

ITHMAAR HOLDING B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021

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Review report on the interim condensed consolidated financial information to the Board of Directors of Ithmaar Holding B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Ithmaar Holding B.S.C. ("Ithmaar") and its subsidiaries (the "Group") as at 30 September 2021 and the related interim condensed consolidated income statement for the three and nine month periods then ended, and the related interim condensed consolidated statements of changes in owners' equity, cash flows and changes in restricted investment accounts for the nine month period then ended and explanatory notes (on pages 4 to 31). The directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation stated in note 2 to this interim condensed consolidated financial information. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information (on pages 4 to 31) is not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 to this interim condensed consolidated financial information.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in blue ink.


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

Ithmaar Holding B.S.C.**Interim condensed consolidated statement of financial position**


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

	Note	At 30 September 2021 (Reviewed)	At 31 December 2020 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	621,985	650,798
Commodity and other placements with banks, financial and other institutions	4	370,560	280,100
Murabaha and other financings	5	2,152,895	2,405,755
Musharaka financing	6	1,328,450	929,496
Sukuk and investment securities	7	2,408,050	2,157,179
Investment in associates	8	635,282	623,161
Assets acquired for leasing		397,831	385,534
Insurance and related receivables		111,863	101,107
Other assets	9	214,724	151,459
Investment in real estate		240,379	256,304
Development properties		232,509	272,018
Fixed assets		166,747	81,307
Intangible assets		80,525	89,447
Total assets		8,961,800	8,383,665
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACQUANTHOLDERS, NON-CONTROLLING INTEREST AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		1,875,471	1,753,006
Due to banks, financial and other institutions		1,345,133	1,114,914
Due to investors		1,279,779	1,364,020
Other liabilities		465,294	372,785
Insurance related reserves		128,584	123,167
Total liabilities		5,094,261	4,727,892
Equity of unrestricted investment acountholders	11	3,578,298	3,363,636
Non-controlling interests		277,218	277,375
Total liabilities, equity of unrestricted investment acountholders and non-controlling interest		8,949,777	8,368,903
Share capital	12	757,690	757,690
Treasury shares	12	(30,149)	(30,149)
Reserves		116,022	121,018
Accumulated losses		(831,540)	(833,797)
Total owners' equity		12,023	14,762
Total liabilities, equity of unrestricted investment acountholders, non-controlling interest and owners' equity		8,961,800	8,383,665


This interim condensed consolidated financial information was approved by the Board of Directors on 11 November 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 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.


Ithmaar Holding B.S.C.


Interim condensed consolidated income statement


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

	Note	Nine months ended		Three months ended	
		30 September 2021 (Reviewed)	30 September 2020 (Reviewed)	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)
INCOME					
Income from assets financed by unrestricted investment accounts		213,662	180,665	75,737	62,265
Less: return to unrestricted investment accountholders and impairment provisions		(119,579)	(107,306)	(41,061)	(39,075)
Group's share of income from assets financed by unrestricted investment accounts as a Mudarib		94,083	73,359	34,676	23,190
Income from murabaha and other financings		50,574	97,291	12,873	23,174
Share of results after tax from associates		26,040	20,594	9,011	5,546
Income from investments		87,564	117,291	28,801	37,649
Other income	13	75,176	61,785	24,465	7,331
Total income		333,437	370,320	109,826	96,890
Less: profit paid to banks, financial and other institutions – net		(116,788)	(155,383)	(37,592)	(42,421)
Operating income		216,649	214,937	72,234	54,469
EXPENSES					
Administrative and general expenses		(153,134)	(141,124)	(49,149)	(47,632)
Depreciation and amortization		(27,103)	(24,535)	(9,419)	(8,272)
Total expenses		(180,237)	(165,659)	(58,568)	(55,904)
Net income/(loss) before provision for impairment and overseas taxation		36,412	49,278	13,666	(1,435)
Reversal of/(provision for) impairment - net	10	5,458	(18,700)	(2,460)	9,351
Net income before overseas taxation		41,870	30,578	11,206	7,916
Overseas taxation		(26,133)	(21,799)	(8,430)	(6,540)
NET INCOME FOR THE PERIOD		15,737	8,779	2,776	1,376
Attributable to:					
Equity holders of Ithmaar		1,476	(3,288)	(2,530)	(1,999)
Non-controlling interests		14,261	12,067	5,306	3,375
		15,737	8,779	2,776	1,376
Basic and diluted earnings/(losses) per share	14	US Cts 0.05	US Cts (0.11)	US Cts (0.09)	US Cts (0.07)

