021 amounted to BD1 billion, BD0.4 billion and BD0.2 billion for Stage 1, Stage 2 and Stage 3 (BD1.1 billion, BD0.3 billion and BD0.2 billion) respectively. Collateral coverage for gross financing as of 31 March 2021 was 77%, 56% and 33% for Stage 1, Stage 2 and Stage 3 (31 December 2020: 80%, 40% and 48%) respectively.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 PROVISION FOR IMPAIRMENT (continued)

Included in Stage 1 under "Acceptable risks (4-6)" is the financing extended to the Group's affiliate, IB Capital, amounting to BD583 million. This financing was originated on 2 January 2017 as part of the reorganization pursuant to the Extraordinary General Meeting (EGM) held on 28 March 2016 where the shareholders approved to restructure the erstwhile Ithmaar Bank B.S.C (c) into a holding company and two subsidiaries to segregate core and non-core assets with IB Capital holding the non-core assets. The financing is collateralized by the underlying assets of IB Capital and the recovery is based on the sale of these underlying assets through an asset sale plan approved by the Board of Directors of the Group.

As part of the Group's staging policy to determine whether credit risk has significantly increased since initial recognition, the Group compared the risk of default at the assessment date with the risk of default at initial recognition.Following factors were analyzed as part of this assessment:

● The recovery of the financing at initial recognition was based on the sale of the underlying assets by IB Capital.
● the delays in the sale of underlying assets during 2020 were mainly due to the COVID-19 pandemic. All principal and profit payments are current.
● The ECL has been calculated under various stressed scenarios and the resulting impairment is within the existing ECL range.

Accordingly, the Group concluded that there has been no significant increase in credit risk of the exposure since initial recognition and classification of the above financing in Stage 1 is appropriate as of 31 March 2021.

11 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:

	31 March 2021	31 December 2020
Cash and balances with banks and central banks	54,469	54,763
Commodity and other placements with banks, financial and other institutions	8,101	4,743
Murabaha and other financings	559,019	513,000
Musharaka financing	382,869	350,319
Sukuk and investment securities	253,752	259,532
Assets acquired for leasing	148,091	144,165
Other assets	25,357	24,847
Due from the Owners (net)	285,418	272,483
	1,717,076	1,623,852
Customers' current accounts	(313,766)	(261,163)
Due to banks, financial and other institutions	(89,642)	(54,912)
Other liabilities	(31,550)	(32,615)
Equity of unrestricted investment accountholders	**1,282,118**	**1,275,162**

12 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	**7,540,000**	**754,000**
Issued and fully paid		
Total outstanding as at 1 January 2021	1,000,000	100,000
At 31 March 2021 (Reviewed)	**1,000,000**	**100,000**
Issued and fully paid		
Total outstanding as at 1 January 2020	1,000,000	100,000
At 31 December 2020 (Audited)	**1,000,000**	**100,000**

The Bank's total issued and fully paid share capital at 31 March 2021 comprises 1,000,000,000 shares at 100 fils per share amounting to BD 100,000,000.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13 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:

					31 March 2021
	Shareholders & affiliates	**Associated companies and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	590,616	-	-	18	590,634
Sukuk and investment securities	331	-	-	-	331
Other assets	6,636	-	-	153	6,789
Liabilities					
Customers’ current accounts	9,336	120	-	307	9,763
Due to banks, financial and other institutions	8,309	3,803	-	-	12,112
Other liabilities	54	-	-	-	54
Equity of unrestricted investment accounts	15,523	-	-	1,877	17,400
Income					
Return to unrestricted investment accounts	(77)	-	-	(14)	(91)
Income from murabaha and other financings	2,440	-	-	-	2,440
Profit paid to banks, financial and other institutions	(79)	(32)	-	-	(111)
Other income - Management fees	(95)	-	-	-	(95)
Expenses					
Administrative and general expenses	(52)	-	(5)	-	(57)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2020
	Shareholders & affiliates	Associated companies and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	591,709	-	-	812	592,521
Sukuk and investment securities	331	-	-	-	331
Investment in associates	-	6,516	-	-	6,516
Other assets	4,926	-	-	195	5,121
Liabilities					
Customers' current accounts	8,564	203	-	927	9,694
Due to banks, financial and other institutions	8,508	3,771	-	-	12,279
Other liabilities	49	-	-	-	49
Equity of unrestricted investment accounts	25,810	-	-	2,405	28,215
					31 March 2020
Income					
Return to unrestricted investment accounts	(88)	-	-	(14)	(102)
Income from murabaha and other financings	2,446				2,446
Profit paid to banks, financial and other institutions	(130)	(270)	-	-	(400)
Other income - Management fees	(126)	-	-	-	(126)
Expenses					
Administrative and general expenses	(52)	-	(5)	-	(57)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14 BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE

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

	Three month period ended	
	31 March 2021	**31 March 2020**
Net income/(loss) attributable to shareholders (BD'000)	153	(6,710)
Weighted average number of issued and fully paid up ordinary shares ('000) (note 12)	1,000,000	1,000,000
Earnings/(losses) per share (Basic & Diluted) – Fils	**0.15**	**(6.71)**

15 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 March 2021	31 December 2020
Acceptances and endorsements	23,778	25,215
Guarantees and irrevocable letters of credit	248,916	222,311
Customer and other claims	83,821	79,653
	356,515	**327,179**

