

**ITHMAAR BANK B.S.C. (C)**

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020

**ITHMAAR BANK B.S.C. (C)**  
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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 September 2020 and the related interim condensed consolidated income statement for the three month and nine month periods ended 30 September 2020 and the related interim condensed consolidated statements of changes in owners’ equity, cash flows and changes in restricted investment accounts for the nine month period then ended and explanatory notes (on pages 4 to 29). 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 29) 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.

A blue ink signature of a PricewaterhouseCoopers partner, written in a cursive style.

12 November 2020

Partner’s registration number: 196

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 September<br>2020<br>(Reviewed) | At 31 December<br>2019<br>(Audited) | At 30 September<br>2019<br>(Reviewed) |
|---|------|---------------------------------------|-------------------------------------|---------------------------------------|
| <b>ASSETS</b>   |      |                                       |                                     |                                       |
| Cash and balances with banks and central banks  | 3    | 220,427                               | 253,124                             | 218,541                               |
| Commodity and other placements with banks,<br>financial and other institutions  | 4    | 139,689                               | 127,602                             | 130,632                               |
| Murabaha and other financings   | 5    | 1,387,246                             | 1,497,391                           | 1,539,850                             |
| Musharaka financing   |      | 271,860                               | 239,452                             | 206,712                               |
| Sukuk and investment securities   | 6    | 715,076                               | 523,702                             | 479,053                               |
| Assets acquired for leasing   |      | 141,417                               | 148,084                             | 149,430                               |
| Other assets  | 7    | 62,836                                | 55,544                              | 67,916                                |
| Investment in real estate   |      | 2,240                                 | 2,398                               | 2,997                                 |
| Development properties  |      | 75,838                                | 75,838                              | 79,296                                |
| Fixed assets  |      | 20,999                                | 22,235                              | 18,849                                |
| Intangible assets   |      | 30,270                                | 33,576                              | 39,700                                |
| <b>Total assets</b>   |      | <b>3,067,898</b>                      | <b>2,978,946</b>                    | <b>2,932,976</b>                      |
| <b>LIABILITIES, EQUITY OF UNRESTRICTED<br/>INVESTMENT ACCOUNTHOLDERS,<br/>NON-CONTROLLING INTEREST AND OWNERS' EQUITY</b>       |      |                                       |                                     |                                       |
| Customers' current accounts   |      | 623,116                               | 572,466                             | 541,145                               |
| Due to banks, financial and other institutions  |      | 489,495                               | 501,616                             | 497,513                               |
| Due to investors  |      | 538,505                               | 589,550                             | 571,042                               |
| Other liabilities   |      | 107,105                               | 104,908                             | 134,951                               |
| <b>Total liabilities</b>  |      | <b>1,758,221</b>                      | <b>1,768,540</b>                    | <b>1,744,651</b>                      |
| Equity of unrestricted investment accountholders  | 9    | 1,195,416                             | 1,063,928                           | 1,042,688                             |
| Non-controlling interests   |      | 56,279                                | 67,307                              | 65,264                                |
| <b>Total liabilities, equity of unrestricted investment<br/>accountholders and non-controlling interest</b>                     |      | <b>3,009,916</b>                      | <b>2,899,775</b>                    | <b>2,852,603</b>                      |
| Share capital   | 10   | 100,000                               | 100,000                             | 100,000                               |
| Reserves  |      | (36,203)                              | 7,590                               | 6,500                                 |
| Accumulated losses  |      | (5,815)                               | (28,419)                            | (26,127)                              |
| <b>Total owners' equity</b>   |      | <b>57,982</b>                         | <b>79,171</b>                       | <b>80,373</b>                         |
| <b>Total liabilities, equity of unrestricted investment<br/>accountholders, non-controlling interest<br/>and owners' equity</b> |      | <b>3,067,898</b>                      | <b>2,978,946</b>                    | <b>2,932,976</b>                      |