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


 HRH Prince Amr Mohamed Al Faisal
 Chairman


 Elham Hasan


 Ahmed Abdul Rahim

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

Interim condensed consolidated statement of changes in owners' equity for the nine month period ended 30 September 2021

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

	Reserves											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	Accumulated losses	
At 1 January 2021 (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
Net income for the period	-	-	-	-	-	-	-	-	-	-	1,476	1,476
Increase in shareholding of a subsidiary (note 1)	-	-	-	-	-	-	-	-	-	-	781	781
Movement in fair value of sukuk and investment securities (note 7)	-	-	-	-	-	4,706	-	-	-	4,706	-	4,706
Movement in hedging reserve	-	-	-	-	-	-	3,560	-	-	3,560	-	3,560
Movement in fair value reserve of associates	-	-	-	-	-	4,496	-	-	-	4,496	-	4,496
Foreign currency translation adjustments	-	-	-	-	-	(334)	-	(106)	(17,318)	(17,758)	-	(17,758)
At 30 September 2021 (Reviewed)	757,690	(30,149)	149,085	38,485	50,727	4,652	(3,764)	4,385	(127,548)	116,022	(831,540)	12,023

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

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

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

	Reserves										
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2020 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(18,485)	4,178	(109,692)	114,298	(746,293)	95,546
Adjustments resulting from adoption of FAS 33	-	-	-	-	-	10,660	-	-	10,660	-	10,660
At 1 January 2020 (Audited)	757,690	(30,149)	149,085	38,485	50,727	(7,825)	4,178	(109,692)	124,958	(746,293)	106,206
Net loss for the period	-	-	-	-	-	-	-	-	-	(3,288)	(3,288)
Modification loss (note 2)	-	-	-	-	-	-	-	-	-	(51,443)	(51,443)
Increase in shareholding of a subsidiary (note 1)	-	-	-	-	-	-	-	-	-	3,411	3,411
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(8,234)	-	-	(8,234)	-	(8,234)
Movement in fair value reserve of associates	-	-	-	-	-	(24,548)	-	-	(24,548)	-	(24,548)
Foreign currency translation adjustments	-	-	-	-	-	(315)	(1,959)	(9,758)	(12,032)	-	(12,032)
At 30 September 2020 (Reviewed)	757,690	(30,149)	149,085	38,485	50,727	(40,922)	2,219	(119,450)	80,144	(797,613)	10,072

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

Interim condensed consolidated statement of cash flows

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

		Nine months ended	
	Notes	30 September 2021	30 September 2020
		(Reviewed)	(Reviewed)
OPERATING ACTIVITIES			
Net income before overseas taxation		41,870	30,578
<u>Adjustments for:</u>			
Depreciation and amortization		27,103	24,535
Share of results after tax from associates		(26,040)	(20,594)
(Reversal of)/provision for impairment - net	10	(5,458)	18,700
Income from investments		(87,564)	(117,291)
Finance cost on net ijarah liability		5,751	-
(Gain)/Loss on sale of fixed assets		(1,532)	100
Operating loss before changes in operating assets and liabilities		(45,870)	(63,972)
Changes in operating assets and liabilities:			
Balances with banks maturing after ninety days including central banks balances relating to minimum reserve requirement			
		15,199	406,286
Murabaha and other financings		198,099	(296,178)
Musharaka financing		(488,866)	(131,132)
Other assets		(31,181)	26,037
Customers' current accounts		213,146	204,502
Due to banks, financial and other institutions		271,827	1,458
Due to investors		547	(32,599)
Other liabilities		37,531	9,187
Increase in equity of unrestricted investment accountholders		279,458	379,072
Taxes paid		(32,661)	(12,445)
Net cash generated from operating activities		417,229	490,216
INVESTING ACTIVITIES			
Net changes in:			
Investment in associates		(205)	-
Investment in real estate		2,130	-
Assets acquired for leasing		(12,297)	17,687
Sukuk and investment securities		(304,839)	(512,175)
Fixed assets		(12,303)	(9,931)
Dividend received from associates		22,777	26,892
Net cash used in investing activities		(304,737)	(477,527)
FINANCING ACTIVITY			
Repayment of net lajarah liability		(11,000)	-
Net cash used in financing activity		(11,000)	-
Foreign currency translation adjustments		(29,348)	(23,034)
Net increase/(decrease) in cash and cash equivalents		72,144	(10,345)
Cash and cash equivalents at the beginning of the period		754,107	850,497
Cash and cash equivalents at the end of the period	4	826,251	840,152