Commitments

	31 March 2021	31 December 2020
Undrawn facilities, financing lines and other commitments to finance	**647,970**	**601,813**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail/ Commercial banking business, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
(ii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 March 2021			31 March 2020		
	Retail & Corporate banking	**Asset Management / Investment Banking**	**Total**	**Retail & Corporate banking**	**Asset Management / Investment Banking**	**Total**
Operating income/(loss)	20,243	(1,113)	**19,130**	23,936	(109)	**23,827**
Total expenses	(16,375)	(761)	**(17,136)**	(16,732)	(737)	**(17,469)**
Net income/(loss) before provision and overseas taxation	**3,868**	**(1,874)**	**1,994**	**7,204**	**(846)**	**6,358**
Provision and overseas taxation - net	(423)	(24)	**(447)**	(12,032)	(6)	**(12,038)**
Net income/(loss) for the period	**3,445**	**(1,898)**	**1,547**	**(4,828)**	**(852)**	**(5,680)**
Attributable to:						
Equity holders of the Bank	1,757	(1,604)	**153**	(6,144)	(566)	**(6,710)**
Minority interests	1,688	(294)	**1,394**	1,316	(286)	**1,030**
	3,445	**(1,898)**	**1,547**	**(4,828)**	**(852)**	**(5,680)**
Total assets	**3,233,328**	**79,341**	**3,312,669**	**3,015,551**	**79,226**	**3,094,777**
Total liabilities and equity of unrestricted investment account holders	**3,188,865**	**11,690**	**3,200,555**	**2,980,370**	**9,527**	**2,989,897**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17 NET STABLE FUNDING RATIO (NSFR)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80% . The NSFR as at 31 March 2021 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**130,803**	**-**	**-**	**10,782**	**141,585**
2	Regulatory Capital	130,803	-	-	-	130,803
3	Other Capital Instruments	-	-	-	10,782	10,782
4	**Retail deposits and deposits from small business customers:**	**-**	**1,285,700**	**279,814**	**145,879**	**1,569,141**
5	Stable deposits	-	264,251	21,759	9,730	281,439
6	Other wholesale funding	-	1,021,449	258,055	136,149	1,287,702
7	**Wholesale funding:**	**-**	**465,649**	**347,443**	**371,635**	**674,216**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	465,649	347,443	371,635	674,216
10	**Other liabilities::**	**-**	**336,071**	**-**	**7,073**	**7,073**
11	NSFR Shari'a-compliant hedging contract liabilities	-	21,706	-	-	-
12	All other liabilities not included in the above categories	-	314,365	-	7,073	7,073
13	**Total ASF**					**2,392,015**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)					11,781
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**461,761**	**118,537**	**1,431,674**	**1,517,114**
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	-	108,475	14,046	584,480	607,774
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	353,286	104,491	646,548	778,454
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	180,004	117,003
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	19,364	12,587
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,278	1,296
24	**Other assets:**	**-**	**436,558**	**-**	**1,278**	**436,558**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts 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	-	4,341	-	-	4,341
29	All other assets not included in the above categories	-	432,217	-	1,278	432,217
30	OBS items	-	748,471	-	-	37,424
31	**Total RSF**					**2,002,877**
32	**NSFR (%)**					**119%**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17 NET STABLE FUNDING RATIO (NSFR) (continued)

The consolidated NSFR is calculated in accordance with Liquidity Risk Management Module guidelines issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80% . The NSFR as at 31 December 2020 is calculated as follows:

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Available Stable Funding (ASF):						
1	**Capital:**	**109,946**	**-**	**-**	**22,473**	**132,419**
2	Regulatory Capital	109,946	-	-	-	109,946
3	Other Capital Instruments	-	-	-	22,473	22,473
4	**Retail deposits and deposits from small business customers:**	**-**	**1,290,180**	**252,994**	**136,144**	**1,539,199**
5	Stable deposits	-	263,952	20,037	9,758	279,547
6	Other wholesale funding	-	1,026,228	232,957	126,386	1,259,652
7	**Wholesale funding:**	**-**	**428,385**	**314,705**	**379,194**	**655,427**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	428,385	314,705	379,194	655,427
10	**Other liabilities::**	**-**	**249,846**	**-**	**7,293**	**7,293**
11	NSFR Shari'a-compliant hedging contract liabilities	-	24,098	-	-	-
12	All other liabilities not included in the above categories	-	225,748	-	7,293	7,293
13	**Total ASF**					**2,334,338**
Available Stable Funding (ASF):						
14	Total NSFR high-quality liquid assets (HQLA)					14,270
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**441,285**	**89,939**	**1,403,025**	**1,472,963**
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	-	94,184	13,422	586,190	607,028
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	347,101	76,517	613,646	733,408
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	184,993	120,245
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	16,995	11,047
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,201	1,235
24	**Other assets:**	**-**	**372,329**	**-**	**1,201**	**372,329**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts 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	-	4,820	-	-	4,820
29	All other assets not included in the above categories	-	367,509	-	1,201	367,509
30	OBS items	-	684,017	-	-	34,201
31	**Total RSF**					**1,893,763**
32	**NSFR (%)**					**123%**