This interim condensed consolidated financial information was approved by the Board of Directors on 12 November 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 29 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 | Nine months ended                  |                                    | Three months ended                 |                                    |
|---|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   |      | 30 September<br>2020<br>(Reviewed) | 30 September<br>2019<br>(Reviewed) | 30 September<br>2020<br>(Reviewed) | 30 September<br>2019<br>(Reviewed) |
| <b>INCOME</b>   |      |                                    |                                    |                                    |                                    |
| Income from unrestricted investment accounts                                      |      | 68,111                             | 60,106                             | 27,661                             | 20,406                             |
| Less: return to unrestricted investment accounts and impairment provisions        |      | (40,454)                           | (41,090)                           | (18,918)                           | (14,164)                           |
| <b>Group's share of income from unrestricted investment accounts as a Mudarib</b> |      | <b>27,657</b>                      | <b>19,016</b>                      | <b>8,743</b>                       | <b>6,242</b>                       |
| Income from murabaha and other financings   |      | 42,903                             | 58,383                             | 10,842                             | 20,729                             |
| Income from sukuk and investment securities                                       |      | 42,453                             | 28,374                             | 13,665                             | 11,288                             |
| Other income  |      | 16,962                             | 16,818                             | 3,474                              | 5,147                              |
| <b>Total income</b>   |      | <b>129,975</b>                     | <b>122,591</b>                     | <b>36,724</b>                      | <b>43,406</b>                      |
| Less: profit paid to banks, financial and other institutions – net                |      | (59,421)                           | (62,677)                           | (16,346)                           | (23,854)                           |
| <b>Operating income</b>   |      | <b>70,554</b>                      | <b>59,914</b>                      | <b>20,378</b>                      | <b>19,552</b>                      |
| <b>EXPENSES</b>   |      |                                    |                                    |                                    |                                    |
| Administrative and general expenses   |      | (43,968)                           | (41,473)                           | (14,849)                           | (13,770)                           |
| Depreciation and amortization   |      | (6,828)                            | (6,365)                            | (2,298)                            | (2,152)                            |
| <b>Total expenses</b>   |      | <b>(50,796)</b>                    | <b>(47,838)</b>                    | <b>(17,147)</b>                    | <b>(15,922)</b>                    |
| <b>Net income before provision for impairment and overseas taxation</b>           |      | <b>19,758</b>                      | <b>12,076</b>                      | <b>3,231</b>                       | <b>3,630</b>                       |
| (Provision for)/reversal of impairment  | 8    | (12,435)                           | 740                                | (1,766)                            | (906)                              |
| <b>Net income before overseas taxation</b>  |      | <b>7,323</b>                       | <b>12,816</b>                      | <b>1,465</b>                       | <b>2,724</b>                       |
| Overseas taxation   |      | (8,035)                            | (7,536)                            | (2,383)                            | (1,539)                            |
| <b>NET (LOSS)/INCOME FOR THE PERIOD</b>   |      | <b>(712)</b>                       | <b>5,280</b>                       | <b>(918)</b>                       | <b>1,185</b>                       |
| <b>Attributable to:</b>   |      |                                    |                                    |                                    |                                    |
| Equity holders of the Bank  |      | (4,180)                            | 2,666                              | (2,148)                            | 559                                |
| Non-controlling interest  |      | 3,468                              | 2,614                              | 1,230                              | 626                                |
|   |      | <b>(712)</b>                       | <b>5,280</b>                       | <b>(918)</b>                       | <b>1,185</b>                       |
| <b>Basic and diluted (losses)/earnings per share</b>                              | 12   | <b>Fils (4.18)</b>                 | <b>Fils 2.67</b>                   | <b>Fils (2.15)</b>                 | <b>Fils 0.56</b>                   |

This interim condensed consolidated financial information was approved by the Board of Directors on 12 November 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 29 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 nine month period ended 30 September 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  |                    |                      |
| <b>At 1 January 2020 (Audited)</b>   | <b>100,000</b> | <b>299</b>        | <b>3,740</b>                   | <b>744</b>                                   | <b>(37,473)</b>              | <b>40,280</b> | <b>7,590</b>    | <b>(28,419)</b>    | <b>79,171</b>        |
| <b>Adjustments resulting from reclassification of investments on adoption of FAS 33 (note 6)</b> | -              | -                 | 4,019                          | -  | -                            | -             | <b>4,019</b>    | -                  | <b>4,019</b>         |
| <b>At 1 January 2020 (Reviewed)</b>  | <b>100,000</b> | <b>299</b>        | <b>7,759</b>                   | <b>744</b>                                   | <b>(37,473)</b>              | <b>40,280</b> | <b>11,609</b>   | <b>(28,419)</b>    | <b>83,190</b>        |
| Set off of accumulated losses (note 1.1)   | -              | -                 | -                              | -  | -                            | (40,280)      | <b>(40,280)</b> | 40,280             | -                    |
| Net loss for the period  | -              | -                 | -                              | -  | -                            | -             | -               | (4,180)            | <b>(4,180)</b>       |
| Modification loss net of Government assistance (note 2 Dv)                                       | -              | -                 | -                              | -  | -                            | -             | -               | (14,782)           | <b>(14,782)</b>      |
| Increase in shareholding of subsidiary (note 1)  | -              | -                 | -                              | -  | -                            | -             | -               | 1,286              | <b>1,286</b>         |
| Movement in fair value of sukuk and investment securities  | -              | -                 | (2,932)                        | -  | -                            | -             | <b>(2,932)</b>  | -                  | <b>(2,932)</b>       |
| Foreign currency translation adjustments   | -              | -                 | (119)                          | (44)   | (4,437)                      | -             | <b>(4,600)</b>  | -                  | <b>(4,600)</b>       |
| <b>At 30 September 2020 (Reviewed)</b>   | <b>100,000</b> | <b>299</b>        | <b>4,708</b>                   | <b>700</b>                                   | <b>(41,910)</b>              | -             | <b>(36,203)</b> | <b>(5,815)</b>     | <b>57,982</b>        |