Non-cash items:

1. Additions to the fixed assets in relation to the recognition of right of use of assets amounted to \$91.5 million (note 2).
2. Recognition of lease liabilities amounted to \$85.9 million recorded in other liabilities (note 2).
3. Classification of investment securities to investment in associates amounted to \$5.9 million.

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

**Interim condensed consolidated statement of changes in restricted investment accounts
for the nine month period ended 30 September 2021**

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

	At 1 January 2021	Foreign exchange movements	At 30 September 2021
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	12,748	1,902	14,650
US Real Estate Placements*	25,236	-	25,236
TOTAL (Reviewed)	44,234	1,902	46,136

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

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

**Interim condensed consolidated statement of changes in restricted investment accounts
for the nine month period ended 30 September 2020**

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

	At 1 January 2020	Foreign exchange movements	At 30 September 2020
Shamil Bosphorus Modaraba*	6,250	-	6,250
European Real Estate Placements*	14,146	1,898	16,044
US Real Estate Placements*	25,236	-	25,236
TOTAL (Not reviewed)	45,632	1,898	47,530

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

The notes 1 to 18 on pages 11 to 31 form an integral part of the interim condensed consolidated financial information.

Ithmaar Holding B.S.C.

Notes to interim condensed consolidated financial information for the nine month period ended 30 September 2021

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").

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

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.

The principal activities of Ithmaar and its subsidiaries (collectively the "Group") include 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 Shari'a Supervisory Board.

August 2019, the shareholders approved to voluntarily delist from Bursa 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 interim condensed consolidated financial information as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholders authorise the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through its head office and its following principal subsidiaries:

	% owned		Country of Incorporation	Principal business activity
	30 September 2021	31 December 2020		
<u>Direct subsidiaries</u>				
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
<u>Principal indirect subsidiaries</u>				
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 W.L.L.	50	50	Kingdom of Bahrain	Real estate
Dilmunia Development Fund I L.P.	91	90	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate

During the period, the Group acquired additional 200 units of Dilmunia Development Fund I L.P. as part of settlement of certain financings. The acquisition resulted in increase of shareholding from 90% to 91% without change in control.

Ithmaar Holding B.S.C.

**Notes to interim condensed consolidated financial information
for the nine month period ended 30 September 2021**

1 INCORPORATION AND ACTIVITIES (continued)

- 1.1 As of 30 September 2021, the total consolidated equity of the Group stood at \$12.0 million as compared to \$14.8 million as at 31 December 2020. The current equity is still above the minimum threshold required for 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 (refer note 1.2).

The Group 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 (EGM) of the Shareholders in order to decide whether to continue with the operations of Ithmaar, reduce the capital or take other suitable measures, which is a non-compliance with Article 64(7) of its articles of association. The Group has agreed with the CBB and Bahrain Bourse to hold the EGM, as required, by publication date of the results of the quarter ending 31 March 2022.

