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At a Glance

Ithmaar Holding B.S.C. (Ithmaar Holding, Ithmaar or the Group) is a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain (CBB) and listed on the Bahrain Bourse and Dubai Financial Market (DFM).

Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT), and has a paid-up capital of US\$757.69 million.

Ithmaar Holding owns two wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed) (Ithmaar Bank), an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C. (closed) (IB Capital), an investment firm subsidiary, which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB.

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. Ithmaar Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan).

IB Capital maintains a presence in regional and overseas markets through its investments including in associated companies. These include BBK (banking), Ithmaar Development Company Limited (real estate), Solidarity (Islamic insurance), and Naseej (infrastructure) in Bahrain.

Vision, Mission and Values

Our Vision

To help all stakeholders and communities realise their long-term ambitions.

Our Mission

To pursue a portfolio of sustainable investments that enhance shareholder value and encourage future growth.

Our Values

- Comply with Islamic Sharia principles;
- Honesty, integrity and objectivity in all our relationships;
- Continuous improvement, willingness to bring about changes and improve efficiency; and
- Active role in the community.

Financial Highlights

	2020	2019	2018	2017	2016
Net profit/(loss) [US\$ 000]	(21,479)	12,198	10,057	(72,401)	13,798
Net profit/(loss) attributable to shareholders [US\$ 000]	(41,719)	669	(23,981)	(84,711)	3,279
Net income before provision for impairment and overseas taxation [US\$ 000]	34,049	74,120	43,415	22,060	70,045
Total equity attributable to shareholders [US\$ 000]	14,762	95,546	116,356	355,330	427,415
Book value per share [US cents]	1	3	4	12	15
Earnings per share [US cents]	(1.43)	0.02	(0.82)	(2.91)	0.11
Total assets [US\$ 000]	8,383,665	8,085,239	8,488,656	8,611,359	8,341,310
Funds under management [restricted and unrestricted investment accounts] [US\$ 000]	44,234	45,632	110,382	257,133	290,059
Return on average shareholders' equity	-75.64%	0.63%	-10.17%	-21.64%	0.78%
Return on average assets	-0.26%	0.15%	0.12%	-0.85%	0.17%
Market price per share [US cents]	7.1	5.0	8.5	13.5	12.5
Market price per share/Book value per share	13.92	1.52	2.13	1.11	0.85

Joint Message



HRH Prince Amr Mohammed Al Faisal
Chairman



Ahmed Abdul Rahim
Chief Executive Officer

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to report that efforts to transform the Group's operations in line with the strategic decisions taken by the shareholders in 2016 are continuing to deliver positive results, despite the unprecedented challenges of 2020 and their subsequent impact on our financial performance.

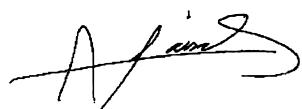
We started 2020 on a positive note having concluded another profitable year in 2019 – but the effects of the global Covid-19 pandemic, and the subsequent economic slowdown, have had a major impact on our financial performance.

For the first half of the year, we reported a net profit of US\$7.40 million, a 43 percent decrease compared to the net profit of US\$13.02 million reported for same period in 2019. This resulted in a net loss attributable to equity holders of US\$1.29 million for the first half of 2020, compared to the net profit of US\$8.37 million reported for the same period in 2019. We concluded 2020 by reporting a net loss for the year of US\$21.48 million, compared to the net profit of US\$12.20 million reported for 2019. This resulted in a net loss attributable to equity holders for the year of US\$41.72 million, compared to the net profit of US\$0.67 million reported for 2019. Earnings Per Share (EPS) for the year was negative US Cents 1.43, compared to positive US Cents 0.02 for 2019.

The challenges of 2020 however did not distract us from our strategic focus of turning the Group around and creating value for our shareholders.

This was perhaps best demonstrated in August, when we announced initial talks with the Bank of Bahrain and Kuwait (BBK), one of the largest commercial banks in Bahrain, to explore a potential sale of Ithmaar Bank's Bahrain operations as well as specific assets of IB Capital to BBK. We have since signed a Memorandum of Understanding (MoU) with BBK and the plans, which are subject to shareholder and regulatory approvals as well as the completion of due diligence by both parties, are now in the advanced phase. This transaction is in line with Ithmaar Holding's strategy of creating value for our shareholders, and we look forward to exploring this opportunity further in 2021.

Meanwhile, we take this opportunity to thank the members of the Board of Directors and the Sharia Supervisory Board and all our shareholders, as well as the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse and the Dubai Financial Market. We take this opportunity, also, to thank the Boards of the Directors and the management of our subsidiaries.



Amr Mohammed Al Faisal
Chairman



Ahmed Abdul Rahim
Chief Executive Officer

Review of Operations

Economic Outlook

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later in 2021, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at negative 3.5 percent, 0.9 percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).

The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.

Policy actions should ensure effective support until the recovery is firmly underway, with an emphasis on advancing key imperatives of raising potential output, ensuring participatory growth that benefits all, and accelerating the transition to lower carbon dependence.

Strong multilateral cooperation is required to bring the pandemic under control everywhere. Such efforts include bolstering funding for the COVAX facility to accelerate access to vaccines for all countries, ensuring universal distribution of vaccines, and facilitating access to therapeutics at affordable prices for all. Many countries, particularly low-income developing economies, entered the crisis with high debt that is set to rise further during the pandemic. The global community will need to continue working closely to ensure adequate access to international liquidity for these countries. Where sovereign debt is unsustainable, eligible countries should work with creditors to restructure their debt under the Common Framework agreed by the G20.

Source: International Monetary Fund (IMF) - World Economic Outlook (WEO) Update, January 2021

The Gulf Cooperation Council (GCC)

The GCC countries face a double impact from the coronavirus and lower oil prices. GCC authorities have implemented a range of appropriate measures to mitigate the economic damage, including fiscal packages, relaxation of monetary and macroprudential rules, and the injection of liquidity into the banking system, and there are recent signs of improvement. Low oil prices have caused a sharp deterioration of external and fiscal balances, and fiscal strains are evident in countries with higher debt levels.

The immediate priority is to continue to meet the health and economic needs arising from the COVID-19 pandemic. Countries should continue to implement the health measures necessary to contain the pandemic, treat those infected, and support households and firms. Fiscal and monetary policy should remain accommodative until the recovery is well-established, although the focus of support measures should move from being broad-based to targeting households and businesses most in need (and for the latter those likely to be viable in the post-COVID environment). Careful planning will be needed to gradually withdraw support without disrupting the recovery.

Once the recovery is established, substantial and sustained fiscal consolidation will be needed. Credible medium-term adjustment will help rebuild buffers and reduce vulnerabilities to future shocks. Adjustment speeds will have to balance the strength of the fiscal position with the need to avoid excessively dampening growth—those with high debt levels will need to adjust more quickly. Phasing out subsidies, reforming public wage bills, ensuring high efficiency of spending on infrastructure, and creating space for additional social spending will be critical. Diversifying sources of government revenues will also be essential. Reducing the procyclicality of fiscal policy with respect to oil price swings will be a key part of the reforms.

Further structural reforms are needed to strengthen private sector led growth and job creation. Labor market reforms will need to reduce large public sector wage premiums to encourage more nationals to work in the private sector while enhancing education and skills. Continuing to increase female labor force participation is essential. Addressing constraints on access to credit for SMEs is critical. Governments could promote well-designed credit guarantee schemes, strengthen the availability of information needed for assessing credit risks, and continue to support the adoption of digital technologies to enlarge financing options.

Source: International Monetary Fund (IMF) - Economic Prospects and Policy Challenges for the GCC Countries, October 2020

Review of Operations continued

Bahrain

Bahrain moved quickly to address the health and economic effects of the COVID-19 pandemic, protecting lives and livelihoods. Swift and well-coordinated policy responses have helped limit the spread of the virus, deliver rapid and widespread access to vaccinations, and target income and liquidity support to those most in need.

Nevertheless, as in other countries, the prolonged COVID-19 pandemic and necessary containment measures continue to impact Bahrain. Growth slowed down in 2020 to an estimated negative 5.4 percent, driven by a sharp contraction in non-oil growth of negative 7 percent. Activity in high contact and job-rich services sectors contracted markedly, but manufacturing has been relatively unaffected. Hydrocarbon GDP growth is estimated at 2 percent, while CPI inflation averaged negative 2.3 percent in 2020. With the plunge in oil prices and the contraction in nominal GDP, the state budget deficit in 2020 increased to 12.8 percent of GDP from 4.7 percent of GDP in 2019, while the overall fiscal deficit increased to 18.2 percent of GDP in 2020, from 9 percent of GDP in 2019. Public debt increased to 133 percent of GDP from 102 percent of GDP in 2019. The current account deficit widened to 9.6 percent of GDP and international reserves declined to about 1.4 months of prospective non-oil imports.

Despite considerable challenges, the authorities remain committed to achieving the key objectives of the Fiscal Balance Program, including gradually rebuilding policy buffers and reversing the rise in public debt.

The near-term priority remains to ensure public health, essential services, and targeted fiscal support to the most vulnerable. Once the recovery firms, ambitious and growth-friendly fiscal adjustment set within a credible medium-term framework is needed to address Bahrain's large imbalances, put government debt on a firm downward path, and restore macroeconomic sustainability. The adjustment would also help rebuild external buffers, solidify the exchange rate peg, which continues to serve Bahrain well as a monetary policy anchor, and support access to sustainable external financing.

The post-pandemic recovery will be gradual. Economic growth is projected at 3.3 percent in 2021 and is expected to remain flat at around 3 percent over the medium term. This outlook reflects a recovery in non-oil growth to 3.9 percent in 2021 as widespread vaccine distribution boosts activity toward pre-crisis levels. However, there is considerable uncertainty around the outlook, including from the path of the pandemic and related global and domestic containment measures.

Source: International Monetary Fund (IMF) statement, February 2021

Pakistan

Pakistan's real GDP growth is estimated to have declined from 1.9 percent in 2019 to negative 1.5 percent in 2020. The first contraction in decades, this reflects the effects of COVID-19 containment measures that followed monetary and fiscal tightening prior to the outbreak. To curtail the spread of the pandemic, a partial lockdown – that included restrictions on air travel, inner-city public transport, religious/social gatherings and the closure of all schools and non-essential businesses – was imposed in March, and gradually eased from May 2020 onwards. This disrupted domestic supply and demand, as businesses were unable to operate and consumers curbed expenditures, which specifically affected services and industries. The services sector is estimated to have contracted, by over 1 percent, while industrial production is expected to have declined even more, due to the high policy rates prior to the pandemic and plunging domestic and global demand thereafter. The agriculture sector, partially insulated from the effects of the containment measures, is estimated to have expanded modestly over the year.

While domestic economic activity is expected to recover, as lockdown measures are lifted and base effects materialize, Pakistan's near-term economic prospects are subdued. Significant uncertainty over the evolution of the pandemic and availability of a vaccine, demand compression measures to curb imbalances, along with unfavorable external conditions, all weigh on the outlook. Economic growth is projected to remain below potential, averaging 1.3 percent for 2021-2022. This baseline projection, which is highly uncertain, is predicated on the absence of significant infection flare ups or subsequent waves that would require further widespread lockdowns.

The current account deficit is expected to widen to an average of 1.5 percent of GDP over 2021-2022, with imports and exports gradually picking up as domestic demand and global conditions improve. The fiscal deficit is projected to narrow to 7.4 percent in 2022, with the resumption of fiscal consolidation and stronger revenues driven by recovering economic activity and structural reform dividends.

There are considerable downside risks to the outlook with the most significant being a resurgence of the COVID-19 infection, triggering a new wave of global and/or domestic lockdowns and further delaying the implementation of critical IMF-EFF structural reforms.

Source: World Bank – Pakistan Overview, October 2020

Strategy and focus

Ithmaar Holding remains focused on continuing the Group's transformation, in line with the strategic decisions taken by shareholders, and to realising the long-term objectives of growing the core business and ensuring the independent and focused management of investments and other assets.

Principal activities

The principal activities of Ithmaar Holding include:

- To own and manage its subsidiaries, associated companies and major investments or to participate in the management of other companies in which it has controlling interests, and to provide the necessary support for such companies;
- To own real estate and other assets necessary for its business; and
- To own industrial property rights including patents, trade and industrial marks, concessions and other intellectual rights, and to use and lease them to its subsidiaries and associated companies or to other companies.

Delisting from Boursa Kuwait, maintaining listing on Bahrain Bourse and Dubai Financial Market

In September 2020, Ithmaar Holding was delisted from Boursa Kuwait.

In August 2019, Ithmaar Holding shareholders approved plans to voluntarily delist the Company from Boursa Kuwait while maintaining its listing on the Bahrain Bourse and Dubai Financial Markets. The approval followed a General Meeting attended by Ithmaar Holding shareholders, and members of the Company's Board of Directors and Sharia Supervisory Board, as well as representatives from the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse, and the Company's statutory auditors, PricewaterhouseCoopers.

A challenging year

Ithmaar Holding began 2020 on a positive note, having concluded another profitable year in 2019. The effects of the global Covid-19 pandemic, and the dramatic subsequent economic slowdown, however have had a major impact on the Company's financial performance in 2020.

For the first half of 2020, Ithmaar Holding reported a net profit of US\$7.40 million, a 43 percent decrease compared to the net profit of US\$13.02 million reported for same period in 2019. This resulted in a net loss attributable to equity holders of US\$1.29 million for the first half of 2020, a 115 percent decrease compared to the net profit of US\$8.37 million reported for the same period in 2019.

Ithmaar Holding concluded 2020 by reporting a net loss for the year of US\$21.48 million, compared to the net profit of US\$12.20 million

reported for 2019. This resulted in a net loss attributable to equity holders for the year of US\$41.72 million, compared to the net profit of US\$0.67 million reported for 2019.

Earnings Per Share (EPS) for the year was negative US Cents 1.43, compared to positive US Cents 0.02 for 2019.

Plans to sell Ithmaar Bank's Bahrain operations

In August 2020, as part of Ithmaar Holding's strategy to create value for its shareholders, the Company announced that it had entered into initial talks with the Bank of Bahrain and Kuwait (BBK), one of the largest commercial banks in Bahrain, to explore a potential acquisition by BBK of Ithmaar Bank's Bahrain operations as well as specific assets of IB Capital.

In September, Ithmaar Holding and BBK signed a Memorandum of Understanding (MoU) on the potential acquisition plans. The plans, which are subject to shareholder and regulatory approvals, are at an advanced phase and subject to the completion of due diligence by both parties.

The plans, which are in line with Ithmaar Holding's strategy, will also significantly expand BBK's already large operations in Bahrain and add a turn-key, full-service Islamic banking solution.

Role in the community

Ithmaar Holding plays a real and meaningful role in the community primarily through its wholly-owned subsidiaries, Ithmaar Bank and IB Capital.

Investing in our people

Ithmaar Holding and its two wholly-owned subsidiaries, Ithmaar Bank and IB Capital, conducted various training programmes for members of the Board of Directors, Executive Management and employees to further develop capabilities and enhance performance.

Compliance with AAOIFI

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia-compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards as appropriate in the Group financial statements.

The Sharia Supervisory Board has approved the Sharia Compliance Plan for the conversion or disposal of assets and liabilities which are not Sharia-Compliant. The Sharia Supervisory Board continues to monitor the implementation of this plan on a regular basis.

Financial Review

Financial Performance

Ithmaar Holding concluded 2020 by reporting a net loss for the year of US\$21.48 million, compared to the net profit of US\$12.20 million reported for 2019. This resulted in a net loss attributable to equity holders for the year of US\$41.72 million, compared to the net profit of US\$0.67 million reported for 2019.