The notes 1 to 14 on pages 11 to 29 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 nine month period ended 30 September 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 |                    |                      |
| <b>At 1 January 2019 (Audited)</b>                        | <b>100,000</b> | <b>299</b>        | <b>3,446</b>                   | <b>808</b>                                   | <b>(30,655)</b>              | <b>40,280</b> | <b>14,178</b>  | <b>(28,793)</b>    | <b>85,385</b>        |
| Net income for the period                                 | -              | -                 | -                              | -  | -                            | -             | -              | 2,666              | 2,666                |
| Movement in fair value of sukuk and investment securities | -              | -                 | 277                            | -  | -                            | -             | 277            | -                  | 277                  |
| Foreign currency translation adjustments                  | -              | -                 | 46                             | (172)  | (7,829)                      | -             | (7,955)        | -                  | (7,955)              |
| <b>At 30 September 2019 (Reviewed)</b>                    | <b>100,000</b> | <b>299</b>        | <b>3,769</b>                   | <b>636</b>                                   | <b>(38,484)</b>              | <b>40,280</b> | <b>6,500</b>   | <b>(26,127)</b>    | <b>80,373</b>        |

The notes 1 to 14 on pages 11 to 29 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)

|   |   | <b>Nine months ended</b> |  |
|---|---|--------------------------|--|
| <b>Notes</b>  | <b>30 September 2020</b>                                  | <b>30 September 2019</b> |  |
|   | <b>(Reviewed)</b>   | <b>(Reviewed)</b>        |  |
| <b>OPERATING ACTIVITIES</b>                                     |   |                          |  |
|   | 7,323   | 12,816                   |  |
|   | <u>Adjustments for:</u>                                   |                          |  |
|   | 6,828   | 6,365                    |  |
| 8   | 12,435  | (740)                    |  |
|   | (42,453)  | (28,374)                 |  |
|   | 38  | 248                      |  |
|   | (15,829)  | (9,685)                  |  |
|   | 151,074   | (706)                    |  |
| Changes in operating assets and liabilities:                    |   |                          |  |
|   | (91,512)  | 75,815                   |  |
|   | (49,450)  | (42,246)                 |  |
|   | (9,317)   | 6,709                    |  |
|   | 77,222  | 20,666                   |  |
|   | (816)   | (55,175)                 |  |
|   | (12,290)  | 1,197                    |  |
|   | 3,751   | (53,058)                 |  |
|   | 144,246   | 60,961                   |  |
|   | (5,015)   | (8,521)                  |  |
|   | <b>192,064</b>  | <b>(4,043)</b>           |  |
| <b>Net cash provided by/(used in) operating activities</b>      |   |                          |  |
| <b>INVESTING ACTIVITIES</b>                                     |   |                          |  |
| Net changes in:   |   |                          |  |
|   | 6,668   | 5,429                    |  |
|   | (185,166)   | 64,405                   |  |
|   | (2,741)   | (5,183)                  |  |
|   | <b>(181,239)</b>  | <b>64,651</b>            |  |
| <b>Net cash (used in)/provided by investing activities</b>      |   |                          |  |
| <b>FINANCING ACTIVITIES</b>                                     |   |                          |  |
|   | -   | 201                      |  |
|   | -   | <b>201</b>               |  |
| <b>Net cash provided by financing activities</b>                |   |                          |  |
|   | (11,345)  | (13,545)                 |  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>     |   |                          |  |
|   | <b>(520)</b>  | <b>47,264</b>            |  |
|   | <b>312,560</b>  | <b>234,023</b>           |  |
| <b>Cash and cash equivalents at the beginning of the period</b> |   |                          |  |
|   | <b>312,040</b>  | <b>281,287</b>           |  |
| 4   | <b>Cash and cash equivalents at the end of the period</b> |                          |  |

The notes 1 to 14 on pages 11 to 29 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 nine month period ended 30 September 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

|                                  | <b>At 1 January 2020</b> | <b>Foreign exchange<br/>movements</b> | <b>At 30 September 2020</b> |
|----------------------------------|--------------------------|---------------------------------------|-----------------------------|
| Shamil Bosphorus Modaraba*       | 2,356                    | -                                     | 2,356                       |
| European Real Estate Placements* | 5,333                    | 716                                   | 6,049                       |
| US Real Estate Placements*       | 9,514                    | -                                     | 9,514                       |
| <b>TOTAL</b>                     | <b>17,203</b>            | <b>716</b>                            | <b>17,919</b>               |
| Funds managed on agency basis    | 23,848                   | -                                     | 23,848                      |
|                                  | <b>41,051</b>            | <b>716</b>                            | <b>41,767</b>               |

\* 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 29 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 nine month period ended 30 September 2019**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

|                                  | <b>At 1 January 2019</b> | <b>Foreign exchange<br/>movements</b> | <b>At 30 September 2019</b> |
|----------------------------------|--------------------------|---------------------------------------|-----------------------------|
| Shamil Bosphorus Modaraba*       | 2,356                    | -                                     | 2,356                       |
| European Real Estate Placements* | 5,896                    | (729)                                 | 5,167                       |
| US Real Estate Placements*       | 9,514                    | -                                     | 9,514                       |
| <b>TOTAL</b>                     | <b>17,766</b>            | <b>(729)</b>                          | <b>17,037</b>               |
| Funds managed on agency basis    | 23,848                   | -                                     | 23,848                      |
|                                  | <b>41,614</b>            | <b>(729)</b>                          | <b>40,885</b>               |

\* 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 29 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 nine month period ended 30 September 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:

|  | % owned |      | Country of Incorporation | Principal business activity |
|--|---------|------|--------------------------|-----------------------------|
|  | 2020    | 2019 |                          |                             |
| Faysal Bank Limited  | 67      | 67   | Pakistan                 | Banking                     |
| Dilmunia Development Fund I L.P.   | 85      | 66   | Cayman Islands           | Real estate                 |
| Sakana Holistic Housing Solutions B.S.C. (C)<br>(Sakana) [under Voluntary Liquidation] | 50      | 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 September 2020, the consolidated equity of the Group stood at BD58 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 which is expected to be complete by 31 December 2020. 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).