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

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

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

- 1.2 On 3 October 2021, Ithmaar Holding signed a non legally binding Memorandum of Understanding (MoU) with Al Salam Bank B.S.C. (Al Salam) for the potential acquisition by Al Salam of a group of assets from Ithmaar Holding's group of companies. The potential acquisition will be subject to the completion of successful on going due diligence, the agreement of terms between both parties, and the receipt of all necessary regulatory and corporate consents.
- 1.3 Prior to the above, Ithmaar Holding signed a non legally binding Memorandum of Understanding (MoU) with the Bank of Bahrain and Kuwait B.S.C. (BBK) on 14 September 2020, for BBK to consider the acquisition of certain assets forming part of the Bahrain operations of Ithmaar Bank B.S.C (c) and other specific assets of a related party. Following the initial due diligence, with the assistance of appointed financial and legal advisors, both parties announced on 5 July 2021 that they could not agree on amicable terms and conditions that would maximize their shareholders' interests. Accordingly, both parties have agreed to abandon all efforts in this connection.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with FAS as modified by the CBB. Except for the application of the new standards, all other accounting policies remain the same and have been consistently applied in this interim condensed consolidated financial information. The retrospective application of the change in accounting policies did not result in any change to the interim condensed consolidated financial information reported for the comparative period.

The interim condensed consolidated financial information of the Group does not contain all information and disclosures required for the annual audited consolidated financial statements and should be read in conjunction with the Group’s annual audited consolidated financial statements for the year ended 31 December 2020. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar 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 interim condensed consolidated financial information for the nine month period ended 30 September 2021 as appropriate.

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

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

Ithmaar Holding B.S.C.
Notes to interim condensed consolidated financial information
for the nine month period ended 30 September 2021

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

1. FAS 32 Ijarah

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

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

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

a) Change in accounting policy

Identifying an Ijarah

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

Measurement

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

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

i) Right-of-use (usufruct) asset

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

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

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

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

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

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

1. FAS 32 Ijarah (continued)

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

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

ii) Net ijarah liability

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

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

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

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

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

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

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

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

Ijarah contract modifications

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

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

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

Ithmaar Holding B.S.C.
Notes to interim condensed consolidated financial information
for the nine month period ended 30 September 2021

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

1. FAS 32 Ijarah (continued)

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

Expenses relating to underlying asset

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

Recognition exemptions and simplified accounting for the lessee

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

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

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

b) Impact of on adoption of FAS 32

The management of the Group has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by \$91.5 million. The lease contracts comprise of Head office, ATM sites and branches.

	Total assets	Total liabilities
As at 31 December 2020	8,383,665	4,727,892
Impact on adoption:		
Right-of-use assets	91,539	-
Net Ijarah liability	-	85,901
Opening balance under FAS 32 on date of initial application - 1 January 2021	8,475,204	4,813,793
	Right-of-use assets	Net Ijarah liability
As at 1 January 2021	91,539	85,901
Depreciation during the period	(11,388)	
Finance cost	-	5,751
Net Ijarah rentals	-	(11,000)
Exchange differences and other movements	4,170	3,922
As at 30 September 2021	84,321	84,574

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

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

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

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

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

- a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

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

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

2.1 COVID-19 IMPACT

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

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

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

2.2 FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays with additional profit 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.

2.2 FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

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

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL).

Liquidity risk and capital management

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

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

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

Operational risk management

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

2.3 JUDGMENTS AND ESTIMATES

Preparation of the interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2020.

2.3 JUDGMENT AND ESTIMATES (continued)

Expected credit Losses

Due to the economic uncertainties caused by COVID-19, the Group has updated its inputs and assumptions used for the determination of ECL as at 30 September 2021. ECL were estimated based on a range of forecast economic conditions as at that date and considering the uncertainty of the situation, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

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

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

Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

The Group continues to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During the period, in accordance with CBB instructions the Group has granted payment holidays to its eligible customers by deferring instalments up to six months, this is fourth in the series of payment holidays granted since March 2020. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. Sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Reasonableness of Forward Looking Information

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

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio, applying expert judgement in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis, unless there is significant change in credit risk.