Financial Position

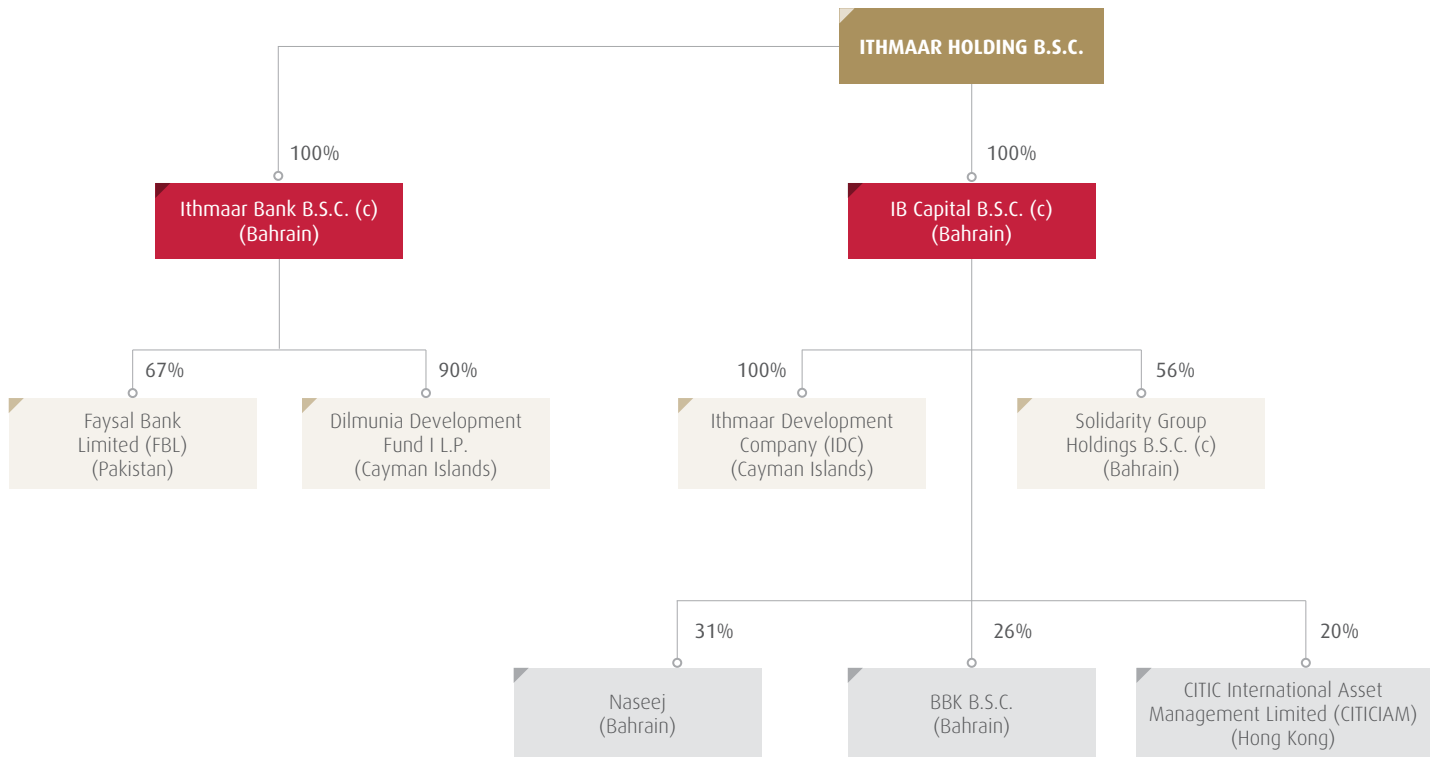
Total assets remained stable at US\$8.38 billion as at 31 December 2020, 4 percent higher than US\$8.09 billion as at 31 December 2019. The equity of unrestricted investment accountholders, at US\$3.36 billion as at 31 December 2020, increased by 20 percent compared to US\$2.80 billion as at 31 December 2019.

Ithmaar Holding's total owners' equity stood at US\$14.76 million as at 31 December 2020, an 85 percent decrease compared to US\$95.55 million as at 31 December 2019. The reduction is mainly attributable to the dramatic economic slowdown caused by the Covid-19 pandemic. Accumulated losses, as at 31 December 2020, stood at US\$833.80 million and amount to 110 percent of the share capital.

Subsidiaries and Associates

Group Structure

Key Subsidiaries and Associates



- Subsidiaries
- Associates

Key operating subsidiaries

Ithmaar Bank B.S.C. (c)

Ithmaar Bank is one of the largest Islamic retail banks in the Kingdom of Bahrain. The Bank, including its predecessors, has been in operation for more than 30 years.

The strategy for the Bank is to maintain its dominant position in the Kingdom and aim for higher growth. The strategies to achieve Ithmaar Bank's medium-term objective of sustainable profitability includes a firm focus on its core retail business growth.

The standalone (Bahrain Operations) total assets as of 31 December 2020 amounted to US\$4.0 billion

Ithmaar Holding outsources support services from its wholly-owned subsidiary, Ithmaar Bank B.S.C. (c), which in turn provides the required services under an intra-group outsourcing arrangement.

Faysal Bank Limited (FBL)

FBL is one of the most prominent and fastest growing retail banks in Pakistan.

FBL, including its predecessors, has been in operations for more than 30 years. FBL shares are listed on the Pakistan Stock Exchange. FBL is mainly engaged in Commercial, Retail and Corporate banking activities and strives to provide quality service to its customers to meet their financial needs. FBL's branches have been transformed into multi-product selling hubs through which customers can access a wide variety of products and services. There is also a great deal of focus on realising synergies between FBL's various operating units to ensure maximum value creation and holistic customer solutions. Ithmaar Bank owns 66.57 percent of FBL.

FBL has 576 branches, spread over 130 cities across Pakistan. The Bank has also sizable clients in the Corporate, Commercial, SME and Consumer segments. FBL is increasing its branch network to strengthen its customer reach and ability to provide banking services to customer at their doorsteps. The Bank is enhancing its technology platform to facilitate customers transactions and reduce the cost of doing business. FBL introduced a Virtual Card allowing customers to make secure worldwide online purchases.

With a noticeable increase in its Islamic financing, deposits and investment accounts portfolios, the Bank is expected to maintain its growth trajectory.

FBL's total assets and total shareholders' equity as of 31 December 2020 amounted to PKR 710 billion (equivalent US\$ 4.4 billion) and PKR 60 billion (equivalent US\$ 375 million) respectively.

IB Capital B.S.C. (c)

IB Capital maintains a presence in regional and overseas markets through its investments in subsidiaries and associated companies.

All non-core assets (subsidiaries, associates and financing to shareholders / related parties) of the erstwhile Ithmaar Bank B.S.C. have been transferred to IB Capital as part of the reorganisation that was completed on 2 January 2017. These include Bahrain-based BBK (banking), Solidarity (Islamic insurance), Naseej (infrastructure), and Ithmaar Development Company Limited (Real Estate).

The strategies to achieve IB Capital's objective of focused management of non-core assets (investments and other assets) include managing these assets and identifying and evaluating opportunities to exit at acceptable prices.

The total standalone assets as of 31 December 2020 amounted to US\$ 1.4 billion.

Subsidiaries and Associates continued

Solidarity Group Holding B.S.C. (c) (Solidarity Group)

Offering general and family takaful products and service, Solidarity Group is one of the largest takaful (Islamic insurance) groups in the region, operating through subsidiaries and associates in Bahrain, Jordan, and Saudi Arabia. Solidarity Group acquired 71% of Al Ahlia Insurance (one of the oldest and largest listed insurance companies in Bahrain) in December 2016 and the merger of Solidarity General Takaful (a wholly-owned subsidiary of Solidarity Group) and Al Ahlia Insurance was completed in 2017.

The merged entity “Solidarity Bahrain” is now one of the leading insurance providers in the Kingdom. Solidarity Group’s strategy focuses on providing takaful services both locally and in key regional markets, mainly Jordan and Saudi Arabia. The total assets and total shareholders’ equity of the Group as of 31 December 2020 amounted to US\$378 million and US\$197 million respectively.

Ithmaar Development Company (IDC)

IDC is a wholly-owned subsidiary of the Group which was established in 2007 with the objective of developing and managing major development, real estate and other infrastructure projects. IDC’s flagship projects include Dilmunia, a 1.25 million square metre manmade island off the coast of Bahrain.

The current strategy of IDC focuses on infrastructure development relating to Dilmunia project, as well as providing development management services to Naseej B.S.C. (c).

Dilmunia Development Fund I L.P.

Dilmunia Development Fund I L.P. (the “Fund”) is an exempted limited partnership formed and registered under the laws of the Cayman Islands. The General Partner in the Partnership is Ithmaar-Dilmunia General Partner Company Limited. The Fund was formed to acquire 650,000 square meters of land within the Health Island — Dilmunia Project in Bahrain to develop the infrastructure and to sell the Land in parcels.

The total assets and total shareholders’ equity as of 31 December 2020 amounted to US\$143 million and US\$127 million respectively.

Key operating associates of IB Capital

BBK B.S.C. (BBK)

BBK is one of the largest commercial banks in Bahrain with overseas presence in Kuwait, India and the United Arab Emirates. BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards.

BBK’s vision remains to be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong client relationships.

The total assets and total shareholders’ equity as of 31 December 2020 amounted to US\$10 billion and US\$1.4 billion respectively.

Naseej B.S.C. (c) (Naseej)

Naseej is the Middle East and North Africa (MENA) region’s first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion.

Naseej’s core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region’s affordable housing development needs.

Naseej’s strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPP) in Bahrain. Apart from the PPP, Naseej is also involved in major residential projects in Bahrain like Yasmeenat Saar and Jumana.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People’s Republic of China (CITIC group owns 46% in CIAM). CITICIAM’s principal activity is to invest in companies and projects in China and internationally. Established in 2002 to specialise in distressed asset management, the current portfolio of CITICIAM includes direct investments in real estate, high technology, health, retail and industrial projects.

CITICIAM’s strategy focuses on investment, mainly in China, in the environmental, agricultural, natural resources and health sectors, specifically in SMEs, which are run in line with state policies and contribute to the socio-economic development of China.

Board of Directors

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 18 April 2019

HRH Prince Amr has more than 30 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), and Chairman of Ithmaar Bank, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank of Egypt. HRH Prince Amr is also Founder and Director of Red Sea Design Consultants (Jeddah), and Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan).

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers.

HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Tunku Yaacob Khya

Independent, Non-Executive Board Member

Elected 18 April 2019

Tunku Dato' Yaacob Khya holds a Bachelor of Science (Hons) Degree in Economics and Accounting from City University, London, and is a member of the Ithmaar Bank Board of Directors. An accountant by training, he is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA). Tunku is also a Certified Financial Planner (CFP) and is a member of the Financial Planning Association of Malaysia (FPAM).

Tunku started his career as an auditor with Price Waterhouse in London and Kuala Lumpur (from 1982 to 1987). He later joined Malaysian Assurance Alliance Berhad which, under his leadership, became the leading locally owned life and non-life insurance company in Malaysia. Tunku later established MAA Takaful Berhad, which became the leading Islamic family and general insurance institution in Malaysia.

Currently, Tunku is the executive chairman of Malaysian listed companies, MAA Group Berhad, Melewar Industrial Group Berhad, and Mycron Steel Berhad. He is also a board member of Khya Legacy Berhad, Yayasan Khya Berhad, Melewar Equities Sdn Bhd and several other private companies. He also sits on the board of directors of Altech Chemicals Limited (listed in Australia), and Turiya Berhad (listed in Malaysia).

Tunku is the founder and chairman of The Budimas Charitable Foundation (Budimas) and MAA Medicare Charitable Foundation (MAA Medicare). Budimas is a non-government charity, established in 1998 that provide financial support for orphans and underprivileged children

in Malaysia. MAA Medicare is a non-government charity, established in 1994, that provide nationwide dialysis treatment and support for underprivileged kidney patients, and also operates a Cardiac Diagnostic Centre for underprivileged patients, in Malaysia.

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 18 April 2019

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in other countries in the GCC region, and has years of experience in managing business activities in various sectors.

He is a member of the Ithmaar Bank Board of Directors. He is also Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he has a BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Abdelhamid Mohamed Aboumoussa

Executive Board Member

Elected 18 April 2019

Mr. Aboumoussa has more than 49 years of diversified banking and finance experience.

He is a member of the Dar Al-Maal Al-Islami Trust (DMIT) Board of Supervisors and a member of the Ithmaar Bank Board of Directors.

He is currently Governor of Faisal Islamic Bank of Egypt, which he joined in 1979. Prior to joining Faisal Islamic Bank of Egypt, Mr. Aboumoussa worked at the Central Bank of Egypt (CBE) for 17 years. He is Head of the Egyptian-Saudi Business Council, and is also a Member of the General Assembly of Misr Insurance Holding Company, Egypt.

Mr. Aboumoussa is a Member of the Board of Faisal Islamic Bank of Sudan, Momtalakat for Insurance in Egypt, Ayadi for Investment and Development in Egypt, Midor for Electricity - MIDALIC - Egypt, and Awqaf Properties Investment Fund (APIF) - Islamic Development Bank (IDB) - Jeddah. He is also Chairman of International Company for Leasing S.A.E. (Incolease) in Egypt, and Deputy Chairman of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Aboumoussa is also a member of the Advisory Committee of ARMILA Fund, Milan, Italy, and a member of the Advisory Committee of ANASTASIA Fund, Milan, Italy.

He holds a Bachelor's degree in Accounting from the Faculty of Commerce, Cairo University, Egypt, and a diploma in Finance, also from Cairo University.

Board of Directors continued

Mohammed A. Rahman Bucheerei

Executive Board Member

Elected 18 April 2019

Mr. Bucheerei has more than 50 years of experience in Accounting and Commercial and Offshore Banking. He was Chief Executive Officer of Ithmaar Bank from 12 July, 2010 to 31 August, 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010.

Mr. Bucheerei is also a member of the Board of Directors of IB Capital and Group Chief Executive Officer of Dar Al-Maal Al-Islami Trust (DMIT). Previously, he served as the General Manager of the Private Offices of HRH Prince Mohammed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He is Chairman of MFAI (Jersey) Limited, Faisal Finance Maroc S.A., Faisal Private Bureau, DMI Administrative Services, Ithmaar Development Company, and NASEEJ Rabat.

He is a member of the Board of Directors of the Islamic Investment Company of the Gulf (Bahamas) Limited, Faysal Bahamas Limited, Gulf Investors Asset Management Company J.S.C. Closed, DMI NV, Faisal Finance Luxembourg and Shamil Finance Luxembourg.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Abdullellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 18 April 2019

Mr. Al-Qassimi has more than 35 years of diversified management experience. He is a member of the Ithmaar Bank and the IB Capital Boards of Directors.

His previous positions including being Chief Executive of Tamkeen (the Labour Fund), from which he resigned in May 2010; Deputy Chief Executive Officer of the Labour Fund Project at the Bahrain Economic Development Board; Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs; and Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee, and the Steering Committee of Career Expo, and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a member of the Board of Directors of Solidarity Group Holding, Naseej, Faysal Bank Limited (Pakistan); and Saudi Solidarity Takaful Co. (KSA), as well as a member of the Board of Trustees

of Arabian Pearl Gulf School. Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK; a MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

Omar Abdi Ali

Non-Executive Board Member

Elected 20 June 2019

Mr. Ali has more than 50 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is a member of the Ithmaar Bank Board of Directors and the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT).

Mr. Ali is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania). Previously, Mr. Ali served at DMIT where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President, Finance and Vice-President in charge of Internal Audit from 1983 to 1986.

Prior to his DMIT appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan). He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served with the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 18 April 2019

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, has more than 30 years of experience in training, consulting and banking. Dr. Bouresli is the Chairperson of the IB Capital Board of Directors, and a member of the Ithmaar Bank and Faisal Islamic Bank of Egypt Board of Directors.

She is currently a Professor of Finance at Kuwait University's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning.

Dr. Bouesli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait. Also, she earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize.

Prior to her ministerial appointments, Dr. Bouesli was the Chairwoman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and Head of the Capital Market Authority Project from 2006 to 2007. Dr. Bouesli, who has many published works in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

Dr. Bouesli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

Sheikh Mohamed Abdullah Abdelkarim Elkhareiji **Non-Executive Board Member**

Elected 18 April 2019

Sheikh Elkhareiji has more than 41 years of diversified banking and management experience.

He is a member of the Ithmaar Bank Board of Directors. Sheikh Elkhareiji is the Chairman of many companies in Saudi Arabia, including Elkhareiji Group Holding Co., Hal International Company and S.A. Elkhareiji Real Estate Limited Company. Sheikh Elkhareiji is a member in the Board of Supervisors of Dar Al-Maal Al-Islami Trust, and is the Vice Chairman of the Board of Directors of Yanbu Cement Company (Saudi Arabia) as well as the Worldcare International Company (United States of America). Sheikh Elkhareiji is also a member of the Board of Directors of Faisal Islamic Bank of Egypt. Previously, Sheikh Elkhareiji was the Ex-Chairman of Faisal Investment Bank (Bahrain). He holds a Bachelor's degree in Law from Cairo University, Egypt, a Diploma in Change Management from Harvard, USA, and a Diploma in Marketing Management from the International Marketing Institute, Cambridge in USA.

Elham Ebrahim Abdulla Hasan

Independent, Non-Executive Board Member

Elected 18 April 2019

Ms Hasan, who has more than thirty years of diversified experience in the financial services industry, is a member of the Ithmaar Bank and the IB Capital Boards of Directors.