The Group's management assessed its liquidity and equity projections for the coming twelve months from the date of issue of this interim condensed consolidated financial information and Board of Directors believes 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.

- 1.2 On 14 September 2020, Ithmaar Holding signed a non legally binding Memorandum of Understanding (MoU) with Bank of Bahrain and Kuwait B.S.C. (BBK) where BBK is interested in considering the acquisition of certain assets forming part of Bahrain operations of Ithmaar Bank B.S.C (c) Bahrain operations 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.

**Ithmaar Bank B.S.C. (C)**  
**Notes to interim condensed consolidated financial information**  
**for the nine month period ended 30 September 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 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. 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 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 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 nine month period ended 30 September 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 this 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-AI – 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.

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 interim condensed consolidated financial information.

#### **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 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 commitments”.

#### **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 owners' 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.

The implementation of FAS 33 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 (refer note 6) have been recognized in opening balance of fair value reserve in the owners' equity.

### **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.

## **2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

### **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.

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 September 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 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 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 September 2020, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 30 September 2020, the Group had NSFR ratio of 120%.

#### **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.

## **2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

### **D. Accounting estimates and judgements (continued)**

#### **vi) Estimated goodwill impairment**

Goodwill other intangibles assets acquired through business combinations have been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The Group tests whether goodwill or intangible assets have suffered any impairment in accordance with the impairment accounting policy.

The recoverable amount of the cash-generating units are generally determined based on higher of Value-in-Use (VIU) and Fair Value Less Cost to Disposal (FVLCTD).

VIU calculations are determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units.

For FVLCTD calculations, the Comparable Companies Multiple (CCM) method is used, whereby the price to book value (P/B) multiple of the comparable listed banks operating in the region were considered. The key assumptions used in estimating the recoverable amounts of cash-generating units are assessed to ensure reasonableness of the FVLCTD.

The above methods require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

During the current period, the management used the FVLCTD method in assessing the recoverable amount of the goodwill and other intangible assets. As a result, the management used judgement in the percentage of the control premium and marketability discount used in the calculation of the effective P/B multiple for the FVLCTD method.

If the P/B multiple had been 5% lower than management's calculation as at 30 September 2020, with all other variables held constant, the Group would have had to recognise an impairment against the carrying amount of the cash generating unit (CGU) of BD2.3 million.

#### **vii) Non-current assets classified as held-for-sale**

The Group assesses its assets at each reporting date in accordance with the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" and FAS 26 "Investment in Real Estate". In determining whether the sale is highly probable, the Group exercises judgement in context of current market appetite including price offered and availability of identified willing buyer.

As stated in note 1.2, the assets subject to the potential acquisition transaction by BBK were not classified as held for sale in the interim condensed consolidated financial information for the period ended 30 September 2020, based on the Group's assessment of the criteria specified by IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" and FAS 26 "Investment in Real Estate". The Group's assessment was mainly based on the early stage of discussion related to the potential acquisition transaction, the unavailability of the assets for immediate sale in present condition, the likelihood of changes in sale plan and the approvals from the regulators, the Board of Directors and shareholders of the concerned parties. The Group will reassess such classification at each reporting period based on the development and progress of the potential acquisition transaction.

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

**3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS**

|   | 30 September 2020     |   |                | 31 December 2019      |   |                |
|---|-----------------------|---|----------------|-----------------------|---|----------------|
|   | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          |
| Cash reserve with central banks                   | 42,133                | 1,474   | 43,607         | 62,643                | 1,112   | 63,755         |
| Cash and balances with banks<br>and central banks | 131,480               | 45,340  | 176,820        | 156,993               | 32,376  | 189,369        |
|   | <b>173,613</b>        | <b>46,814</b>   | <b>220,427</b> | <b>219,636</b>        | <b>33,488</b>   | <b>253,124</b> |

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

|                            | 30 September 2020     |   |                | 31 December 2019      |   |                |
|----------------------------|-----------------------|---|----------------|-----------------------|---|----------------|
|                            | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          |
| Commodity placements       | 135,313               | 4,469   | 139,782        | 123,284               | 4,411   | 127,695        |
| Less: Expected credit loss | (93)                  | -   | (93)           | (93)                  | -   | (93)           |
|                            | <b>135,220</b>        | <b>4,469</b>  | <b>139,689</b> | <b>123,191</b>        | <b>4,411</b>  | <b>127,602</b> |