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

Probability weights

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

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

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**Notes to interim condensed consolidated financial information
for the nine month period ended 30 September 2021**

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

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	98,572	13,323	111,895	101,500	9,867	111,367
Cash and balances with banks and central banks	379,302	130,788	510,090	404,038	135,393	539,431
	477,874	144,111	621,985	505,538	145,260	650,798

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

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements	346,474	24,217	370,691	268,001	12,581	280,582
Less: expected credit loss	(131)	-	(131)	(482)	-	(482)
	346,343	24,217	370,560	267,519	12,581	280,100

Cash and cash equivalents for the purpose of interim condensed consolidated statement of cash flows are as follows:

	30 September 2021			30 September 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	477,874	144,111	621,985	472,752	124,175	596,927
Commodity and other placements with banks, financial and other institutions - net	346,343	24,217	370,560	407,579	11,854	419,433
Less: Placements with original maturities more than ninety days	(54,399)	-	(54,399)	(48,688)	(11,854)	(60,542)
Less: Balances with central banks relating to minimum reserve requirement	(98,572)	(13,323)	(111,895)	(111,757)	(3,909)	(115,666)
	671,246	155,005	826,251	719,886	120,266	840,152

Ithmaar Holding B.S.C.

Notes to interim condensed consolidated financial information

for the nine month period ended 30 September 2021

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

5 MURABAHA AND OTHER FINANCINGS

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	885,070	1,618,446	2,503,516	1,359,218	1,408,082	2,767,300
Less: expected credit loss	(286,463)	(64,158)	(350,621)	(314,205)	(47,340)	(361,545)
	598,607	1,554,288	2,152,895	1,045,013	1,360,742	2,405,755

The movement in expected credit loss is as follows:

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	314,205	47,340	361,545	312,556	26,624	339,180
Charge for the period/year	15,196	17,597	32,793	41,148	20,668	61,816
Write back during the period/year	(24,158)	(128)	(24,286)	(9,202)	(58)	(9,260)
Write off during the period/year	(11,609)	-	(11,609)	(30,820)	-	(30,820)
Reclassification	(325)	-	(325)	5,821	210	6,031
Exchange differences and other movements	(6,846)	(651)	(7,497)	(5,298)	(104)	(5,402)
	286,463	64,158	350,621	314,205	47,340	361,545

6 MUSHARAKA FINANCING

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Musharaka financing	154	1,342,828	1,342,982	268	939,836	940,104
Less: expected credit loss	-	(14,532)	(14,532)	-	(10,608)	(10,608)
	154	1,328,296	1,328,450	268	929,228	929,496

Ithmaar Holding B.S.C.

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

7 SUKUK AND INVESTMENT SECURITIES

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Debt-type instruments – unlisted	109,104	-	109,104	40,959	-	40,959
Equity-type securities – listed	4,677	-	4,677	3,848	-	3,848
	113,781	-	113,781	44,807	-	44,807
Investment securities at fair value through equity						
Debt-type instruments – listed	189,752	92,388	282,140	204,334	101,598	305,932
Debt-type instruments – unlisted	1,254,672	241,216	1,495,888	1,009,478	250,778	1,260,256
Equity-type securities – listed	87,281	585	87,866	85,623	-	85,623
Equity-type securities – unlisted	279,601	-	279,601	279,377	-	279,377
	1,811,306	334,189	2,145,495	1,578,812	352,376	1,931,188
Less: expected credit loss	(206,567)	-	(206,567)	(209,464)	-	(209,464)
	1,604,739	334,189	1,938,928	1,369,348	352,376	1,721,724
Investment securities carried at amortised cost						
Debt-type instruments – listed	46,405	241,276	287,681	52,185	270,930	323,115
Debt-type instruments – unlisted	11,022	65,609	76,631	12,000	65,110	77,110
	57,427	306,885	364,312	64,185	336,040	400,225
Less: expected credit loss	(8,971)	-	(8,971)	(9,577)	-	(9,577)
	48,456	306,885	355,341	54,608	336,040	390,648
	1,766,976	641,074	2,408,050	1,468,763	688,416	2,157,179

During May 2006, Mastercard International awarded Shamil bank 15,310 class B common stock.

The shares received at the time by erstwhile Shamil Bank was inadvertently not recorded in the books nor the dividend relating to these shares were ever collected. No amount was paid for these at the initiation time as these shares were issued free of cost. Management was in the process of establishing the ownership of these shares, transferring the ownership to Ithmaar Bank as currently the shares are under the name of Shamil Bank, which is now Ithmaar Bank and arranging to collect the pending dividends. The process is now in its final stages.