She is currently Chairwoman of Taaheel Healthcare and an Advisor on Business and Corporate Strategy, as well as a Board Member of Mumtalakat, Solidarity Group Holding – Bahrain and BNP Paribas Investment Company – Saudi Arabia. A leading businesswoman in the Kingdom of Bahrain, Ms Hasan was the first female partner at PricewaterhouseCoopers in the Middle East region. She was voted one of the Most Influential Women in the Middle East by Forbes Magazine, and earned the Euro Money Award for Islamic Assurance Advisory Services.

Ms Hasan was previously a Board Member of the Bahrain Economic Development Board (EDB), Tamkeen, BBK, the Bahrain Real Estate Investment Company (EDAMAH), and the University of Bahrain, as well as a member of both the Women Empowerment Economic Committee of the Supreme Council for Women and the Planning and Follow-up Committee of the Bahrain Business Women's Society. She was the Country Senior Partner at PricewaterhouseCoopers in Bahrain until June 2010, and was the financial services leader for PricewaterhouseCoopers Middle East until June 2007. While at PricewaterhouseCoopers, Ms Hasan worked extensively with Islamic institutions since the early eighties.

Ms Hasan qualified as Certified Public Accountant in 1986 and is a member of the American Institute of Certified Public Accountants.

Sharia Supervisory Board

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 25 March 2019

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is the Chairman of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia, a consultant at the Royal Court, and a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment in Saudi Arabia, and has authored several books including 'Paper Money: Truth, History and Reality', 'Economic Research', 'A window on the community' and others.

Sheikh Nedham Mohammed Saleh Yaqouby

Member

Appointed 25 March 2019

Sheikh Yaqouby is a prominent, highly-respected Islamic Sharia scholar and a successful businessman from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Sharia Board of AAOIFI, a member of the Sharia Advisory Board of the Central Bank of Bahrain (CBB) and Chairman or a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order of Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking Award among other awards.

Sheikh Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Appointed 25 March 2019

Sheikh Al-Asfoor is a well-known and highly respected Sharia scholar in the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is also a member in the Sharia Advisory Board of the CBB and several Sharia Supervisory Boards in the Kingdom of Bahrain and abroad.

Sheikh Al-Asfoor is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran, and has authored more than 60 books on the Islamic Sharia.

Sheikh Osama Mohammed Saad Bahar

Member

Appointed 25 March 2019

Sheikh Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is currently a member of the Sharia Board of First Energy Bank, as well as of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad.

Sheikh Bahar holds a Master's degree from Allmam Ouzai University in Lebanon and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Bahar has authored several books on Islamic banking as well as on society affairs. He has participated in and conducted several radio interviews and written newspaper columns.

Executive Management

Ithmaar Holding Executive Management

Ahmed Abdul Rahim

Group Chief Executive Officer

- Master of Business Administration, University of Glamorgan, Wales (UK) (1999)
- Fellow of the Institute of Financial Accountants, UK; and the Institute of Public Accountants, Australia (2014)
- Executive Management Diploma, University of Bahrain (1993)
- Advanced Banking Diploma, Bahrain Institute of Banking and Finance (1988)
- 43 years of banking experience
- Joined the group in 2006

Ithmaar Holding outsources the key functions from its wholly-owned subsidiary, Ithmaar Bank B.S.C. (c), which in turn provides the required services under an intra-group outsourcing arrangement.

Ithmaar Bank Executive Management

Ahmed Abdul Rahim

Chief Executive Officer

- Details as above

Abdulhakeem Khalil Al Mutawa

Deputy Chief Executive Officer

- Master of Business Administration, University of Bahrain (1991)
- Post-Graduate Diploma in Management, University of Bahrain (1990)
- Bachelor of Science in Mechanical Engineering, The University of Texas at Austin, USA (1981)
- 39 years of experience, of which 18 years in banking
- Joined the group in 2003

Abdulla Abdulaziz Taleb

General Manager, Business Banking Group

- Bachelor of Science in Banking and Finance, Kingdom University (2009)
- Advanced Diploma in Islamic Banking, Bahrain Institute of Banking and Finance (BIBF) (2005)
- 20 years of banking experience
- Joined the group in 2014

Mohammed Hasan Janahi

General Manager, Retail Banking Group

- Advanced Diploma in Banking and Finance, BIBF (1998)
- 36 years of Banking experience
- Joined the group in 2002

Yusuf Abdulla Alkhan

General Manager, Information Technology and Banking Operations

- Master of Business Administration, AMA International University (2005)
- Bachelor of Science in Computer Science, University of Bahrain (1989)
- 31 years of experience
- Joined the group in 1989

Maysan Faisal Almaskati

Assistant General Manager, Head of Asset Management

- B.Sc. in Industrial Engineering, Kansas State University, USA (1997)
- Investment Representative Program (Series 7), Bahrain (2000)
- 20 years of banking experience
- Joined the group in 2019

Saqib Mahmood Mustafa

Assistant General Manager, Chief Financial Officer, Head of Financial Control

- Certified Sharia Advisor and Auditor (CSAA) (Awarded by AAOFI) (2019)
- International Certificate in Banking Risk & Regulation (ICBRR) (2011)
- Fellow Member of the Institute of Chartered Accountants of England & Wales (ICAEW) (2010)
- Certified Islamic Professional Accountant (CIPA) (awarded by AAOFI) (2009)
- Fellow Member of the Association of Chartered Certified Accountants (ACCA) (2003)
- Bachelor of Commerce Karachi University (Pakistan) (1999)
- 20 years of banking and finance experience
- Joined the group in 2007

Corporate Governance

Overview of Policies and Controls

Ithmaar Holding follows the Central Bank of Bahrain's (CBB) requirements stipulated under the High Level Controls (HC) Module of the Rulebook issued by the CBB as well as the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Holding's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable, as well as the regulatory requirements of Bahrain Bourse and Dubai Financial Market.

Ithmaar Holding follows the Group's internal policies on corporate governance. This Policy provides guidance on engaging with stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is the Group's policy to treat shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term. The Group adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Holding adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct and Anti Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the Group's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Group, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interest of stakeholders.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Company must comply with the Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with CBB regulations, Ithmaar Holding wishes to explain the following:

The Chairman is a non-executive director but not an independent director, as defined by the CBB, due to his position as the Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), the Company's controller.

Developments in Regulations

On an ongoing basis, Ithmaar Holding monitors updates to CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. There were no material changes introduced to the HC Module by the CBB during 2020.

Board of Directors

The Board of Directors of Ithmaar Holding comprised of ten members, of whom five are independent. Independence is determined based on the Central Bank of Bahrain (CBB) definition of "Independent Director", which is stipulated in the Glossary section of the CBB Rulebook.

The Board is committed to the roles and responsibilities prescribed by the Commercial Companies Law of 2001 (as amended).

The Board's role and responsibilities include, but are not limited to, the overall business performance and strategy for the Company; causing financial statements to be prepared which accurately disclose Ithmaar Holding's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders including minority shareholders. In particular, the Board, among other things, ensures that Ithmaar Holding's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following in relation to Ithmaar Holding:

- Setting Ithmaar Holding's strategic direction;
- Maintaining overall responsibility for performance;
- Establishing policies for strengthening the performance of Ithmaar Holding, including ensuring that management is proactively seeking to build the business through innovation, initiative and the development of its business capital;
- Selecting, appointing, monitoring and evaluating the performance of management;
- Appointing the Chief Executive Officer and executive management, as well as setting the terms of their employment;
- Reviewing the performance and compensation of the management;
- Reviewing the structure and succession planning of the management;

Corporate Governance Continued

Board of Directors (Continued)

- Overseeing, advising and counselling the management;
- Monitoring and managing potential conflicts of interest;
- Deciding on whatever steps are necessary to protect Ithmaar Holding's financial position and viability;
- Ensuring that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensuring adherence to high standards of ethics and corporate governance;
- Ensuring that appropriate risk management and regulatory compliance policies are in place;
- Monitoring the effectiveness of the governance, compliance, and internal control framework;
- Ensuring timely and adequate legal and regulatory disclosures;
- Arranging the shareholders' annual, ordinary and extraordinary general meetings; and
- Ensuring equitable treatment of minority shareholders.

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationships with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association and the Board of Directors Charter of Ithmaar Holding, which complies with applicable statutory and regulatory rules. Board members serve three-year terms. At the end of each term, a new Board is to be elected (or appointed, as applicable) at Ithmaar Holding's annual general meeting. The next election of the Board of Directors will take place during the annual general meeting to be held in 2022.

Structure and Composition of the Board

Ithmaar Holding is managed at the high level by the Board. The size of the Board is subject to Ithmaar Holding's Articles of Association, the Board of Directors Charter and the rules and regulations decreed by the Ministry of Industry, Commerce and Tourism and the Central Bank of Bahrain.

Duties of Board Members

The Board members, individually and collectively, are bound by distinct fiduciary duties to Ithmaar Holding and its shareholders. The Board members owe their fiduciary duty to Ithmaar Holding as a corporate entity in its own right and not just individual shareholders and/or groups of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by Board members to Ithmaar Holding are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

The Board members are required to act in accordance with Ithmaar Holding's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of Ithmaar Holding's internal authorities and policies.

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of Ithmaar Holding.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of Ithmaar Holding. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using Ithmaar Holding properties and assets for their personal needs or seeking business opportunities for personal benefit. This duty also requires the Board members to retain the confidentiality of information that is explicitly deemed confidential by Ithmaar Holding, as well as information that appears to be confidential from its nature or matter.

Ithmaar Holding provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The above duties are detailed in the Board of Directors Charter and Code of Ethics and Business Conduct, which is approved by the Board.

Board Members' Election and Evaluation System

Any shareholder who owns ten percent or more of the issued share capital of Ithmaar Holding (rounded up to the nearest integer) shall have the right to appoint a representative on the Board, being one representative for each ten percent owned. However, if a shareholder exercises this right, they shall lose their right to vote in the annual general meeting Board elections for the percentage of which they used to appoint a Board member.

Subject to the foregoing, the shareholders shall elect members of the Board by a secret cumulative ballot in the annual general meeting. A cumulative ballot means each shareholder has one vote for each share held. The shareholder can use their shares to vote for a single member, or divide their shares to vote for multiple Board members.

All appointments to the Board of Directors are governed by and subject to Ithmaar Holding's Memorandum of Association, Articles of Association, the Board of Directors Charter and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews the composition and performance of the Board of Directors annually. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

The arrangements for the termination of membership in the Board of Directors are stipulated in the Articles of Association of Ithmaar Holding. In the event of a vacancy, termination or resignation on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board for the appointment of a director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

Board members also receive a copy of the Code of Ethics and Business Conduct.

The Board, its Committees and individual members are regularly assessed with respect to their effectiveness and contribution.

Board Induction and Development Programme

Ithmaar Holding prepares an all-day induction programme for newly appointed and elected Board members, which starts with a welcome

note from the Chief Executive Officer and Deputy Chief Executive Officer(s). Thereafter, members of the Executive Management of Ithmaar Holding and Ithmaar Bank introduce Ithmaar Holding in detail, covering the Company's history, group structure, subsidiaries, strategy, financial performance and organisational chart. This is followed with presentations from the heads of various departments in respect of their role and function within Ithmaar Holding. Ithmaar Holding also arranges training sessions throughout the year for Board members and Executive Management, to keep them abreast with recent developments, including legal, regulatory, market, technological and others, in the banking and investment sector.

Board Members' Conflict

When the Board deliberates an agenda item wherein a conflict of interest arises, the conflicted director declares his or her conflict and abstains from voting or deliberation. Article 189 of the Commercial Companies Law of 2001 (as amended) requires that members of the Board and Management should not have personal direct or indirect interest in transactions and contracts concluded by Ithmaar Holding, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

Interested members have a duty to inform the Board of any matter which presents a conflict and are then restricted from participating in deliberations of or voting on the matter. Such declaration is to be recorded in the meeting minutes. The Chairman shall inform the General Assembly of the results of such contracts in the annual general meeting following execution of the transactions and such notification is to be accompanied by a special report of an external auditor in respect of the nature and details of the matter, and the extent of interest of the respective member. Violating this Article shall render the member and the Board jointly liable for compensation for any damage caused by the breach.

This provision is reflected in Ithmaar Holding's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to Ithmaar Holding without the approval of the annual general meeting. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by a majority vote of disinterested directors subject to CBB approval. The Articles of Association specifies that violations of such restriction shall permit the shareholders to claim compensation from the conflicted director for damage caused to Ithmaar Holding or profit realised by the conflicted director.

Board Members Sitting Fees

The Board members' sitting fees for 2020 amounted to US\$408,000 (2019: US\$354,000). Sharia Supervisory Board sitting fees for 2020 was US\$ 8,000 (2019: US\$ 8,000).

Corporate Governance Continued

Remuneration Strategy

The Variable Remuneration Policy is not applicable to investment companies and hence, post the reorganisation, Ithmaar Holding is not subject to any Remuneration Strategy and the Remuneration Balances were transferred, as part of the reorganisation, to Ithmaar Bank.

Employment of Relatives of Approved Persons

The Human Resources Policy indicates that any employee who is a first degree relative of an existing Approved Person is required to declare the relationship in writing to the Human Resources Department.

Board Committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit, Governance and Risk Management Committee (AGRMC)

The AGRMC is chaired by an Independent Director and comprised of:

- Elham Ebrahim Abdulla Hasan - Chairperson
- Dr. Amani Khaled Bouresli – Member
- Abdulellah Ebrahim Al-Qassimi – Member
- Sheikh Osama Bahar – Member*

* Sheikh Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Corporate Governance.

The AGRMC meets a minimum of four times in a year.

The aggregate sitting fees paid to its members in 2020 was US\$36,000 (2019: US\$36,000).

The AGRMC is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors, and coordinating the implementation of the Corporate Governance Policy framework.

The Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, among other things the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation on various regulatory reports; internal and external audit reports and the status of their implementation (as appropriate); as well as new accounting and regulatory pronouncements and their implications.

This Committee also assists the Board of Directors in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The objectives of the Committee also include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories Ithmaar Holding faces in carrying out its activities.

The Committee also recommends and monitors the overall risk management framework which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending them to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight of the Corporate Governance, Compliance and Regulatory requirements;
- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Establishing new risk limits for better control of credit, market, liquidity and concentration risks; and
- Preparing the Internal Capacity Adequacy Assessment Process (ICAAP) report for review.

Remuneration and Nomination Committee (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The Remuneration and Nomination Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election;
- The appointment of new senior management executives; and
- The remuneration policies as well as guidelines for increments and promotions.

The RNC meets at least twice a year.

Remuneration and Nomination Committee (Continued)

The aggregate sitting fees paid to its members in 2020 was US\$18,000 (2019: US\$18,000).

The RNC comprises:

- Abdullellah Ebrahim Al-Qassimi - Chairman
- Sheikh Zamil Abdullah Al-Zamil - Member
- Tunku Yaacob Khyra - Member

The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting, search or compensation firms used to:

- Identify candidates; and
- Evaluate the compensation of directors, the CEO or other approved persons without seeking the approval of the Board or management.

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board, and
- Recommending the organisation chart and succession plan.
- There were no significant issues arising during the period.

Attendance

2020 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit, Governance & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
HRH Prince Amr Mohammed Al Faisal	6	6	-	-	-	-
Tunku Yaacob Khyra	6	6	-	-	2	2
Abdelhamid Mohamed Aboumoussa	6	6	-	-	-	-
Sheikh Zamil Abdullah Al-Zamil	6	6	-	-	2	2
Mohammed A. Rahman Bucheerei	6	6	-	-	-	-
Abdullellah Ebrahim Al-Qassimi	6	6	4	4	2	2
Dr. Amani Khaled Bouresli	6	6	4	4	-	-
Sheikh Mohamed Abdullah Abdelkarim Elkhareiji	6	6	-	-	-	-
Elham Ebrahim Abdulla Hasan	6	6	4	4	-	-
Omar Abdi Ali	6	5	-	-	-	-

Dates of meeting during 2020

2 March	4 February	1 March
22 June	10 May	3 December
10 August	5 August	
28 September	3 November	
7 December		
30 December		

Notes:

- Sheikh Osama Bahar, a member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee. He attended all four meetings.
- In accordance with the Central Bank of Bahrain requirements and Ithmaar Holding's Articles of Association, the Board of Directors shall meet at least four times a year and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

Corporate Governance Continued

Sharia Supervisory Board

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. The SSB contributes in the guidance and development of Ithmaar Holding's activities and monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed, in compliance with licensing requirements of the Central Bank of Bahrain and Ithmaar Holding's Memorandum and Articles of Association, by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Remuneration and Nomination Committee. The SSB serves a three-year term.

The SSB has full authority to achieve its goals and responsibilities. It is also allowed to view all records and transactions from any sources without restrictions including access to the Board and to management personnel, professional and legal consultants and employees.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising sitting fees paid per meeting attended.

This remuneration is recommended by the Remuneration and Nomination Committee, the structure of which is approved by the shareholders.