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

|   | 30 September 2020     |   |                | 30 September 2019     |   |                |
|---|-----------------------|---|----------------|-----------------------|---|----------------|
|   | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          |
| Cash and balances with banks<br>and central banks                                       | 173,613               | 46,814  | 220,427        | 192,191               | 26,350  | 218,541        |
| Commodity and other placements<br>with banks, financial and other<br>institutions - net | 135,220               | 4,469   | 139,689        | 126,398               | 4,234   | 130,632        |
| Less: Placement maturing<br>after ninety days   | -                     | (4,469)   | (4,469)        | 44                    | (4,234)   | (4,190)        |
| Less: Balances with central banks<br>relating to minimum reserve<br>requirement         | (42,133)              | (1,474)   | (43,607)       | (62,729)              | (967)   | (63,696)       |
|   | <b>266,700</b>        | <b>45,340</b>   | <b>312,040</b> | <b>255,904</b>        | <b>25,383</b>   | <b>281,287</b> |

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

**5 MURABAHA AND OTHER FINANCINGS**

|                               | 30 September 2020     |   |                  | 31 December 2019      |   |                  |
|-------------------------------|-----------------------|---|------------------|-----------------------|---|------------------|
|                               | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total            | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total            |
| Murabaha and other financings | 1,000,721             | 528,644   | 1,529,365        | 1,137,602             | 490,852   | 1,628,454        |
| Less: Expected credit loss    | (127,572)             | (14,547)  | (142,119)        | (121,026)             | (10,037)  | (131,063)        |
|                               | <b>873,149</b>        | <b>514,097</b>  | <b>1,387,246</b> | <b>1,016,576</b>      | <b>480,815</b>  | <b>1,497,391</b> |

The movement in expected credit loss is as follows:

|   | 30 September 2020     |   |                | 31 December 2019      |   |                |
|---|-----------------------|---|----------------|-----------------------|---|----------------|
|   | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          |
| At 1 January                                | 121,026               | 10,037  | 131,063        | 131,029               | 12,874  | 143,903        |
| Charge for the period/year                  | 14,304                | 4,616   | 18,920         | 15,283                | 1,030   | 16,313         |
| Write back during the period/year           | (1,907)               | (22)  | (1,929)        | (18,386)              | -   | (18,386)       |
| Utilised during the period/year             | (1,753)               | (66)  | (1,819)        | (554)                 | (3,676)   | (4,230)        |
| Exchange differences and<br>other movements | (4,098)               | (18)  | (4,116)        | (6,346)               | (191)   | (6,537)        |
|   | <b>127,572</b>        | <b>14,547</b>   | <b>142,119</b> | <b>121,026</b>        | <b>10,037</b>   | <b>131,063</b> |

**Ithmaar Bank B.S.C. (C)**

**Notes to interim condensed consolidated financial information**

**for the nine month period ended 30 September 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

**6 SUKUK AND INVESTMENT SECURITIES**

|   | 30 September 2020  |  |                | 31 December 2019   |  |                |
|---|--------------------|--|----------------|--------------------|--|----------------|
|   | Relating to owners | Relating to unrestricted investment accounts | Total          | Relating to owners | Relating to unrestricted investment accounts | Total          |
| <b>Investment securities at fair value through income statement</b> |                    |  |                |                    |  |                |
| Debt-type instruments – unlisted                                    | 68,083             | -  | 68,083         | 75,652             | -  | 75,652         |
| Equity-type securities – listed                                     | 870                | -  | 870            | 222                | -  | 222            |
|   | <b>68,953</b>      | <b>-</b>                                     | <b>68,953</b>  | <b>75,874</b>      | <b>-</b>                                     | <b>75,874</b>  |
| <b>Investment securities at fair value through equity</b>           |                    |  |                |                    |  |                |
| Debt-type instruments – listed                                      | 75,467             | 35,809                                       | 111,276        | -                  | -  | -              |
| Debt-type instruments – unlisted                                    | 343,364            | 45,617                                       | 388,981        | -                  | -  | -              |
| Equity-type securities – listed                                     | 19,371             | -  | 19,371         | 21,482             | -  | 21,482         |
| Equity-type securities – unlisted                                   | 3,253              | -  | 3,253          | 1,989              | -  | 1,989          |
|   | 441,455            | 81,426                                       | 522,881        | 23,471             | -  | 23,471         |
| Expected credit loss  | (5,218)            | -  | (5,218)        | (3,990)            | -  | (3,990)        |
|   | <b>436,237</b>     | <b>81,426</b>                                | <b>517,663</b> | <b>19,481</b>      | <b>-</b>                                     | <b>19,481</b>  |
| <b>Investment securities carried at amortised cost</b>              |                    |  |                |                    |  |                |
| Sukuk – unlisted  | 1,240              | 25,367                                       | 26,607         | 79,647             | 72,732                                       | 152,379        |
| Other debt-type instruments – listed                                | -                  | 102,241                                      | 102,241        | 37,256             | -  | 37,256         |
| Other debt-type instruments – unlisted                              | 3,169              | -  | 3,169          | 243,945            | -  | 243,945        |
|   | 4,409              | 127,608                                      | 132,017        | 360,848            | 72,732                                       | 433,580        |
| Expected credit loss  | (3,557)            | -  | (3,557)        | (5,233)            | -  | (5,233)        |
|   | <b>852</b>         | <b>127,608</b>                               | <b>128,460</b> | <b>355,615</b>     | <b>72,732</b>                                | <b>428,347</b> |
|   | <b>506,042</b>     | <b>209,034</b>                               | <b>715,076</b> | <b>450,970</b>     | <b>72,732</b>                                | <b>523,702</b> |