The investment in these share is classified and recorded as "Investment securities at fair value through equity" in accordance with FAS 33. Since no cost was incurred at the time these shares were received, the fair value of these shares at that time amounted to \$0.6 million is recorded as a gain in the interim condensed consolidated income statement. Subsequent fair value gain is recorded under fair value reserve in the interim condensed consolidated equity.

The Board of Directors believes that the impact of these adjustments is not material with relevance to the interim condensed consolidated financial information as a whole and the users of this interim condensed consolidated financial information. Hence the adjustments are reflected in the current period.

Ithmaar Holding B.S.C.**Notes to interim condensed consolidated financial information****for the nine month period ended 30 September 2021**

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7 SUKUK AND INVESTMENT SECURITIES (continued)

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 30 September 2021				
Investment securities at fair value through income statement				
Debt-type instruments	-	109,104	-	109,104
Equity-type securities	4,677	-	-	4,677
Investment securities at fair value through equity				
Debt-type instruments – listed	282,125	-	-	282,125
Debt-type instruments – unlisted	-	1,494,058	-	1,494,058
Equity-type securities	79,341	9,849	73,555	162,745
	366,143	1,613,011	73,555	2,052,709
At 31 December 2020				
Investment securities at fair value through income statement				
Debt-type instruments	-	40,959	-	40,959
Equity-type 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

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	30 September 2021	31 December 2020
Opening balance	72,248	79,290
Total losses recognised in		
- Income statement	(2,531)	(18,201)
- Equity	106	2,928
Purchases	4,139	-
Other movement	(407)	8,231
Closing balance	73,555	72,248

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8 INVESTMENT IN ASSOCIATES

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

Name of entity			% of Shareholding		Country	Activity
	30 September 2021	31 December 2020	30 September 2021	31 December 2020		
Unlisted:						
Citic International Assets Management Limited	28,324	33,070	20	20	Hong Kong	Asset management
Naseej B.S.C. (c)	72,614	73,027	31	31	Bahrain	Infrastructure
Health 360 Ancillary Services W.L.L.	453	487	20	20	Bahrain	Third party administra
Faysal Saving Growth Fund*	3,976	-	25	-	Pakistan	Mutual funds
Faysal Income & Growth Fund*	4,133	-	70	-	Pakistan	Mutual funds
Faysal Cash Fund*	451	-	30	-	Pakistan	Mutual funds
Faysal Asset Allocation Fund*	435	-	21	-	Pakistan	Mutual funds
Listed:						
Bank of Bahrain and Kuwait B.S.C.	524,896	516,577	26	26	Bahrain	Banking
	635,282	623,161				

*During the period, the Group's subsidiary increased its shareholding in these funds, thereby classifying them as associates.

Summarised financial position/performance of associates that have been equity accounted:

	30 September 2021	31 December 2020
Total assets	10,186,758	10,480,239
Total liabilities	8,367,428	8,695,653
Total revenues	242,759	330,004
Total net profit	110,312	120,114

In case of associates where audited/reviewed financial statements are not available, the Group's share of results is arrived at by using the latest available financial information.

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9 OTHER ASSETS

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	120,783	124,056	244,839	133,662	77,914	211,576
Due from related parties (note 17)	753	-	753	557	-	557
Taxes – deferred	6,095	-	6,095	1,382	-	1,382
Taxes – current	20,349	-	20,349	261	-	261
Non-current assets held for sale	24,428	-	24,428	14,615	-	14,615
	172,408	124,056	296,464	150,477	77,914	228,391
Less: provisions	(69,806)	(11,934)	(81,740)	(64,993)	(11,939)	(76,932)
	102,602	112,122	214,724	85,484	65,975	151,459

10 PROVISION FOR IMPAIRMENT

	30 September 2021			31 December 2020		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	830,116	69,886	900,002	835,622	44,858	880,480
Charge for the period/year	21,866	29,527	51,393	80,683	26,127	106,810
Write back during the period/year	(27,324)	(6,991)	(34,315)	(51,993)	(849)	(52,842)
Write off during the period/year	(27,646)	-	(27,646)	(30,821)	(103)	(30,924)
Exchange differences	(14,512)	(1,794)	(16,306)	(3,375)	(147)	(3,522)
	782,500	90,628	873,128	830,116	69,886	900,002

During the nine month period ended 30 September 2021, the Group has recorded a net provision/(reversal) for impairment relating owners amounting to \$5.5 million (30 September 2020: \$18.7 million).