Currently, Ithmaar Holding does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section.

All SSB members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

SSB members also receive a copy of the Code of Ethics and Business Conduct.

Communications with Stakeholders

The Board acknowledges the importance of regular communication with stakeholders and particularly investors through a number of means to promote greater understanding and dialogue.

Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year on the Bahrain Bourse and Dubai Financial Market as well as on the Ithmaar Holding website, through which stakeholders have an overview of Ithmaar Holding's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of Ithmaar Holding are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of Ithmaar Holding's shares on the Bahrain Bourse and Dubai Financial Market are disclosed in the section on Share Information of the annual report.

Shareholders' Rights

All shares issued have equal rights. Recognising the importance of shareholders, it is Ithmaar Holding's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the appointments of Boards of Directors, the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reductions of capital, and the right to receive dividend payments, as well as the right to give opinions and the right to enquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include Independent Directors with the additional responsibilities of protecting minority shareholders' rights. This is also in accordance with regulatory directives.

As additional measures to protect minority interests, Ithmaar subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercising of rights to elect Independent Directors;
- Penalties for insider trading; and
- Necessary provisions on takeovers, mergers, and acquisitions

Services Provided by External Auditors

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

Code of Ethics and Business Conduct

Ithmaar Holding's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Holding's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board of Directors.

Risk Management

The Risk Management activities of Ithmaar Holding are outsourced to Ithmaar Bank. Ithmaar Bank has a robust risk management framework detailed in the Risk Charter. The risk management framework includes comprehensive risk policies for various risk silos addressing all material risks from an enterprise risk management perspective. The policies address the risk appetite and risk management guidelines for each of the risk silos. The policies are further supported by risk measurement models and methodologies which measure the risks in line with regulatory guidelines. The risk management policies of Ithmaar Bank, along with the latest amendments, are adopted by Ithmaar Holding.

All investments of Ithmaar Holding are monitored on an active basis and representatives from Ithmaar Holding are appointed to the Boards of the major investments to monitor the investments.

Further, any proposals to exit investments or any major developments in the investments are reviewed by the Risk Management Department and submitted to the approving authority as mentioned in the risk policies. The Board-approved Business Discretionary Powers policy establishes the approval authorities for investments based on their value.

Declarations of Interest

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

Approval of Related Party Transactions

All related party transactions are approved by the Board of Directors.

Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganisation.

Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.

Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per the CBB rulebook.

In particular, Members of the Board of Directors of Ithmaar Holding disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors informs Ithmaar Holding when there are changes in his / her interests, and the Shareholders affairs unit updates the Register of Interests at least on an annual basis.

During 2020, Board members having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganisation.

Compliance, Anti Money Laundering and Internal Controls

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a company may suffer as a result of its failure to comply with laws, regulations, directives, directions, reporting requirements and codes of conduct, including the internal code of conduct.

The Compliance Management Policy sets the compliance framework for managing compliance risks within Ithmaar through setting the roles and responsibilities of the Board of Directors, the Senior Management and the Compliance function staff, as well as formalising the independence and effectiveness of the Compliance function and the reporting line of the Compliance Officer. The compliance function follows a risk-based approach to compliance Risk Management, in accordance with the Compliance plan approved by the Audit, Governance and Risk Management Committee of the Board.

The Company's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. The Compliance Officer has the duty of promoting a sound compliance culture across the organisation through effective training, supported by periodic compliance testing to identify areas of improvement. Furthermore, the Compliance function communicates matters of interest from a compliance perspective across the organisation in order to ensure that Senior Management and other personnel are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance across the Company's operations.

Ithmaar Holding complies with Bahrain's relevant legislations on AML/CFT, CBB rules and the guidance of the Financial Crime Module which is based on the principles of the Financial Action Task Force's (FATF) 40 recommendations and the Basel Committee on Banking Supervision Paper.

Consolidated Financial Statements

For the year ended 31 December 2020

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Report of the Sharia Supervisory Board

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. and subsidiaries for the Financial Year from 1 January 2020 until 31 December 2020, corresponding to the Year from 6 Jumada Al-Awal 1441 H until 16 Jumada Al-Awal 1442 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Holding B.S.C. and its subsidiaries ("Ithmaar") performed the following during the financial year ended 31 December 2020:

1. Issued fatwas and Sharia resolutions related to Ithmaar's products and activities through Ithmaar's Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards implementing Sharia-compliant transactions.
2. Studied different mechanisms of financing, investment and mudaraba accounts and prepared its documents with the concerned departments that develop and market products.
3. Examined the accounts, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.
4. Examined sources of income and expenditures through reviewing the consolidated statements of financial position, income statement and Ithmaar's overall banking activities.

We have reviewed the principles and contracts relating to transactions and products that has been executed by Ithmaar during the year ended 31 December 2020. We have also conducted the required inspections to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, resolutions of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The management is responsible for ensuring that Ithmaar operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observations of Ithmaar's operations, and prepare a report to this effect .

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to Ithmaar's business in general:

- a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
- b. Mudaraba profit and loss distribution reserve is in compliance with the principles and provisions of Islamic Sharia.
- c. Income generated from non-sharia compliant investments of the conventional assets transferred to the company when Shamil Bank merged with Ithmaar Bank in 2010, these have been identified, disclosed and published to the shareholders in Note (40) of the Consolidated Financial Statements, and the Sharia Supervisory Board directs Ithmaar towards continuous correction of the status of these investment.
- d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

Report of the Sharia Supervisory Board (Continued)

ii: Conventional assets transferred to Ithmaar Holding company:

The former Ithmaar Bank B.S.C. and its subsidiaries has been restructured into Ithmaar Holding B.S.C, and two other wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed), an Islamic retail bank subsidiary which holds the core retail banking business (for commercial operations in Bahrain and Pakistan), and IB Capital B.S.C. (closed), an Islamic investment subsidiary, which holds investments and other non-core assets, and will take appropriate actions for these assets either through disposal or converting these assets to Islamic alternatives. The Sharia Supervisory Board sees this as a positive step towards conversion of conventional assets.

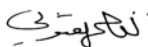
To ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2020 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note (40). Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 2.05 US cents per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.



His Eminence Sheikh Abdullah Al Manee'a

Chairman



His Eminence Sheikh Nedham Yaqouby

Member



His Eminence Sheikh Mohsin Al-Asfoor

Member



His Eminence Sheikh Dr. Osama Bahar

Member

Directors' Report

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. ("Ithmaar") for the year ended 31 December 2020, together with the audited consolidated financial statements of Ithmaar and its subsidiaries (collectively the "Group") for the year then ended.

Principal activities

Ithmaar Holding B.S.C directly owns two major subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank) an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an Islamic investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the Central Bank of Bahrain.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful and real estate development.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2020, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of \$21.5 million for the year ended 31 December 2020, as compared to a net profit of US\$12.20 million for 2019. The net loss attributable to the equity shareholders of the Group is \$41.7 million for 2020, as compared to a net profit of \$0.7 million for 2019. Total assets at 31 December 2020 amounted to \$8,383.7 million (31 December 2019: \$8,085.2 million).

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2020:

HRH Prince Amr Mohammed Al-Faisal (Chairman)

Tunku Yaacob Khyra

Governor Abdelhamid Mohamed Abou Moussa

Sheikh Zamil Abdullah Al-Zamil

Mr. Mohammed A. Rahman Bucheerei

Mr. Abdullellah Ebrahim Al-Qassimi

Dr. Amani Khaled Bouresli

Sheikh Mohamed Abdullah El Khereiji

Ms. Elham Ebrahim Hasan

Mr. Omar Abdi Ali

Directors' sitting fees

Directors' sitting fees for 2020 amounted to \$408,000 (2019: \$354,000).

Directors' Report (continued)

Interests of Directors

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

Name	Number of Shares	
	31 December 2020	31 December 2019
HRH Prince Amr Mohammed Al-Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Governor Abdelhamid Mohamed Abou Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Mohammed A. Rahman Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100
Dr. Amani Khaled Bouresli	-	-
Sheikh Mohamed Abdullah El Khereiji	-	-
Ms. Elham Ebrahim Hasan	-	-
Mr. Omar Abdi Ali	-	-

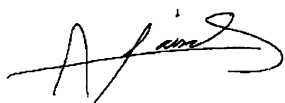
Dividend

No dividend has been proposed for 2020 (2019: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of Ithmaar for the year ending 31 December 2021.

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal

Chairman

18 February 2021

Independent Auditor's Report

To the Shareholders of Ithmaar Holding B.S.C.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all materials respects, the consolidated financial position of Ithmaar Holding Company B.S.C. ("Ithmaar") and its subsidiaries (the "Group") as at 31 December 2020, its consolidated financial performance, consolidated cash flows and consolidated statement of changes in restricted investment accounts, for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain ("CBB").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in restricted investment accounts for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

Our audit approach

Overview

Key audit matters	<ul style="list-style-type: none">• Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis• Impairment and credit losses on financing facilities, including impacts of COVID-19 pandemic• Fair valuation of investments in real estate
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Key audit matters	How the matter was addressed in our audit
<p>Board of Directors' assessment of the preparation of the consolidated financial statements on a going concern basis</p> <p>The Group's consolidated equity declined by USD 80.7 million from USD 95.5 million as at 31 December 2019 to USD 14.8 million as at 31 December 2020. Furthermore, the Group is reliant, for its liquidity requirements, on deposits aggregating to USD 661.4 million as at 31 December 2020 from counterparties who are currently located in a country sanctioned under US measures. As a result, these deposits are currently frozen.</p> <p>In light of the above conditions, the Board of Directors have assessed the appropriateness of preparing the consolidated financial statements on a going concern basis.</p> <p>In assessing the appropriateness of the going concern basis, the Board of Directors have considered the Group's consolidated financial and cash flow projections for a 12 month period from the date of issuance of the consolidated financial statements.</p> <p>We considered this to be a key audit matter as the assessment required the use of significant judgment.</p> <p>Refer to note 1.1 to the consolidated financial statements.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">• We obtained and assessed the Board of Directors detailed consolidated financial and cash flow projections for a period of 12 months from the date of issuance of the consolidated financial statements;• We tested the mathematical accuracy of the calculations included within consolidated financial and cash flow projections;• We evaluated the appropriateness of the key assumptions used in the consolidated financial and cash flow projections including the impact on the liquidity of the Group arising from the partial withdrawal of the sanctioned deposits;• We performed a sensitivity analysis over the Group's financial and cash flow projections for the going concern assessment period; and• We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Our audit approach (continued)

Key audit matters (continued)

Impairment and credit losses on financing facilities, including impacts of COVID-19 pandemic

Impairment allowances represent the Board of Directors' best estimate of the credit losses arising including due to the COVID-19 pandemic downturn. As described in the summary of significant accounting policies to the Group's consolidated financial statements, the impairment losses have been determined in accordance with FAS 30.

We focused on this area because the Board of Directors make complex and subjective judgements over amount and timing of recognition of impairment to capture the recent developments in the financing facilities including the impact of COVID-19 pandemic, such as:

- Update factors including GDP and oil prices. Determining criteria for significant increase in credit risk.
- Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).
- Adjustments to models based on weighting assigned to base case, upside and downside scenarios.
- Establishing groups of similar assets for the purpose of measuring the ECL.
- Determining disclosure requirements in accordance with FAS 30.

The Group's financing facilities that are subject to credit risk, included financing assets amounting to USD 3,720.7 million and off-balance sheet exposures amounting to USD 2,257 million as at 31 December 2020, which are material to the Group.

Information on the credit risk including Group's credit risk management is provided in note 36 to the Group's consolidated financial statements

Our audit procedures included the following:

- We assessed and tested a sample of key controls around origination and approval of financing facilities and monitoring of credit exposure and impairment calculation;
- We evaluated the appropriateness of the Group's impairment provisioning policy in accordance with the requirements of FAS 30;
- We used our experts to independently assess the reasonableness of the ECL methodology developed and applied by the Board of Directors including model risk parameters (PD, LGD, and EAD), forward-looking information, associated weighting, and staging analysis particularly in the context of COVID-19 pandemic and its implications;
- We obtained an understanding and on a sample basis tested the completeness and accuracy of the data sets used for the ECL calculation.
- We tested a sample of financing facilities to determine the appropriateness and application of staging criteria;
- We obtained samples of the latest available credit reviews and checked that they include appropriate assessment and documentation of borrowers' ability to meet repayment obligations (principal, profit, and fees), in light with the ongoing COVID-19 pandemic.
- We independently assessed the appropriateness of provisioning assumptions on a sample of Stage 3 exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files; and
- We evaluated the adequacy of the consolidated financial statements disclosures to determine if they were in accordance with the requirements of FAS 30 and CBB regulations.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Our audit approach (continued)

Key audit matters (continued)

Fair valuation of investments in real estate

The Group's investments in real estate amounted to USD 256 million as at 31 December 2020. The valuation of the Group's investments in real estate is inherently subjective due to, among other factors, the individual nature of each property, location, expected future rental income or selling value for that particular property and related COVID-19 pandemic impact.

The valuations were carried out by independent professional third-party valuation firms (the "valuers" or "management's experts").

In determining properties' values, the valuers take into account current market prices for similar properties in a similar vicinity and conditions. If such conditions are not present, the valuers make an allowance for differences from the comparable properties and adjust their assessment of the valuation accordingly. If the comparable properties prices are not available, the valuers make use of appropriate valuation techniques to arrive at the fair valuation.

This matter is considered to be a key audit matter due to the significant judgments required in determining the assumptions used to estimate the fair valuation of investments in real estate, particularly in view of the prevailing COVID-19 pandemic.

Refer to note 12 to the consolidated financial statements for the related disclosures.

Our audit procedures included the following:

- We assessed the competency, capability and objectivity of the valuers engaged for valuing the investments in real estate;
- We evaluated the appropriateness of the valuers' work by considering the nature and the content of instructions provided to them by the Group. Where the valuers' work involved valuation techniques which needed significant use of source data provided by the Group, we have evaluated the relevance, completeness and accuracy of such data;
- We evaluated the relevance and reasonableness of the valuers' methodology, findings and conclusions by engaging our experts; and
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Other information

The Board of Directors are responsible for the other information. The other information comprises the Directors' report and the Report of the Sharia' Supervisory Board (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Annual Report which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Sharia' Rules and Principles are the responsibility of the Group's Board of Directors.

The Board of Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS as modified by CBB and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the Commercial Companies Law), CBB Volume 4 and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report (continued)

To the Shareholders of Ithmaar Holding B.S.C.

Report on other legal and regulatory and Sharia' requirements

As required by the Commercial Companies Law and the CBB Rule Book (Volume 4), we report the followings:

- (i) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith.
- (ii) The financial information contained in the Directors' report and the Report of the Sharia' Supervisory Board is consistent with the consolidated financial statements.
- (iii) Except for the matter described below in connection with the non-compliance with Article 64(7) of Ithmaar's articles of association, nothing has come to our attention which causes us to believe that Ithmaar has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2020 or its financial position as at that date.
 - Ithmaar has lost its reserves and more than three quarters of its capital and the Chairman or Deputy Chairman of the Board of Directors did not summon an extraordinary general meeting of the Shareholders in order to resolve whether to dissolve Ithmaar, reduce the capital or take other suitable measures which is a non-compliance with Article 64(7) of its articles of association. Refer to note 1 for further details.
- (iv) Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that Ithmaar has complied with the Islamic Sharia' Principles and Rules as determined by the Sharia' Supervisory Board of the Group during the period under audit.

The engagement partner on the audit resulting in this independent auditor's report is Elias Abi Nakhoul.



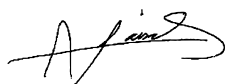
PricewaterhouseCoopers M.E Limited
18 February 2021
Partner's registration number: 196
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

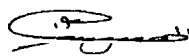
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2020 (Audited)	At 31 December 2019 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	650,798	692,596
Commodity and other placements with banks, financial and other institutions	4	280,100	393,606
Murabaha and other financings	5	2,405,755	2,817,144
Musharaka financing		929,496	635,151
Sukuk and investment securities	6	2,157,179	1,535,788
Investment in associates	7	623,161	633,292
Assets acquired for leasing	8	385,534	392,797
Insurance and related receivables	9	101,107	115,433
Other assets	11	151,459	150,801
Investment in real estate	12	256,304	251,005
Development properties	13	272,018	278,410
Fixed assets	14	81,307	78,285
Intangible assets	15	89,447	110,931
Total assets		8,383,665	8,085,239
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	16	1,753,006	1,515,182
Due to banks, financial and other institutions	17	1,114,914	1,282,867
Due to investors	18	1,364,020	1,563,797
Other liabilities	19	372,785	384,432
Insurance related reserves	10	123,167	129,768
Total liabilities		4,727,892	4,876,046
Equity of unrestricted investment accountholders	20	3,363,636	2,802,344
Minority interest	21	277,375	311,303
Total liabilities, equity of unrestricted investment accountholders and minority interest		8,368,903	7,989,693
Share capital	22	757,690	757,690
Treasury shares	22	(30,149)	(30,149)
Reserves		121,018	114,298
Accumulated losses		(833,797)	(746,293)
Total owners' equity		14,762	95,546
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		8,383,665	8,085,239

These consolidated financial statements were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Elham Hasan
Director



Ahmed Abdul Rahim
CEO

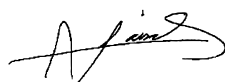
The notes 1 to 42 on pages 49 to 106 form an integral part of the consolidated financial statements.