During the period ended 30 September 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 (refer note 2A) has 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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(Expressed in thousands of Bahraini Dinars unless otherwise stated)

**6 SUKUK AND INVESTMENT SECURITIES (continued)****Investments measured at fair value****At 30 September 2020****Investment securities at fair value  
through income statement**

|                        | Level 1 | Level 2 | Level 3 | Total  |
|------------------------|---------|---------|---------|--------|
| Debt-type instruments  | -       | 68,083  | -       | 68,083 |
| Equity-type securities | 870     | -       | -       | 870    |

**Investment securities at fair value  
through equity**

|                                  |        |         |   |         |
|----------------------------------|--------|---------|---|---------|
| Debt-type instruments – listed   | 75,467 | -       | - | 75,467  |
| Debt-type instruments – unlisted | -      | 388,740 | - | 388,740 |
| Equity-type securities           | 11,325 | 42,131  | - | 53,456  |

|               |                |          |                |
|---------------|----------------|----------|----------------|
| <b>87,662</b> | <b>498,954</b> | <b>-</b> | <b>586,616</b> |
|---------------|----------------|----------|----------------|

**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 |
|------------------------|--------|-----|---|--------|

|               |               |          |               |
|---------------|---------------|----------|---------------|
| <b>19,508</b> | <b>75,847</b> | <b>-</b> | <b>95,355</b> |
|---------------|---------------|----------|---------------|

**Ithmaar Bank B.S.C. (C)**

**Notes to interim condensed consolidated financial information  
for the nine month period ended 30 September 2020**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

**7 OTHER ASSETS**

|                                    | 30 September 2020     |   |               | 31 December 2019      |   |               |
|------------------------------------|-----------------------|---|---------------|-----------------------|---|---------------|
|                                    | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total         | Relating<br>to owners | Relating to<br>unrestricted<br>investment<br>accounts | Total         |
|                                    |                       | Total   |               |                       | Total   |               |
| Accounts receivable                | 34,340                | 26,202  | 60,542        | 33,922                | 21,122  | 55,044        |
| Due from related parties (note 11) | 5,692                 | -   | 5,692         | 8,209                 | -   | 8,209         |
| Taxes – deferred                   | 338                   | -   | 338           | 3,519                 | -   | 3,519         |
| Taxes – current                    | 7,191                 | -   | 7,191         | 4,589                 | -   | 4,589         |
| Assets acquired against claims     | 2,816                 | 4,964   | 7,780         | 3,103                 | -   | 3,103         |
|                                    | 50,377                | 31,166  | 81,543        | 53,342                | 21,122  | 74,464        |
| Expected credit loss               | (14,128)              | (4,579)   | (18,707)      | (14,340)              | (4,580)   | (18,920)      |
|                                    | <b>36,249</b>         | <b>26,587</b>   | <b>62,836</b> | <b>39,002</b>         | <b>16,542</b>   | <b>55,544</b> |

**8 PROVISION FOR IMPAIRMENT**

|                                   | 30 September 2020     |   |                | 31 December 2019      |   |                |
|-----------------------------------|-----------------------|---|----------------|-----------------------|---|----------------|
|                                   | Relating to<br>owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          | Relating<br>to owners | Relating to<br>unrestricted<br>investment<br>accounts | Total          |
|                                   |                       | Total   |                |                       | Total   |                |
| At 1 January                      | 171,798               | 16,914  | 188,712        | 176,184               | 18,830  | 195,014        |
| Charge for the period/year        | 16,369                | 6,310   | 22,679         | 21,349                | 2,199   | 23,548         |
| Write back during the period/year | (3,934)               | (320)   | (4,254)        | (18,570)              | (63)  | (18,633)       |
| Utilised during the period/year   | (1,753)               | (66)  | (1,819)        | (4,073)               | (3,676)   | (7,749)        |
| Exchange differences              | (4,429)               | (189)   | (4,618)        | (3,092)               | (376)   | (3,468)        |
|                                   | <b>178,051</b>        | <b>22,649</b>   | <b>200,700</b> | <b>171,798</b>        | <b>16,914</b>   | <b>188,712</b> |

**lthmaar Bank B.S.C. (C)**

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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 September 2020**

|  | Stage 1          | Stage 2        | Stage 3          | Total            |
|--|------------------|----------------|------------------|------------------|
| <b>Financial assets - amortized cost</b>   |                  |                |                  |                  |
| <b>Cash, commodity and other placements with banks, financial and other institutions</b> | <b>360,119</b>   | <b>90</b>      | <b>-</b>         | <b>360,209</b>   |
| <b>Financings (funded and unfunded exposure) Corporate</b>                               |                  |                |                  |                  |
| Low risks (1-3)  | 256,473          | 47,482         | -                | 303,955          |
| Acceptable risks (4-6)   | 940,942          | 180,596        | 151              | 1,121,689        |
| Watch list (7)   | -                | 47,102         | -                | 47,102           |
| Non performing (8-10)  | -                | -              | 137,986          | 137,986          |
| <b>Carrying amount - corporate</b>   | <b>1,197,415</b> | <b>275,180</b> | <b>138,137</b>   | <b>1,610,732</b> |
| Retail (un-rated)  | 520,674          | 8,254          | 24,545           | 553,473          |
| <b>Carrying amount</b>   | <b>1,718,089</b> | <b>283,434</b> | <b>162,682</b>   | <b>2,164,205</b> |
| <b>Sukuk and investment securities</b>   | <b>128,494</b>   | <b>-</b>       | <b>3,523</b>     | <b>132,017</b>   |
| <b>Other receivables</b>   | <b>43,099</b>    | <b>5,783</b>   | <b>13,323</b>    | <b>62,205</b>    |
| <b>Loss allowance</b>  | <b>(39,659)</b>  | <b>(7,725)</b> | <b>(121,225)</b> | <b>(168,609)</b> |
| <b>Total</b>   | <b>2,210,142</b> | <b>281,582</b> | <b>58,303</b>    | <b>2,550,027</b> |

**31 December 2019**

|  | Stage 1          | Stage 2        | Stage 3          | Total            |
|--|------------------|----------------|------------------|------------------|
| <b>Financial assets - amortized cost</b>   |                  |                |                  |                  |
| <b>Cash, commodity and other placements with banks, financial and other institutions</b> | <b>380,819</b>   | <b>-</b>       | <b>-</b>         | <b>380,819</b>   |
| <b>Financings (funded and unfunded exposure) Corporate</b>                               |                  |                |                  |                  |
| 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          |
| <b>Carrying amount - corporate</b>   | <b>1,415,079</b> | <b>107,825</b> | <b>159,631</b>   | <b>1,682,535</b> |
| Retail (un-rated)  | 506,051          | 7,404          | 21,395           | 534,850          |
| <b>Carrying amount</b>   | <b>1,921,130</b> | <b>115,229</b> | <b>181,026</b>   | <b>2,217,385</b> |
| <b>Sukuk and investment securities</b>   | <b>428,283</b>   | <b>-</b>       | <b>5,297</b>     | <b>433,580</b>   |
| <b>Other receivables</b>   | <b>44,232</b>    | <b>4,911</b>   | <b>13,916</b>    | <b>63,059</b>    |
| <b>Loss allowance</b>  | <b>(38,184)</b>  | <b>(3,487)</b> | <b>(116,414)</b> | <b>(158,085)</b> |
| <b>Total</b>   | <b>2,736,280</b> | <b>116,653</b> | <b>83,825</b>    | <b>2,936,758</b> |

Gross financings (funded) as of 30 September 2020 amounted to BD0.9 billion, BD0.4 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 respectively). Collateral coverage for gross financing as of 30 September 2020 was 70%, 64% and 72% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: 83%, 46% and 49% respectively).



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

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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:

|   | <b>30 September<br/>2020</b> | <b>31 December<br/>2019</b> |
|---|------------------------------|-----------------------------|
| Cash and balances with banks and central banks                              | 46,814                       | 33,488                      |
| Commodity and other placements with banks, financial and other institutions | 4,469                        | 4,411                       |
| Murabaha and other financings   | 514,097                      | 480,815                     |
| Musharaka financing   | 271,249                      | 234,446                     |
| Sukuk and investment securities   | 209,034                      | 72,732                      |
| Assets acquired for leasing   | 140,229                      | 146,876                     |
| Other assets  | 26,587                       | 16,542                      |
| Due from the Owners (net)   | 283,786                      | 299,648                     |
|   | <b>1,496,265</b>             | <b>1,288,958</b>            |
| Customers' current accounts   | (167,697)                    | (134,169)                   |
| Due to banks, financial and other institutions                              | (104,234)                    | (64,861)                    |
| Other liabilities   | (28,918)                     | (26,000)                    |
| Equity of unrestricted investment accountholders                            | <b>1,195,416</b>             | <b>1,063,928</b>            |

**10 SHARE CAPITAL**

|  | <b>Number of<br/>shares<br/>(thousands)</b> | <b>Share capital</b> |
|--|---|----------------------|
| <b>Authorised</b>                      | <b>7,540,000</b>                            | <b>754,000</b>       |
| <b>Issued and fully paid</b>           |   |                      |
| Total outstanding as at 1 January 2020 | 1,000,000                                   | 100,000              |
| <b>At 30 September 2020 (Reviewed)</b> | <b>1,000,000</b>                            | <b>100,000</b>       |
| <b>Issued and fully paid</b>           |   |                      |
| Total outstanding as at 1 January 2019 | 1,000,000                                   | 100,000              |
| <b>At 31 December 2019 (Audited)</b>   | <b>1,000,000</b>                            | <b>100,000</b>       |