Consolidated Income Statement

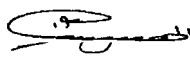
(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2020 (Audited)	31 December 2019 (Audited)
INCOME			
Income from assets financed by unrestricted investment account holders		242,980	218,968
Less: return to unrestricted investment accounts and impairment provisions		(147,626)	(144,189)
Group's share of income from unrestricted investment accounts as a Mudarib		95,354	74,779
Income from murabaha and other financings	24	116,005	184,246
Share of profit from associates	7	30,978	40,415
Income from other investments	25	147,343	124,597
Other income	26	75,856	101,427
Total income		465,536	525,464
Less: profit paid to banks, financial and other institutions		(196,256)	(229,267)
Operating income		269,280	296,197
EXPENSES			
Administrative and general expenses	27	(202,615)	(191,084)
Depreciation and amortization	8,14,15	(32,616)	(30,993)
Total expenses		(235,231)	(222,077)
Net income before provision for impairment and overseas taxation		34,049	74,120
Provision for impairment (net)	28	(28,690)	(32,270)
Net income before overseas taxation		5,359	41,850
Overseas taxation	29	(26,838)	(29,652)
NET (LOSS)/PROFIT FOR THE YEAR		(21,479)	12,198
Attributable to:			
Equity holders of the Ithmaar		(41,719)	669
Minority interests	21	20,240	11,529
		(21,479)	12,198
Basic and diluted (losses)/earnings per share	23	US Cts (1.43)	US Cts 0.02

These consolidated financial statements were approved by the Board of Directors on 18 February 2021 and signed on its behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Elham Hasan
Director



Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 49 to 106 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2020 and 2019

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

	Reserves											Accumulated losses	Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves			
At 1 January 2020 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(14,630)	(3,855)	4,178	(109,692)	114,298	(746,293)	95,546	
Adjustments resulting from adoption of FAS 33 (note 6)	-	-	-	-	-	10,660	-	-	-	10,660	-	10,660	
At 1 January 2020 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(3,970)	(3,855)	4,178	(109,692)	124,958	(746,293)	106,206	
Net loss for the year	-	-	-	-	-	-	-	-	-	-	(41,719)	(41,719)	
Modification loss net of Government assistance (note 2)	-	-	-	-	-	-	-	-	-	-	(51,443)	(51,443)	
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	-	5,658	5,658	
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(5,223)	-	-	-	(5,223)	-	(5,223)	
Movement in hedging reserve (note 36)	-	-	-	-	-	-	(3,469)	-	-	(3,469)	-	(3,469)	
Movement in fair value of investment in real estate	-	-	-	-	-	-	-	1,000	-	1,000	-	1,000	
Movement in fair value reserves of associates	-	-	-	-	-	4,994	-	-	-	4,994	-	4,994	
Foreign currency translation adjustments	-	-	-	-	-	(17)	-	(687)	(538)	(1,242)	-	(1,242)	
At 31 December 2020 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(4,216)	(7,324)	4,491	(110,230)	121,018	(833,797)	14,762	

	Reserves											Accumulated losses	Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Hedging reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves			
At 1 January 2019 (Audited)	757,690	(30,149)	149,085	38,418	50,727	(6,924)	-	3,187	(94,203)	140,290	(751,475)	116,356	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	669	669	
Transfer to statutory reserve	-	-	-	67	-	-	-	-	-	67	(67)	-	
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	-	-	4,580	4,580	
Movement in fair value of sukuk and investment securities	-	-	-	-	-	2,847	-	-	-	2,847	-	2,847	
Movement in hedging reserve (note 36)	-	-	-	-	-	-	(3,855)	-	-	(3,855)	-	(3,855)	
Movement in fair value of investment in real estate	-	-	-	-	-	-	-	1,163	-	1,163	-	1,163	
Movement in fair value reserves of associates	-	-	-	-	-	(10,590)	-	-	-	(10,590)	-	(10,590)	
Foreign currency translation adjustments	-	-	-	-	-	37	-	(172)	(15,489)	(15,624)	-	(15,624)	
At 31 December 2019 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(14,630)	(3,855)	4,178	(109,692)	114,298	(746,293)	95,546	

The notes 1 to 42 on pages 49 to 106 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Notes	Year ended	
		31 December 2020 (Audited)	31 December 2019 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation		5,359	41,850
<u>Adjustments for:</u>			
Depreciation and amortization	8,14,15	32,616	30,993
Share of profit after tax from associates	7	(30,978)	(40,415)
Provision for impairment (net)	28	28,690	32,270
Income from other investments		(147,343)	(124,597)
Gain on sale of fixed assets		133	798
Operating loss before changes in operating assets and liabilities		(111,523)	(59,101)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		407,060	5,632
Changes in operating assets and liabilities:			
Murabaha and other financings		(91,872)	300,667
Musharaka financing		(313,978)	(184,771)
Other assets		10,464	(28,074)
Customers' current accounts		270,646	148,314
Due to banks, financial and other institutions		(151,515)	(209,032)
Due to investors		(145,070)	48,851
Other liabilities		(9,011)	(163,815)
(Decrease)/increase in equity of unrestricted investment accountholders		572,992	217,761
Taxes paid		(15,162)	(29,895)
Net cash provided by operating activities		423,031	46,537
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		-	5,760
Assets acquired for leasing		7,263	17,968
Sukuk and investment securities		(515,549)	175,419
Investment in associates		-	17,585
Investment in real estate		(915)	-
Dividend received from associates		28,649	45,632
Purchase of fixed assets		(10,230)	(29,131)
Net cash (used in)/provided by investing activities		(490,782)	233,233
FINANCING ACTIVITIES			
Minority interests		-	(532)
Net cash used in financing activities		-	(532)
Foreign currency translation adjustments		(28,639)	(69,892)
Net (decrease)/increase in cash and cash equivalents		(96,390)	209,346
Cash and cash equivalents at the beginning of the year		850,497	641,151
Cash and cash equivalents at the end of the year	4	754,107	850,497

The notes 1 to 42 on pages 49 to 106 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2020 and 2019

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

	At 1 January 2020	Fair value movements	At 31 December 2020
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	14,146	(1,398)	12,748
US Real Estate Placements*	25,236	-	25,236
TOTAL	45,632	(1,398)	44,234

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

	At 1 January 2019	Fair value movements	At 31 December 2019
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	15,639	(1,493)	14,146
US Real Estate Placements*	25,236	-	25,236
TOTAL	47,125	(1,493)	45,632

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

The notes 1 to 42 on pages 49 to 106 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. INCORPORATION AND ACTIVITIES

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) (“Ithmaar”) was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the “CBB”).

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust (“DMIT”), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

The principal activities of Ithmaar and its subsidiaries (collectively the “Group”) are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

Ithmaar's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

Ithmaar's shares are listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. During an Ordinary General Meeting on 29 August 2019, the shareholders approved to voluntarily delist from Boursa Kuwait. On 13 September 2020, the Capital Market Authority, in Kuwait, rejected Ithmaar's application for voluntary delist and instead forcedly delisted Ithmaar's shares as per their regulations.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises 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 Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	2020	2019		
Direct subsidiaries				
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Shamil Financial (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Principal indirect subsidiaries				
Faysal Bank Limited	67	67	Pakistan	Banking
Solidarity Group Holding B.S.C. (C)	56	56	Kingdom of Bahrain	Takaful
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Health Island WLL	50	50	Kingdom of Bahrain	Real estate
Dilmunia Development Fund I L.P.	90	66	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate

During the year, 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 90% without change in control.

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. INCORPORATION AND ACTIVITIES (Continued)

1.1 As of 31 December 2020, the total consolidated equity of the Group stood at \$14.8 million as compared to \$95.5 million as at 31 December 2019. The current equity is still above the minimum threshold required by the Group's Category 1 investment firm license. The Board of Directors of Ithmaar is working on various initiatives to strengthen the Group's consolidated equity and solvency.

The Group is required by its Memorandum and Articles of Association to hold an Extra-ordinary General Meeting in order for shareholders to resolve to continue the Company since the accumulated losses exceeded 75% of its issued capital. In view of the transaction in process (as explained in 1.2 below), the Group has agreed with the CBB and Bahrain Bourse to hold the EGM, as required, by November 2021.

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

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

The Board of Directors have reviewed the above projections and believes that the Group will be able to continue its business without any significant curtailment of operations and meet its obligations for a period of at least one year from the date of issue of this consolidated financial statements. Accordingly, this consolidated financial statements is prepared on a going concern basis.

1.2 On 14 September 2020 Ithmaar 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) and other specific assets of IB Capital B.S.C (c). 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.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements 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 36 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 income statement. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note 36 for further details.

Further 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").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

The above framework of the consolidated financial statements is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

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 standards in the consolidated financial statements for the year ended 31 December 2020 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 40.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2020.

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

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

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

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

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

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

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

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

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

The 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 consolidated income statement. These investments are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

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

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 consolidated income statement.

The implementation of FAS 33 has resulted in re-classification of investment securities amounting to \$1.1 billion from amortized cost to investments held at fair value through equity. Accordingly, the cumulative changes in fair value of \$10.7 million (refer note 6) have been recognized in opening balance of fair value reserve in the owners' equity.

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 consolidated financial statements.

B. New standards, amendments and interpretations issued but not effective and not early adopted by the Group

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

B. New standards, amendments and interpretations issued but not effective and not early adopted by the Group (continued)

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 consolidated financial statements.

(ii) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Control is also presumed to exist if the Group has power to govern the financial and operating policies of a company with the objective of obtaining benefits from its operations. Subsidiaries, including Special Purpose entities that are controlled by the Group, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group’s share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

Associates

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

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interests

The consolidated financial statements include the assets, liabilities and results of operations of the Group, its subsidiary companies after adjustment for minority interests and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions are eliminated.

The financial statements of the subsidiaries are prepared on the same reporting periods as the Group, using consistent accounting policies (for group reporting purposes).

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

For group companies, items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency does not have any impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investments carried at fair value through equity are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
3. All resulting exchange differences are recognised as a separate component of equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders' equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) 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.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs where it does not exercise control. In determining whether the Group exercises control over an SPE, judgements are made about the objectives of the SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to obtain benefit from the SPE's operations by having power to govern its financial and operational policies.

3. Impairment of goodwill and intangible assets

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 higher of VIU or 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

4. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with impairment policy.

The staging and ECL of related party exposures is considered separately from the other financing assets. The ECL is assessed using the cash shortfall method since the underlying collateral can be taken over without having to apply any haircut. The increase in credit risk is also assessed separately for related parties, given their commitment to honour the amounts due to the Group.

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 31 December 2020. ECL were estimated based on a range of forecast economic conditions available as at latest available date.

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 subjective and, as a result, actual results may differ from these estimates.

5. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch particularly in view of the impact of Covid. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets.

6. 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 year, 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 taking into account of customers who requested for further deferment and a change in its lifetime credit risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

7. 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 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.

8. Impairment and recoverable amount of investment in associates

The Group uses estimates in its assessment of the impairment provision and recoverable amount of its investment in associates, which are subject to judgement. The key assumption used in such assessment was the existence and percentage of the significant influence premium. The premium is applied since the Group holds more than twenty percent voting rights in the associates, has board representation and participates in all significant financial and operating decisions.

9. 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 consolidated financial statement for the year ended 31 December 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.

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 in accordance with note 2.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 in accordance with note 2.

(g) Investments

1. Investments carried at amortised cost

An Investment instruments shall be measured at amortised cost if both the following conditions are met:

- a. the investment is held within a business model whose objective is to hold such investments in order to collect expected cashflows till maturity of the instrument; and
- b. the investment represents either a debt type instrument or other investment instrument having reasonably determinable effective yield. These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

An Investment will be measured at Fair Value through equity if both the following conditions are met:

- a. the investment is held within a business model whose objective is achieved by not collecting the expected cashflows and selling the investments; and
- b. the investment represents a non monetary debt type instrument or other investment instrument having reasonably determinable effective yield.

Any other investment instruments not classified as per amortised cost or fair value through equity, are classified as fair value through income statement (FVIS).

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at fair value through income statement to be classified as investments at fair value through equity.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVIS. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the Investments is solely to collect contractual cash flows. Another example is the debt investment securities, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(g) Investments (continued)

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. These investments are recognised on the acquisition date at fair value. 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 consolidated income statement.

4. Investment in real estate

All properties held for earning periodical income or for capital appreciation purposes or both are classified as investment in real estate (held-for-use).

Investment in real estate is initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

All properties where decision is made to sell and the sale is expected to occur within 12 months of reporting date (subject to availability of identified willing buyer) are classified as Investment in real estate Held-for-sale.

Investment in real estate Held-for-sale is measured at fair value in accordance with the fair value model.

5. Development properties

Development properties represent land held by the Group for development and sale in the ordinary course of business, and include expenditure incurred in acquiring the properties and other costs incurred in bringing them to their existing condition.

Development properties are carried at lower of cost or estimated net realisable value. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure.

6. Investment in mudaraba

Mudaraba investments are recorded at cost.

Share of the Group's profit or loss from the Mudaraba are recognized in the consolidated income statement upon distribution or deduction from Mudaraba capital (in case of losses).

7. Fair value

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measured at cost.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 in accordance with note 2 (iv) (aa).

(i) Takaful and retakaful contracts

- Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

- Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

- Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(i) Takaful and retakaful contracts (continued)

- Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

- Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

- Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

- Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

- Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

- Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(j) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(k) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of minority interests is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(l) Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(m) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, taxation related to the subsidiaries incorporated in tax jurisdictions are recorded as per local regulations.

(n) Value Added Tax (VAT)

The Group is subject to VAT at 5% on certain financial services as applicable from 1 January 2019. The amount of VAT liability is determined by applying the VAT rate on eligible turnover, reduced by the VAT paid on eligible expenses (input VAT). The irrecoverable portion of input VAT is recognized as expense in the consolidated income statement.

(o) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

(p) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(q) Due to investors

Funds received from depositors who take the corporate risk of Ithmaar or its subsidiaries are classified as "Due to investors".

(r) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes 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.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment accounts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(s) Profit Equalisation Reserve (PER)

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

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(t) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Group's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(u) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changed in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment accounts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(v) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(w) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group's consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(x) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

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

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from investments carried at amortised cost

All gains or losses from investments carried at amortised cost are recognised in consolidated statement of income.

7. Income from investments carried at fair value through income statement

All gains or losses from investments carried at fair value through income statement are recognised in consolidated statement of income.

8. Income from investments carried at fair value through equity

The realised gains or losses along with the amounts previously recognised in equity are recognised in the consolidated income statement.

Dividend income is recognised in the consolidated statement of income when right to receive payment is established.

9. Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Group has fulfilled all its obligations in connection with the related transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(y) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(z) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(aa) Shari'a compliant risk management instruments and hedge accounting

The Group uses certain shari'a compliant risk management instruments (similar to derivatives) to economically hedge exposures to foreign exchange and profit rate risks. Such instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. The fair value of a hedging instrument is the equivalent to its prevailing market rates or is based on broker quotes. Instruments with positive market values are disclosed as assets and instruments with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into shari'a compliant risk management instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the consolidated income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of changes in owners' equity.

Cash flow hedging attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in statement of changes in owners' equity and presented in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement. The Group currently has hedged cash flows to manage its profit rate risk on variable rate financial liabilities.

Hedges directly affected by variable profit rate benchmark reforms

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark variable profit rate is not altered as a result of global variable profit rate benchmark reform.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 "Impairment, credit losses & onerous commitments" as follows:

1. Financings & receivables

Financings, receivables (including off-balance sheet exposures) are measured using the Expected Credit Losses (ECL) model in accordance with the Credit Losses Approach.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria for definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar receivables for the purpose of measuring ECL

ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due as applicable. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations.

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the Group. In this context, the 'risk of default' of a financial instrument is a key component of the expected loss model under FAS 30.

In general, counterparties with facilities exceeding 90 days past due are considered in default.