The Bank's total issued and fully paid share capital at 30 September 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:

|  | <b>30 September 2020</b>                 |   |   |                              |              |
|--|--|---|---|------------------------------|--------------|
|  | <b>Shareholders &amp;<br/>affiliates</b> | <b>Associated<br/>companies<br/>and other<br/>investments</b> | <b>Directors<br/>and related<br/>entities</b> | <b>Senior<br/>management</b> | <b>Total</b> |
| <b>Assets</b>  |  |   |   |                              |              |
| Murabaha and other financings                          | 586,257                                  | -   | -   | 771                          | 587,028      |
| Sukuk and investment securities                        | 331                                      | -   | -   | -                            | 331          |
| Other assets   | 5,517                                    | -   | -   | 175                          | 5,692        |
| <b>Liabilities</b>                                     |  |   |   |                              |              |
| Customers' current accounts                            | 6,234                                    | 5,611   | -   | 244                          | 12,089       |
| Due to banks, financial and other institutions         | 18,820                                   | 10,072  | -   | -                            | 28,892       |
| Other liabilities                                      | 56                                       | -   | -   | -                            | 56           |
| Equity of unrestricted investment accounts             | 9,219                                    | -   | -   | 2,113                        | 11,332       |
| Commitments  | 1,281                                    | -   | -   | -                            | 1,281        |
| <b>30 September 2020</b>                               |  |   |   |                              |              |
|  | <b>Shareholders &amp;<br/>affiliates</b> | <b>Associated<br/>companies<br/>and other<br/>investments</b> | <b>Directors<br/>and related<br/>entities</b> | <b>Senior<br/>management</b> | <b>Total</b> |
| <b>Income</b>  |  |   |   |                              |              |
| Return to unrestricted investment accounts             | (283)                                    | -   | -   | (48)                         | (331)        |
| Income from murabaha and other financings              | 7,300                                    | -   | -   | -                            | 7,300        |
| Profit paid to banks, financial and other institutions | (173)                                    | (529)   | -   | -                            | (702)        |
| Other Income - Management fees                         | (537)                                    | -   | -   | -                            | (537)        |
| <b>Expenses</b>  |  |   |   |                              |              |
| Administrative and general expenses                    | (155)                                    | -   | (14)  | -                            | (169)        |

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

|  | <b>31 December 2019</b>              |   |                                       |                          |              |
|--|--------------------------------------|---|---------------------------------------|--------------------------|--------------|
|  | <b>Shareholders &amp; affiliates</b> | <b>Associated companies and other investments</b> | <b>Directors and related entities</b> | <b>Senior management</b> | <b>Total</b> |
| <b>Assets</b>  |                                      |   |                                       |                          |              |
| Murabaha and other financings                                | 586,602                              | -   | 4,828                                 | 790                      | 592,220      |
| Sukuk and investment securities                              | 331                                  | -   | -                                     | -                        | 331          |
| Other assets   | 8,053                                | -   | -                                     | 156                      | 8,209        |
| <b>Liabilities</b>   |                                      |   |                                       |                          |              |
| 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        |
|  |                                      |   |                                       |                          |              |
|  | <b>30 September 2019</b>             |   |                                       |                          |              |
|  | <b>Shareholders &amp; affiliates</b> | <b>Associated companies and other investments</b> | <b>Directors and related entities</b> | <b>Senior management</b> | <b>Total</b> |
| <b>Income</b>  |                                      |   |                                       |                          |              |
| Return to unrestricted investment accounts                   | (211)                                | -   | -                                     | (33)                     | (244)        |
| Income from murabaha and other financings                    | 7,481                                | -   | -                                     | -                        | 7,481        |
| Profit paid to banks, financial and other institutions – net | (886)                                | (1,214)   | -                                     | -                        | (2,100)      |
| <b>Expenses</b>  |                                      |   |                                       |                          |              |
| Administrative and general expenses                          | (155)                                | -   | (14)                                  | -                        | (169)        |

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

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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.

|  | <b>Nine month period ended</b> |                              | <b>Three month period ended</b> |                              |
|--|--------------------------------|------------------------------|---------------------------------|------------------------------|
|  | <b>30 September<br/>2020</b>   | <b>30 September<br/>2019</b> | <b>30 September<br/>2020</b>    | <b>30 September<br/>2019</b> |
| Net (loss)/income attributable to shareholders (BD'000)                    | (4,180)                        | 2,666                        | (2,148)                         | 559                          |
| Weighted average number of issued and fully paid up ordinary shares ('000) | 1,000,000                      | 1,000,000                    | 1,000,000                       | 1,000,000                    |
| <b>(Losses)/earnings per share<br/>(Basic &amp; Diluted) – Fils</b>        | <b>(4.18)</b>                  | <b>2.67</b>                  | <b>(2.15)</b>                   | <b>0.56</b>                  |

**13 CONTINGENT LIABILITIES AND COMMITMENTS****Contingent liabilities**

|  | <b>30 September 2020</b> | <b>31 December 2019</b> |
|--|--------------------------|-------------------------|
| Acceptances and endorsements                 | 23,131                   | 22,257                  |
| Guarantees and irrevocable letters of credit | 174,961                  | 165,417                 |
| Customer and other claims                    | 75,900                   | 83,242                  |
|  | <b>273,992</b>           | <b>270,916</b>          |

**Commitments**

|  | <b>30 September 2020</b> | <b>31 December 2019</b> |
|--|--------------------------|-------------------------|
| Undrawn facilities, financing lines and other commitments to finance | <b>518,156</b>           | <b>540,196</b>          |