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

- All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
- All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
- All or any of the facility/ies wherein 'specific provision' is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower's ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, Credit Conversion Factor (CCF) and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

The key inputs into the measurement of ECL are the term structure of the following variables:

- I. Probability of default (PD);
- II. Loss given default (LGD);
- III. Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. In case of non-availability of recovery data, the Group uses LGD estimate based on market practice.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data from the International Monetary Fund (IMF) and Economist Intelligence Unit (EIU) database for the relevant exposure country.

Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP growth rate and oil price.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth rate and oil prices.

Based on consideration of a variety of external actual and forecast information, The Group calculates PIT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one-year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

- Auto finance;
- Mortgage finance;
- Personal Finance; and
- Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

The PD's derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD's separately for Corporate and Retail portfolio.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

- All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
- Debt instruments that are measured at amortised cost or at fair value through equity.
- Financing commitments that are not measured at fair value through profit and loss (FVTPL)
- Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
- Lease receivables and contract assets
- Balances with banks
- Related party balances
- Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(ii) Summary of significant accounting policies (continued)

(ab) Impairment (continued)

1. Financings & receivables (continued)

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

2. Investments

Development properties

Development properties are carried at lower of cost or estimated net realisable value in accordance with the Net realisable value approach. This includes the situation when there is a possible indication of decline in the value of such properties. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure. Impairment losses are recognised in the consolidated income statements.

Intangible assets

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement.

Assets classified as held for sale

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Other investments

All other investments (excluding investments carried at fair value through income statement) are assessed for impairment in accordance with the Impairment approach.

Impairment loss represents the amount by which an investment's carrying value exceeds its recoverable amount.

In case of indications of possible impairment, the recoverable amount of an investment is determined as being the higher of its fair value less costs of disposal and its value-in-use.

Impairment losses are recognised in the consolidated income statement, taking into account the split between owners and unrestricted investment accounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in thousands of united states dollars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	101,500	9,867	111,367	166,162	2,950	169,112
Cash and balances with banks and central banks	404,038	135,393	539,431	437,607	85,877	523,484
	505,538	145,260	650,798	603,769	88,827	692,596

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

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	268,001	12,581	280,582	382,465	11,702	394,167
Less: Provision for impairment	(482)	-	(482)	(561)	-	(561)
	267,519	12,581	280,100	381,904	11,702	393,606

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

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	505,538	145,260	650,798	603,769	88,827	692,596
Commodity and other placements with banks, financial and other institutions	267,519	12,581	280,100	381,904	11,702	393,606
Less: Placement maturing after ninety days	(52,843)	(12,581)	(65,424)	(54,891)	(11,702)	(66,593)
Less: Balances with central bank relating to minimum reserve requirement	(101,500)	(9,867)	(111,367)	(166,162)	(2,950)	(169,112)
	618,714	135,393	754,107	764,620	85,877	850,497

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in thousands of united states dollars unless otherwise stated)

5. MURABAHA AND OTHER FINANCINGS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	1,359,218	1,408,082	2,767,300	1,854,329	1,301,995	3,156,324
Less: Provision for impairment	(314,205)	(47,340)	(361,545)	(312,556)	(26,624)	(339,180)
	1,045,013	1,360,742	2,405,755	1,541,773	1,275,371	2,817,144

Other financings represents conventional loans and advances totalling \$800 million (31 December 2019: \$1,279 million) made by a subsidiary of Ithmaar.

Murabaha and other financings includes restructured facilities amounting to \$7.1 million (31 December 2019: \$8.5 million).

The movement in provision for impairment is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	312,556	26,624	339,180	346,067	34,148	380,215
Charge for the year	41,148	20,668	61,816	40,539	5,031	45,570
Write back during the year	(9,202)	(58)	(9,260)	(48,770)	(2,300)	(51,070)
Utilised during the year	(30,820)	-	(30,820)	(1,470)	(9,751)	(11,221)
Reclassification	5,821	210	6,031	(6,976)	-	(6,976)
Exchange differences and other movements	(5,298)	(104)	(5,402)	(16,834)	(504)	(17,338)
At 31 December	314,205	47,340	361,545	312,556	26,624	339,180

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6. SUKUK AND INVESTMENT SECURITIES

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
<i>Held for trading</i>						
Debt-type instruments – unlisted	40,959	-	40,959	200,668	-	200,668
Equity-type securities – listed	3,848	-	3,848	589	-	589
	44,807	-	44,807	201,257	-	201,257
Investment securities at fair value through equity						
Debt-type instruments – listed	204,334	101,598	305,932	-	-	-
Debt-type instruments – unlisted	1,009,478	250,778	1,260,256	-	-	-
Equity-type securities – listed	85,623	-	85,623	59,976	-	59,976
Equity-type securities – unlisted	279,377	-	279,377	274,274	-	274,274
	1,578,812	352,376	1,931,188	334,250	-	334,250
Provision for impairment	(209,464)	-	(209,464)	(188,624)	-	(188,624)
	1,369,348	352,376	1,721,724	145,626	-	145,626
Investment securities carried at amortised cost						
Sukuk – unlisted	3,326	62,142	65,468	211,266	192,922	404,188
Other debt-type instruments – listed	52,185	270,930	323,115	151,531	-	151,531
Other debt-type instruments – unlisted	8,674	2,968	11,642	647,066	-	647,066
	64,185	336,040	400,225	1,009,863	192,922	1,202,785
Provision for impairment	(9,577)	-	(9,577)	(13,880)	-	(13,880)
	54,608	336,040	390,648	995,983	192,922	1,188,905
	1,468,763	688,416	2,157,179	1,342,866	192,922	1,535,788

Sukuk and investment securities include conventional investments totalling \$1,311 million (31 December 2019: \$1,098 million) made by a subsidiary of Ithmaar.

Certain assets totalling \$4.5 million (31 December 2019: \$5.1 million) included above are held by third parties as nominee on behalf of the Group.

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6. SUKUK AND INVESTMENT SECURITIES (Continued)

The movement in provision for impairment relating to sukuk and investment securities is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	202,504	-	202,504	185,717	-	185,717
Charge for the year	22,260	-	22,260	19,431	-	19,431
Write back during the year	(3,197)	-	(3,197)	(401)	-	(401)
Reclassification	(2,757)	-	(2,757)	-	-	-
Exchange differences and other movements	231	-	231	(2,243)	-	(2,243)
At 31 December	219,041	-	219,041	202,504	-	202,504

FAS 33 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2020				
Investment securities at fair value through income statement				
Debt-type instruments	-	40,959	-	40,959
Equity securities	3,848	-	-	3,848
Investment securities at fair value through equity				
Debt-type instruments – listed	301,200	-	-	301,200
Debt-type instruments – unlisted	-	1,263,694	-	1,263,694
Equity-type securities	67,948	16,634	72,248	156,830
	372,996	1,321,287	72,248	1,766,531

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6. SUKUK AND INVESTMENT SECURITIES (Continued)

Investments measured at fair value (continued)

	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Investment securities at fair value through income statement				
Debt-type instruments	-	200,668	-	200,668
Equity securities	589	-	-	589
Investment securities at fair value through equity				
Equity securities	65,817	519	79,290	145,626
	66,406	201,187	79,290	346,883

There was no movement between level 1 and level 2 during the year.

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2020	2019
At 1 January	79,290	98,204
Total gains/(losses) recognised in		
- Income statement	(18,201)	(17,300)
- Equity	2,928	(2,580)
Reallocation	8,231	966
At 31 December	72,248	79,290

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7. INVESTMENT IN ASSOCIATES

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

Name of company	2020	% of Share-holding	2019	% of Share-holding	Country	Activity
Unlisted:						
Citic International Assets Management Limited	33,070	20	41,014	20	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	-	31	608	31	Pakistan	Manufacturing
Ithraa Capital Company	-	23	1,924	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	73,027	31	73,465	31	Bahrain	Infrastructure
Health 360 Ancillary Services W.L.L.	487	20	-	-	Bahrain	Third party administrator
Solidarity Saudi Takaful Company	-	28	18,800	28	Saudi Arabia	Takaful
Listed:						
BBK B.S.C.	516,577	26	497,481	26	Bahrain	Banking
	623,161		633,292			

During the year, the Group reversed an impairment provision amounting to \$27 million against one of its investment in an associate based on its assessment of the recoverable amount being higher than the carrying value. The recoverable amount is determined based on the market share price and the estimated fair value of the related significant influence premium Ithmaar has over this associate.

Every 10% change in the significant influence premium used to determine the fair value of the investment in associate, with all other variables held constant, will reduce the carrying amount of the Group's investment in associates by \$4 million.

If the market share price used to determine the fair value of the investment in associate had been 3% lower than estimate used as at 31 December 2020, with all other variables held constant, the carrying amount of its investment in associates will be reduced by \$16 million.

Group's share of their results comprise mainly from following associated companies:

Name of company	2020	2019
Unlisted:		
Solidarity Saudi Takaful Company	4,074	(7,515)
Citic International Assets Management Limited	(8,530)	(1,400)
Naseej B.S.C. (C)	(1,624)	1,564
Others	(293)	(2,224)
Listed:		
BBK B.S.C .	37,351	49,990
	30,978	40,415

Share of reserves of Investment in associates amount to \$37.9 million (31 December 2019: \$42.5 million).

Investment in associates include conventional investments totalling \$622.7 million (31 December 2019: \$612 million).

Investment in associates amounting to \$516.6 million (31 December 2019: \$497.5 million) are pledged as collateral against borrowings with the terms and conditions in the ordinary course of business.

Amortisation charge for the intangible assets for the year ended 31 December 2020 amounted to \$7.5 million (31 December 2019: \$7 million).

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7. INVESTMENT IN ASSOCIATES (Continued)

Summarised financial position of associates that have been equity accounted:

	31 December 2020	31 December 2019
Total assets	10,480,239	10,522,736
Total liabilities	8,695,653	8,673,977
Total revenues	330,004	325,991
Total net profit	120,114	141,171

8. ASSETS ACQUIRED FOR LEASING

	31 December 2020			31 December 2019		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	439,717	(54,183)	385,534	431,199	(38,402)	392,797

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2020	31 December 2019
Relating to owners	3,133	3,205
Relating to unrestricted investment accounts	382,401	389,592
	385,534	392,797

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9. INSURANCE AND RELATED RECEIVABLES

	31 December 2020	31 December 2019
Insurance and other receivables	58,064	62,828
Reinsurer's share of outstanding claims	15,950	21,080
Reinsurer's share of unearned contribution	34,023	37,404
	108,037	121,312
Less: Provision for impairment	(6,930)	(5,879)
	101,107	115,433

	31 December 2020		
	Gross	Reinsurance	Net
Movement in Reinsurer's share of outstanding claims			
Reported claims	43,925	(20,625)	23,300
Incurred But Not Reported (IBNR)	6,727	(455)	6,272
At 1 January 2020	50,652	(21,080)	29,572
Change in liabilities	(1,487)	5,130	3,643
At 31 December 2020	49,165	(15,950)	33,215
Reported claims	37,723	(13,242)	24,481
IBNR	11,442	(2,708)	8,734
At 31 December 2020	49,165	(15,950)	33,215

	Gross	Reinsurance	Net
Movement in Reinsurer's share of unearned contribution			
At 1 January 2020	79,116	(37,404)	41,712
Net movement	(5,114)	3,381	(1,733)
At 31 December 2020	74,002	(34,023)	39,979

	31 December 2019		
	Gross	Reinsurance	Net
Movement in Reinsurer's share of outstanding claims			
Reported claims	48,960	(22,209)	26,751
IBNR	8,021	(1,549)	6,472
At 1 January 2019	56,981	(23,758)	33,223
Change in liabilities	(6,329)	2,678	(3,651)
At 31 December 2019	50,652	(21,080)	29,572
Reported claims	43,925	(20,625)	23,300
IBNR	6,727	(455)	6,272
At 31 December 2019	50,652	(21,080)	29,572

	Gross	Reinsurance	Net
Movement in Reinsurer's share of unearned contribution			
At 1 January	77,892	(35,878)	42,014
Net movement	1,224	(1,526)	(302)
At 31 December 2019	79,116	(37,404)	41,712

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10. INSURANCE RELATED RESERVES

	31 December 2020	31 December 2019
Outstanding claims - Gross	49,165	50,652
Unearned contributions, commission and other reserves	74,002	79,116
	123,167	129,768

11. OTHER ASSETS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	125,938	77,914	203,852	151,774	47,426	199,200
Due from related parties	557	-	557	515	-	515
Taxes - deferred	1,382	-	1,382	9,333	-	9,333
Taxes - current	261	-	261	12,176	-	12,176
Non-current assets held for sale	22,339	-	22,339	8,232	8,671	16,903
	150,477	77,914	228,391	182,030	56,097	238,127
Provision for impairment	(64,993)	(11,939)	(76,932)	(75,176)	(12,150)	(87,326)
	85,484	65,975	151,459	106,854	43,947	150,801

The movement in provision for impairment is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	75,176	12,150	87,326	70,640	12,154	82,794
Charge for the year	2,033	-	2,033	5,000	-	5,000
Write back during the year	(11,885)	-	(11,885)	(88)	-	(88)
Reclassification	597	(209)	388	-	-	-
Exchange differences and other movements	(928)	(2)	(930)	(376)	(4)	(380)
At 31 December	64,993	11,939	76,932	75,176	12,150	87,326

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12. INVESTMENT IN REAL ESTATE

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	292,050	-	292,050	288,183	-	288,183
Less: Provision for impairment	(35,746)	-	(35,746)	(37,178)	-	(37,178)
	256,304	-	256,304	251,005	-	251,005

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$0.6 million (31 December 2019: \$0.6 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provision for impairment for investment in real estate is as follows:

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	37,178	-	37,178	38,146	-	38,146
Charge for the year	2,019	-	2,019	1,341	-	1,341
Write back during the year	(359)	-	(359)	-	-	-
Utilised during the year	-	-	-	(8,660)	-	(8,660)
Reclassification	(3,582)	-	(3,582)	6,976	-	6,976
Exchange differences and other movements	490	-	490	(625)	-	(625)
At 31 December	35,746	-	35,746	37,178	-	37,178

13. DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2020	31 December 2019
Land	197,610	197,748
Development costs	74,408	80,662
	272,018	278,410

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

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14. FIXED ASSETS

	Relating to owners							
	31 December 2020			31 December 2019				
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	54,512	(10,593)	-	43,919	55,780	(10,383)	-	45,397
Leasehold improvements	36,356	(23,362)	-	12,994	33,230	(21,780)	-	11,450
Furniture and equipment	90,704	(67,779)	-	22,925	85,245	(65,084)	-	20,161
Motor vehicles	3,417	(1,948)	-	1,469	3,247	(1,970)	-	1,277
	184,989	(103,682)	-	81,307	177,502	(99,217)	-	78,285

Depreciation charge for the year ended 31 December 2020 amounted to \$8.9 million (31 December 2019: \$7.7 million).

15. INTANGIBLE ASSETS

	Relating to owners				
	31 December 2020				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	93,355	-	(71,070)	(12,178)	10,107
Customer relations	120,212	(78,810)	-	(13,497)	27,905
Core deposits	155,546	(111,808)	-	(17,662)	26,076
Others	60,120	(34,761)	-	-	25,359
	429,233	(225,379)	(71,070)	(43,337)	89,447

	Relating to owners				
	31 December 2019				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	93,355	-	(60,500)	(11,709)	21,146
Customer relations	120,212	(72,766)	-	(13,917)	33,529
Core deposits	155,546	(104,030)	-	(19,053)	32,463
Others	56,209	(32,416)	-	-	23,793
	425,322	(209,212)	(60,500)	(44,679)	110,931

Amortisation charge for the year ended 31 December 2020 amounted to \$16.2 million (31 December 2019: \$16.2 million)

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15. INTANGIBLE ASSETS (Continued)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2020	31 December 2019
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	-	10,570
Faysal Bank Limited	7,529	7,998
Soldarity Group Holding B.S.C. (C)	2,578	2,578
	10,107	21,146

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value (P/B) multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement. The impact of every 0.1 times change in P/B multiple will result in reduction of goodwill by \$1 million.

16. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to \$223.2 million which is subject to sanctions under US measures (31 December 2019: \$203.8 million).

17. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	872,894	120,602	993,496	1,037,845	172,889	1,210,734
Due to financial and other institutions	121,418	-	121,418	72,133	-	72,133
	994,312	120,602	1,114,914	1,109,978	172,889	1,282,867

Due to banks, financial and other institutions include balances totalling \$438.2 million from two counterparties which are subject to sanctions under US measures (31 December 2019: \$428 million).

Due to banks, financial and other institutions include conventional deposits totalling \$282.6 million (31 December 2019: \$298.6 million), accepted by a subsidiary of Ithmaar.

At 31 December 2020, there were collateralized borrowings against an investment in associate in aggregate \$192.5 million (31 December 2019: \$228.9 million).

Cash dividends amounting to \$26.9 million (31 December 2019: \$36.3 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

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18. DUE TO INVESTORS

	Relating to owners	
	31 December 2020	31 December 2019
Due to corporate institutions	713,135	774,222
Due to individuals	578,757	720,654
Due to financial institutions	72,128	68,921
	1,364,020	1,563,797

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

19. OTHER LIABILITIES

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	281,387	86,510	367,897	313,928	64,688	378,616
Due to related parties (note 37)	129	-	129	160	-	160
Provision for taxation – current	1,088	-	1,088	1,305	-	1,305
Provision for taxation – deferred	3,671	-	3,671	4,351	-	4,351
	286,275	86,510	372,785	319,744	64,688	384,432

20. 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:

	Notes	31 December 2020	31 December 2019
Cash and balances with banks and central banks	3	145,260	88,827
Commodity and other placements with banks, financial and other institutions	4	12,581	11,702
Murabaha and other financings	5	1,360,742	1,275,371
Musharaka financing		929,228	621,874
Sukuk and investment securities	6	688,416	192,922
Assets acquired for leasing	8	382,401	389,592
Other assets	11	65,975	43,947
Due from the Group (net)		703,937	771,571
		4,288,540	3,395,806
Customers' current accounts	16	(692,739)	(355,885)
Due to banks, financial and other institutions	17	(145,655)	(172,889)
Other liabilities	19	(86,510)	(64,688)
Equity of unrestricted investment accountholders		3,363,636	2,802,344

Due from the Group represents net amount due to Unrestricted Investment Accountholders from owners.

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20. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (Continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$69.9 million (31 December 2019: \$44.9 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 28.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2020	31 December 2019
At 1 January	19,495	22,048
Net addition/(utilisation) during the year	(7,998)	(2,553)
At 31 December	11,497	19,495

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2020	31 December 2019
At 1 January	-	1,500
Net addition/(utilisation) during the year	-	(1,500)
Utilized for FAS 30	-	-
At 31 December	-	-

The average gross rate of return in respect of unrestricted investment accounts was 4.9% per annum for 2020 (2019: 4.6%) of which 3.2% per annum (2019: 3.1%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees of \$2.5 million (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

21. MINORITY INTERESTS

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

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2020		31 December 2019	
	Minority %		Minority %	
Faysal Bank Limited	33	116,101	33	104,344
Solidarity Group Holding B.S.C. (C)	45	101,002	45	96,173
Health Island B.S.C. (C)	50	34,150	50	40,202
Dilmunia Development Fund I L.P.	10	27,273	34	71,544
Cityview Real Estate Development B.S.C. (C)	49	(3,795)	49	(3,605)
Sakana Holistic Housing Solutions B.S.C. (C)	50	2,644	50	2,645
		277,375		311,303

Minority interests in the consolidated income statement of \$20 million (31 December 2019: \$11.5 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

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22. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2019 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2020	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2020 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2020 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2020 (31 December 2019: 120,595,238). The shares are held as treasury shares and the Group has the right to reissue these shares at a later date.

23. EARNINGS PER SHARE (BASIC & DILUTED)

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 year.

	31 December 2020	31 December 2019
Net loss attributable to shareholders (\$ '000)	(41,719)	669
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
(Losses)/Earnings per share (Basic & Diluted) - US Cents	(1.43)	0.02

Earnings per share on non-sharia compliant income and expenses is included under note 40.

24. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2020	31 December 2019
Income from Islamic financings	3,247	4,309
Income from other financings	112,758	179,937
	116,005	184,246

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(Expressed in thousands of united states dollars unless otherwise stated)

25. INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2020	31 December 2019
Income from investment securities at amortised cost	3,581	93,319
Income from investment securities at fair value through equity	117,209	1,226
Income from investment securities at fair value through income statement	23,937	26,782
Income from investment in real estate	2,616	3,270
	147,343	124,597

26. OTHER INCOME

	Relating to owners	
	31 December 2020	31 December 2019
Income from banking services	51,111	44,507
Insurance underwriting profit (note 26.1)	25,938	24,356
Income from commodity placements	12,887	24,205
Foreign exchange loss	(14,358)	(599)
Gain on disposal of fixed assets	133	798
Income from fees and commissions	145	8,160
	75,856	101,427

26.1 Breakdown of Insurance underwriting profit

Net insurance premiums earned	74,150	74,305
Net insurance claims incurred	(48,212)	(49,949)
	25,938	24,356

27. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2020	31 December 2019
Salaries and other benefits	93,324	85,665
Office expenses	67,285	66,173
Professional fees	18,150	14,781
Other administrative expenses	23,856	24,465
	202,615	191,084

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28. PROVISION FOR IMPAIRMENT

	31 December 2020			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	835,622	44,858	880,480	834,101	49,938	884,039
Charge for the year	80,683	26,127	106,810	81,529	8,306	89,835
Write back during the year	(51,993)	(849)	(52,842)	(49,259)	(2,638)	(51,897)
Utilised during the year	(30,821)	(103)	(30,924)	(21,787)	(9,751)	(31,538)
Exchange differences	(3,375)	(147)	(3,522)	(8,962)	(997)	(9,959)
At 31 December	830,116	69,886	900,002	835,622	44,858	880,480

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

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

	31 December 2020			31 December 2019		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	314,205	47,340	361,545	312,556	26,624	339,180
Musharaka financing	-	10,607	10,607	-	6,084	6,084
Commodity and other placements with banks, financial and other institutions	482	-	482	561	-	561
Investment in mudaraba	176	-	176	176	-	176
Investment in associates	51,049	-	51,049	76,895	-	76,895
Sukuk and investment securities	219,041	-	219,041	202,504	-	202,504
Restricted investment accounts	49,735	-	49,735	49,735	-	49,735
Insurance and related receivables	6,930	-	6,930	5,880	-	5,880
Other assets	63,250	11,939	75,189	73,695	12,150	85,845
Off-balance sheet related	1,743	-	1,743	1,481	-	1,481
Development properties	16,689	-	16,689	14,461	-	14,461
Investment in real estate	35,746	-	35,746	37,178	-	37,178
Intangible assets	71,070	-	71,070	60,500	-	60,500
	830,116	69,886	900,002	835,622	44,858	880,480

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28. PROVISION FOR IMPAIRMENT (Continued)

Loss allowance

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

31 December 2020

Financial assets - amortized cost	Stage 1	Stage 2	Stage 3	Total
Cash, Commodity and other placements with banks, financial and other institutions	931,380	-	-	931,380
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	675,345	67,759	-	743,104
Acceptable risks (4-6)	1,643,059	58,336	400	1,701,795
Watch list (7)	-	509,549	-	509,549
Non performing (8-10)	-	-	302,165	302,165
Carrying amount - Corporate	2,318,404	635,644	302,565	3,256,613
Retail (un-rated)	1,297,500	136,491	100,775	1,534,766
Carrying amount including unfunded	3,615,904	772,135	403,340	4,791,379
Sukuk and investment securities	390,693	-	9,532	400,225
Other receivables	229,498	2,884	62,901	295,283
Loss allowance	(37,469)	(79,212)	(350,120)	(466,801)
Total Financial assets carrying amount	5,130,006	695,807	125,653	5,951,466

31 December 2019

Financial assets - amortized cost	Stage 1	Stage 2	Stage 3	Stage 4
Cash, Commodity and other placements with banks, financial and other institutions	1,086,760	-	-	1,086,760
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	971,122	41,593	-	1,012,715
Acceptable risks (4-6)	1,172,477	146,280	400	1,319,157
Watch list (7)	-	596,793	-	596,793
Non performing (8-10)	-	-	371,781	371,781
Carrying amount - Corporate	2,143,599	784,666	372,181	3,300,446
Retail (un-rated)	1,342,312	21,246	54,479	1,418,037
Carrying amount including unfunded	3,485,911	805,912	426,660	4,718,483
Sukuk and investment securities	1,188,737	-	14,049	1,202,786
Other receivables	253,617	13,028	62,539	329,184
Loss allowance	(48,528)	(69,598)	(336,062)	(454,188)
Total Financial assets carrying amount	5,966,497	749,342	167,186	6,883,025

Gross financings (funded) as of 31 December 2020 amounted to \$3.0 billion, \$0.7 billion and \$0.4 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: \$3.0 billion, \$0.8 billion and \$0.4 billion). Collateral coverage for gross financing as of 31 December 2020 was 80%, 40% and 48% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2019: 81%, 42% and 53%).

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29. OVERSEAS TAXATION

	Relating to owners	
	31 December 2020	31 December 2019
Current taxes	24,908	34,347
Deferred taxes	1,930	(4,695)
	26,838	29,652

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2020	31 December 2019
At 1 January	10,871	24,117
Charge for the year	(24,908)	(34,347)
Payments made	15,162	29,895
Exchange differences and other movements	(1,952)	(8,794)
At 31 December	(827)	10,871

Deferred tax asset/(liability)

	31 December 2020	31 December 2019
At 1 January	4,982	5,367
Charge for the year	(1,930)	4,695
Charges due to fair value reserve	(3,729)	(2,166)
Exchange differences and other movements	(1,612)	(2,914)
At 31 December	(2,289)	4,982

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30. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

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

	31 December 2020				31 December 2019			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income	240,435	(9,782)	38,627	269,280	244,394	27,844	23,959	296,197
Total expenses	(185,251)	(25,326)	(24,654)	(235,231)	(172,291)	(25,495)	(24,291)	(222,077)
Net income/(loss) before provision and overseas taxation	55,184	(35,108)	13,973	34,049	72,103	2,349	(332)	74,120
Provision and overseas taxation	(67,155)	13,452	(1,825)	(55,528)	(34,464)	(25,689)	(1,769)	(61,922)
Net income/(loss) for the year	(11,971)	(21,656)	12,148	(21,479)	37,639	(23,340)	(2,101)	12,198
Attributable to:								
Equity holders of Ithmaar	(25,159)	(22,388)	5,828	(41,719)	24,062	(21,028)	(2,365)	669
Minority interests	13,188	732	6,320	20,240	13,577	(2,312)	264	11,529
	(11,971)	(21,656)	12,148	(21,479)	37,639	(23,340)	(2,101)	12,198
Total assets	6,907,505	1,126,662	349,498	8,383,665	6,594,666	1,134,809	355,764	8,085,239
Total liabilities and equity of unrestricted investment account holders	7,838,742	72,547	180,239	8,091,528	7,406,311	75,978	196,101	7,678,390

The Group constitutes of three geographical segments which are Middle East & Africa, Asia and others

	31 December 2020				31 December 2019			
	Middle East & Africa	Asia	Others	Total	Middle East & Africa	Asia	Others	Total
Operating income	65,432	202,118	1,730	269,280	97,784	190,645	7,768	296,197
Total expenses	(110,703)	(122,230)	(2,298)	(235,231)	(110,411)	(115,425)	3,759	(222,077)
Net income/(loss) before provision and overseas taxation	(45,271)	79,888	(568)	34,049	(12,627)	75,220	11,527	74,120
Provision and overseas taxation	(15,983)	(39,616)	71	(55,528)	(20,261)	(34,867)	(6,794)	(61,922)
Net income/(loss) for the year	(61,254)	40,272	(497)	(21,479)	(32,888)	40,353	4,733	12,198
Attributable to:								
Equity holders of the Ithmaar	(68,032)	26,810	(497)	(41,719)	(30,920)	26,856	4,733	669
Minority interests	6,778	13,462	-	20,240	(1,968)	13,497	-	11,529
	(61,254)	40,272	(497)	(21,479)	(32,888)	40,353	4,733	12,198
Total assets	3,503,404	4,340,175	540,086	8,383,665	3,655,750	3,971,227	458,262	8,085,239
Total liabilities and equity of unrestricted investment account holders	3,814,244	3,907,521	369,763	8,091,528	3,796,555	3,579,047	302,788	7,678,390

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31. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. Ithmaar does not collect or pay Zakah on behalf of its owners and its investment accountholders.

32. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2020	31 December 2019
Acceptances and endorsements	66,883	59,038
Guarantees and irrevocable letters of credit	589,686	438,773
Customer and other claims	224,481	234,002
	881,050	731,813

Commitments

	31 December 2020	31 December 2019
Undrawn facilities, financing lines and other commitments to finance	1,600,375	1,436,934

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33. CURRENCY RISK

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
31 December 2020							
Cash and balances with banks and central banks	158,868	306,957	106,670	48,846	1,532	27,925	650,798
Commodity and other placements with banks, financial and other institutions	39,246	31,208	187,136	8,940	-	13,570	280,100
Murabaha and other financings	72,242	1,008,222	1,004,612	256,468	-	64,211	2,405,755
Musharaka financing	-	929,496	-	-	-	-	929,496
Sukuk and investment securities	213,795	1,728,201	185,363	3,891	-	25,929	2,157,179
Investment in associates	-	-	588,090	-	-	35,071	623,161
Assets acquired for leasing	-	-	385,534	-	-	-	385,534
Insurance and related receivables	-	-	50,634	-	-	50,473	101,107
Other assets	15,007	43,452	44,485	7,972	-	40,543	151,459
Investment in real estate	-	6,143	169,246	-	-	80,915	256,304
Development Properties	-	-	272,018	-	-	-	272,018
Fixed assets	-	57,020	7,713	-	-	16,574	81,307
Intangible assets	71,737	11,781	5,929	-	-	-	89,447
Total assets	570,895	4,122,480	3,007,430	326,117	1,532	355,211	8,383,665
Customer current accounts	193,010	1,038,985	256,736	235,256	107	28,912	1,753,006
Due to banks, financial and other institutions	181,231	366,269	116,813	109,322	326,901	14,378	1,114,914
Due to investors	60,176	1,291,950	-	3,314	-	8,580	1,364,020
Other liabilities	30,330	147,794	154,168	3,463	2,480	34,550	372,785
Insurance related reserves	-	-	76,906	-	-	46,261	123,167
Total liabilities	464,747	2,844,998	604,623	351,355	329,488	132,681	4,727,892
Equity of unrestricted investment accountholders	372,750	822,334	2,162,587	-	-	5,965	3,363,636
Total liabilities and equity of unrestricted investment accountholders	837,497	3,667,332	2,767,210	351,355	329,488	138,646	8,091,528
Contingent liabilities and commitments	751,192	1,503,068	5,922	65,449	66	155,728	2,481,425
31 December 2019							
Total assets	727,160	3,791,227	3,124,352	108,393	1,542	332,565	8,085,239
Total liabilities and equity of unrestricted investment accountholders	970,963	3,273,542	2,677,890	323,079	328,954	103,962	7,678,390
Contingent liabilities and commitments	695,045	1,260,150	88,481	56,578	223	68,270	2,168,747

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34. MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	646,964	1,658	2,176	-	-	650,798
Commodity and other placements with banks, financial and other institutions	192,329	24,523	42,625	20,623	-	280,100
Murabaha and other financings	42,621	617,097	513,898	665,374	566,765	2,405,755
Musharaka financing	16,636	61,085	100,588	431,080	320,107	929,496
Sukuk and investment securities	397,253	762,094	110,643	237,113	650,076	2,157,179
Investment in associates	-	-	-	-	623,161	623,161
Assets acquired for leasing	562	8	941	6,405	377,618	385,534
Insurance and related receivables	-	-	101,107	-	-	101,107
Other assets	33,523	7,002	100,479	3,213	7,242	151,459
Investment in real estate	-	-	6,143	88,732	161,429	256,304
Development Properties	-	-	-	272,018	-	272,018
Fixed assets	-	83	7,618	53,211	20,395	81,307
Intangible assets	-	-	-	-	89,447	89,447
Total assets	1,329,888	1,473,550	986,218	1,777,769	2,816,240	8,383,665
Customer current accounts	1,753,006	-	-	-	-	1,753,006
Due to banks, financial and other institutions	474,887	162,074	419,119	30,780	28,054	1,114,914
Due to investors	943,085	187,892	228,089	4,924	30	1,364,020
Other liabilities	175,794	-	86,133	94,079	16,779	372,785
Insurance related reserves	-	-	123,167	-	-	123,167
Total liabilities	3,346,772	349,966	856,508	129,783	44,863	4,727,892
Equity of unrestricted investment accountholders	1,679,655	411,490	881,653	390,838	-	3,363,636
Total liabilities and equity of unrestricted investment accountholders	5,026,427	761,456	1,738,161	520,621	44,863	8,091,528
Net position	(3,696,539)	712,094	(751,943)	1,257,148	2,771,377	292,137
Contingent liabilities and commitments	1,422,470	453,252	251,357	323,074	31,272	2,481,425
31 December 2019						
Total assets	2,173,524	1,087,839	913,596	1,366,092	2,544,188	8,085,239
Total liabilities and equity of unrestricted investment accountholders	4,069,507	1,278,720	1,568,091	760,569	1,503	7,678,390
Net position	(1,895,983)	(190,881)	(654,495)	605,523	2,542,685	406,849
Contingent liabilities and commitments	1,195,976	380,597	272,442	296,690	23,042	2,168,747

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35. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2020	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	650,798	-	-	-	-	-	-	650,798
Commodity and other placements with banks, financial and other institutions	280,100	-	-	-	-	-	-	280,100
Murabaha and other financings	463,076	707,862	110,778	175,118	759,815	73,984	115,122	2,405,755
Musharaka financing	1,353	471,412	12,781	207,663	164,575	32,447	39,265	929,496
Sukuk and investment securities	1,420,622	264,976	363,176	87,575	-	-	20,830	2,157,179
Investment in associates	618,304	608	3,784	-	-	-	465	623,161
Assets acquired for leasing	-	4,308	3,084	203	377,939	-	-	385,534
Insurance and related receivables	-	-	-	101,107	-	-	-	101,107
Other assets	28,005	32,691	79,591	7,200	-	-	3,972	151,459
Investment in real estate	-	-	256,304	-	-	-	-	256,304
Development Properties	-	-	272,018	-	-	-	-	272,018
Fixed assets	19,713	-	40,634	-	-	-	20,960	81,307
Intangible assets	77,067	-	-	-	-	-	12,380	89,447
Total assets	3,559,038	1,481,857	1,142,150	578,866	1,302,329	106,431	212,994	8,383,665
Customer current accounts	6,461	577,683	105,413	223,510	418,548	14,968	406,423	1,753,006
Due to banks, financial and other institutions	915,900	-	9,155	135,760	-	-	54,099	1,114,914
Due to investors	72,129	419,390	46,821	235,647	301,381	42,754	245,898	1,364,020
Other liabilities	-	50,300	41,750	116,641	9,172	80,767	74,155	372,785
Insurance related reserves	-	-	-	-	-	-	123,167	123,167
Total liabilities	994,490	1,047,373	203,139	711,558	729,101	138,489	903,742	4,727,892
Equity of unrestricted investment accountholders	50,050	964,018	130,991	453,303	1,636,350	15,677	113,247	3,363,636
Total liabilities and equity of unrestricted investment accountholders	1,044,540	2,011,391	334,130	1,164,861	2,365,451	154,166	1,016,989	8,091,528
Contingent liabilities and commitments	535,504	1,160,448	54,940	52,730	15,076	169,233	493,494	2,481,425
31 December 2019								
Total assets	3,239,755	1,202,404	681,375	1,241,461	1,356,041	72,844	291,359	8,085,239
Total liabilities and equity of unrestricted investment accountholders	1,429,889	1,585,256	325,241	1,101,382	2,180,990	21,006	1,034,626	7,678,390
Contingent liabilities and commitments	632,271	871,609	37,865	157,487	19,444	117,267	332,804	2,168,747

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35. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (Continued)

31 December 2020	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	386,373	128,190	54,921	81,314	-	650,798
Commodity and other placements with banks, financial and other institutions	31,208	244,462	4,430	-	-	280,100
Murabaha and other financings	1,104,969	1,035,784	83,534	181,121	347	2,405,755
Musharaka financing	929,496	-	-	-	-	929,496
Sukuk and investment securities	1,733,484	414,415	6,844	2,436	-	2,157,179
Investment in associates	35,191	587,970	-	-	-	623,161
Assets acquired for leasing	-	385,534	-	-	-	385,534
Insurance and related receivables	-	101,107	-	-	-	101,107
Other assets	43,491	66,459	41,509	-	-	151,459
Investment in real estate	7,162	166,976	82,166	-	-	256,304
Development Properties	-	272,018	-	-	-	272,018
Fixed assets	57,020	22,823	1,464	-	-	81,307
Intangible assets	11,781	77,666	-	-	-	89,447
Total assets	4,340,175	3,503,404	274,868	264,871	347	8,383,665
Customer current accounts	1,169,153	354,440	221,350	8,063	-	1,753,006
Due to banks, financial and other institutions	366,269	686,807	61,395	-	443	1,114,914
Due to investors	1,364,020	-	-	-	-	1,364,020
Other liabilities	147,794	146,479	78,512	-	-	372,785
Insurance related reserves	-	123,167	-	-	-	123,167
Total liabilities	3,047,236	1,310,893	361,257	8,063	443	4,727,892
Equity of unrestricted investment accountholders	860,285	2,503,351	-	-	-	3,363,636
Total liabilities and equity of unrestricted investment accountholders	3,907,521	3,814,244	361,257	8,063	443	8,091,528
Contingent liabilities and commitments	2,379,062	102,363	-	-	-	2,481,425
31 December 2019						
Total assets	3,971,227	3,655,750	267,904	190,358	-	8,085,239
Total liabilities and equity of unrestricted investment accountholders	3,579,047	3,796,555	294,563	7,009	1,216	7,678,390
Contingent liabilities and commitments	2,067,064	88,481	13,202	-	-	2,168,747

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36. RISK MANAGEMENT

Risk Management in the Group

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks and financial institutions. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Risk Management Department which sets parameters and thresholds for the Group's financing and off-balance sheet financial instruments.

Considering this evolving situation of COVID-19, 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 2).

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

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. RISK MANAGEMENT (Continued)

Credit Risk (continued)

Modification loss net of Government assistance

During the current period, based on a regulatory directive issued by the CBB (refer note (BOP)) as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to \$54.8 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 \$1.5 billion as part of its support to impacted customers.

Further, as per the regulatory directive, financial assistance amounting to \$3.4 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.

Credit Risk Mitigation

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

Group's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Group prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

Collateral Valuation

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

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in thousands of united states dollars unless otherwise stated)

36. RISK MANAGEMENT (Continued)

Liquidity risk

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

Liquidity risk arises either:

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

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Ithmaar regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

Market risk

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

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

Shari'a compliant risk management hedging instruments

Types of instruments:

	2020		2019	
Profit rate swaps - Liability	174,000	7,324	174,000	3,855
	174,000	7,324	174,000	3,855

Profit rate swaps:

	2020		2019	
	Less than one year	More than one year	Less than one year	More than one year
Net exposure	3,613	3,711	1,711	2,144
Average fixed profit rate	3.03%	3.03%	3.03%	3.03%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. RISK MANAGEMENT (Continued)

Operational Risk

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

Through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the operational risks to an acceptable level.

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.

Reputational Risk

The Reputational Risk Management is defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Group has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems

Notes to the Consolidated Financial Statements

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(Expressed in thousands of united states dollars unless otherwise stated)

36. RISK MANAGEMENT (Continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2020	Up to one month	One- three months	Three- twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	650,798	650,798
Commodity and other placements with banks, financial and other institutions	137,381	105,398	18,955	13,936	4,430	-	280,100
Murabaha and other financings	302,568	250,747	844,339	722,856	285,245	-	2,405,755
Musharaka financing	16,636	61,085	100,588	541,553	209,634	-	929,496
Sukuk and investment securities	460,836	762,093	99,001	643,817	132,288	59,144	2,157,179
Assets acquired for leasing	-	-	1,284	6,404	377,846	-	385,534
Insurance and related receivables	-	-	-	-	-	101,107	101,107
Other assets	-	-	-	-	-	151,459	151,459
Total financial assets	917,421	1,179,323	1,064,167	1,928,566	1,009,443	962,508	7,061,428
Customer current accounts	-	-	-	-	-	1,753,006	1,753,006
Due to banks, financial and other institutions	507,007	157,894	391,177	58,836	-	-	1,114,914
Due to investors	943,085	187,892	228,089	4,954	-	-	1,364,020
Other liabilities	-	-	-	-	-	372,785	372,785
Total financial liabilities	1,450,092	345,786	619,266	63,790	-	2,125,791	4,604,725
Equity of unrestricted investment accountholders	1,560,095	455,229	1,031,001	317,311	-	-	3,363,636
Total financial liabilities and equity of unrestricted investment accountholders	3,010,187	801,015	1,650,267	381,101	-	2,125,791	7,968,361
Total repricing gap	(2,092,766)	378,308	(586,100)	1,547,465	1,009,443	(1,163,283)	(906,933)
31 December 2019							
Total financial assets	1,421,199	414,618	1,065,587	1,285,660	1,466,380	1,079,872	6,733,316
Total financial liabilities and equity of unrestricted investment accountholders	3,057,479	799,994	1,331,482	382,708	13,126	1,963,833	7,548,622
Total repricing gap	(1,636,280)	(385,376)	(265,895)	902,952	1,453,254	(883,961)	(815,306)

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(Expressed in thousands of united states dollars unless otherwise stated)

37. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

- (a) Directors and companies in which they have an ownership interest.
- (b) Major shareholders of Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- (c) Associated companies of Ithmaar.
- (d) Senior management.

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

	31 December 2020				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	417,883	-	-	2,153	420,036
Investment in associates	-	623,161	-	-	623,161
Other assets	-	-	-	557	557
Liabilities					
Customers' current accounts	7,558	538	-	2,460	10,556
Due to banks, financial and other institutions	29,282	10,002	-	-	39,284
Equity of unrestricted investment accounts	18,294	-	-	6,379	24,673
Other liabilities	129	-	-	-	129
Equity					
Fair value reserves	-	(42,521)	-	-	(42,521)
Income					
Return to unrestricted investment accounts	-	-	-	(191)	(191)
Income from murabaha and other financings	3,781	-	-	-	3,781
Share of profit after tax from associates	-	30,978	-	-	30,978
Profit paid to banks, financial and other institutions	-	(1,844)	-	-	(1,844)
Reversal of provision for impairment on associate	-	27,350	-	-	27,350
Expenses					
Administrative and general expenses	(800)	-	(50)	-	(850)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in thousands of united states dollars unless otherwise stated)

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	31 December 2019				Total
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	
Assets					
Murabaha and other financings	417,798	-	12,809	2,095	432,702
Investment in associates	-	633,292	-	-	633,292
Other assets	-	-	-	515	515
Liabilities					
Customers' current accounts	6,297	10,622	-	824	17,743
Due to banks, financial and other institutions	53,482	72,133	-	-	125,615
Equity of unrestricted investment accounts	24,020	-	-	4,148	28,168
Other liabilities	160	-	-	-	160
Equity					
Fair value reserves	-	(37,893)	-	-	(37,893)
Income					
Return to unrestricted investment accounts	-	-	-	(124)	(124)
Income from murabaha and other financings	3,910	-	-	-	3,910
Share of profit after tax from associates	-	40,415	-	-	40,415
Other income	7,334	-	-	-	7,334
Profit paid to banks, financial and other institutions	(2,103)	(3,458)	-	-	(5,561)
Expenses					
Administrative and general expenses	(800)	-	(50)	-	(850)

Certain collaterals amounting to \$346 million (31 December 2019: \$320.9 million) with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

Certain assets amounting to \$5.1 million (31 December 2019: \$5.7 million) are legally held by related parties for the beneficial interest of the Group.

With respect to financing facility of \$12.8 million relating to a member of the board of directors, no profit is accrued since profit is linked to exit of a specific investment (held as collateral).

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For the year ended 31 December 2020

(Expressed in thousands of united states dollars unless otherwise stated)

38. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and;
- To maintain a strong capital base to support the development of its business.

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license. The subsidiaries comply with the directives of the respective local regulators for their capital management.

39. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2020 (31 December 2019: Nil).

40. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2020	31 December 2019
INCOME		
Income from other financings	112,758	179,937
Share of profit after tax from associates - note (i)	27,196	49,547
Income from investments	141,313	112,036
Other income	16,882	22,409
Gross income	298,149	363,929
Less: profit paid to banks, financial and other institutions - note (ii)	(137,345)	(162,758)
Total income	160,804	201,171
EXPENSES		
Administrative and general expenses - note (ii)	(74,549)	(79,035)
Depreciation and amortisation	(17,792)	(18,038)
Total expenses	(92,341)	(97,073)
Net income before provision for impairment and overseas taxation	68,463	104,098
Provision for impairment (net)	12,597	(12,115)
Net income before overseas taxation	81,060	91,983
Overseas taxation	(15,090)	(27,001)
NET INCOME FOR THE YEAR	65,970	64,982
Attributable to:		
Equity holders of the Bank	59,606	56,599
Minority interests	6,364	8,383
	65,970	64,982
Basic and diluted earnings per share	US Cts 2.05	US Cts 1.94

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. NON-SHARIA COMPLIANT INCOME AND EXPENSES (Continued)

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 500 (2019: 414 branches) out of total 576 branches (2019: 555 branches).

41. SOCIAL RESPONSIBILITY

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

42. SUBSEQUENT EVENT

There have been no events subsequent to 31 December 2020 that would significantly impact the amounts reported in the consolidated financial statements as at 31 December 2020.

Share Information

Shareholding Structure

	31-Dec-20			31-Dec-19		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-10,000	238	1,066,909	0.04	235	1,074,615	0.04
10,001 - 100,000	2,415	66,524,838	2.19	2,335	60,739,735	2
100,001 - 1,000,000	882	310,066,687	10.23	798	268,215,921	8.85
1,000,001 - 10,000,000	217	603,732,443	19.92	189	548,015,362	18.08
over 10,000,000	26	2,049,364,150	67.62	28	2,152,709,394	71.03
Total	3,778	3,030,755,027	100.00	3,585	3,030,755,027	100.00

Shareholding by Nationality

Country	31-Dec-20			31-Dec-19		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Bahamas	2	959,467,864	31.66	2	959,467,864	31.66
Bahrain	819	330,008,545	10.89	781	331,542,494	10.94
KSA	834	711,953,356	23.49	832	719,901,878	23.75
Kuwait	706	351,729,638	11.61	712	388,571,380	12.82
Other GCC Countries	456	284,473,376	9.39	492	372,399,054	12.29
Other Countries	961	393,122,248	12.96	766	258,872,357	8.54
Total	3,778	3,030,755,027	100.00	3,585	3,030,755,027	100.00

Shareholding by Percentage

Percentage	31-Dec-20			31-Dec-19		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Less than 1%	3,768	1,222,470,648	40.34	3,575	1,176,925,741	38.84
1% to 5%	8	423,739,155	13.98	8	469,284,062	15.48
More than 10%	2	1,384,545,224	45.68	2	1,384,545,224	45.68
Total	3,778	3,030,755,027	100.00	3,585	3,030,755,027	100.00

Major Shareholders

Shareholder	No. of Shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08
Islamic Inv. Co. of the Gulf	594,129,224	19.60
Others	1,646,209,803	54.32
Total	3,030,755,027	100.00

The executive management do not hold shares of Ithmaar Holding.

Bahrain Bourse

ITHMR's Trading Activity – Bahrain



Performance in the Bahrain Bourse

Stock Code: ITHMR	Change in 2020			
Share Price Relative to Indices 2020	Open	Close	Points	%
ITHMR's Share Price (US \$)	0.05	0.07	0.020	40.00
Bahrain All Share Index	1,610.18	1,489.78	-120.400	-7.48
Commercial Banks Sector's Index	3,947.61	3,363.00	-584.610	-14.81
Bahrain Islamic Index	760.04	650.19	-109.850	-14.45

ITHMR'S Share Trading (Bahrain)

	2020	2019
Volume, No. of Shares	44,755,466	28,181,109
Value, US\$	1,268,941	1,846,504

Share Information Continued

Dubai Financial Market (DFM)

ITHMR's Trading Activity – United Arab Emirates



Stock Code: ITHMR	Change in 2020			
Share Price Relative to Indices 2020	Open	Close	Points	%
ITHMR's Share Price (AED)	0.166	0.253	0.087	52.41
DFM General Index	2,764.86	2,491.97	-272.89	-9.87
Banking Sector Index	2,765.53	2,283.06	-482.47	-17.45

ITHMR'S Share Trading (United Arab Emirates)

	2020	2019
Volume, No. of Shares	2,175,320,172	747,407,740
Value, AED	561,250,199	192,255,403.16

Corporate Information

Name of Company	Ithmaar Holding B.S.C.
Legal Form	Ithmaar Holding B.S.C. is a Bahrain-based financial institution that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain. Ithmaar Holding B.S.C. is incorporated as a Bahrain Shareholding Company under Bahrain Commercial Law (Law No. 21 of 2001).
Company Registration Number	CR 15210
Stock Exchange Listings	Bahrain Bourse and Dubai Financial Market
Stock Code	"ITHMR"
Share Registrar	Bahrain Clear
Head Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 1758 4000
Facsimile	+973 1758 4017
E-mail	info@ithmaarholding.com
Website	www.ithmaarholding.com
Accounting Year End	31 December
Compliance Officer	Balu Tiruvilandur Ramamurthy – Head, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Board Secretary
Auditors	PriceWaterHouseCoppers ME Limited, P.O. Box 60771, Manama, Kingdom of Bahrain