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Notes to interim condensed consolidated financial information

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10 PROVISION FOR IMPAIRMENT (continued)

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

30 September 2021

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	992,676	-	-	992,676
Financings (funded and unfunded exposure) Corporate				
Low risks (1-3)	972,464	77,728	-	1,050,192
Acceptable risks (4-6)	1,684,002	92,810	400	1,777,212
Watch list (7)	-	500,609	-	500,609
Non performing (8-10)	-	-	318,006	318,006
Carrying amount - Corporate	2,656,466	671,147	318,406	3,646,019
Retail (un-rated)	1,384,234	25,027	65,401	1,474,662
Carrying amount	4,040,700	696,174	383,807	5,120,681
Sukuk and investment securities	332,488	22,924	8,900	364,312
Other receivables	284,842	8,458	74,801	368,101
Loss allowance	(37,393)	(76,080)	(350,489)	(463,962)
Total	5,613,313	651,476	117,019	6,381,808

31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, commodity and other placements with banks, financial and other institutions	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	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	5,130,006	695,807	125,653	5,951,466

Gross financings (funded) as of 30 September 2021 amounted to \$3.2 billion, \$0.7 billion and \$0.4 billion for Stage 1, Stage 2 and Stage 3 (31 December 2020: \$3.0 billion, \$0.7 billion and \$0.4 billion) respectively. Collateral coverage for gross financing as of 30 September 2021 was 70%, 45% and 33% for Stage 1, Stage 2 and Stage 3 (31 December 2020: 80%, 40% and 48%) respectively.

Ithmaar Holding B.S.C.**Notes to interim condensed consolidated financial information
for the nine month period ended 30 September 2021**

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11 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

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

	30 September 2021	31 December 2020
Cash and balances with banks and central banks	144,111	145,260
Commodity and other placements with banks, financial and other institutions	24,217	12,581
Murabaha and other financings	1,554,288	1,360,742
Musharaka financing	1,328,296	929,228
Sukuk and investment securities	641,074	688,416
Assets acquired for leasing	394,747	382,401
Other assets	112,122	65,975
Fixed assets	48,319	-
Due from the Owners (net)	713,729	703,937
	4,960,903	4,288,540
Customers' current accounts	(930,447)	(692,739)
Due to banks, financial and other institutions	(269,532)	(145,655)
Other liabilities	(182,626)	(86,510)
Equity of unrestricted investment accountholders	3,578,298	3,363,636

12 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding as at 1 January 2021	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 30 September 2021 (Reviewed)	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 30 September 2021 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,690 thousands. The share capital of Ithmaar is denominated in United States dollars and these shares are listed on Bahrain Bourse in United States dollars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 (31 December 2020: 120,595,238) of its own shares at 30 September 2021. The shares are held as treasury shares and Ithmaar has the right to reissue these shares at a later date.

Ithmaar Holding B.S.C.**Notes to interim condensed consolidated financial information
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(Expressed in thousands of United States Dollars unless otherwise stated)

13 OTHER INCOME	Relating to owners	
	30 September 2021	30 September 2020
Income from banking services	34,234	42,678
Insurance underwriting profit	19,296	18,424
Income from commodity placements	5,983	11,120
Foreign exchange income/ (loss)	14,132	(10,469)
Others	1,531	32
	75,176	61,785

14 BASIC AND DILUTED EARNINGS/(LOSSES) PER SHARE

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

	Nine month period ended		Three month period ended	
	30 September 2021	30 September 2020	30 September 2021	30 September 2020
Net income/(loss) attributable to shareholders (\$'000)	1,476	(3,288)	(2,530)	(1,999)
Weighted average number of issued and fully paid up ordinary shares ('000) (note 12)	2,910,160	2,910,160	2,910,160	2,910,160
Earnings/(losses) per share (Basic & Diluted) – US Cents	0.05	(0.11)	(0.09)	(0.07)

15 DIVIDEND

No dividend was declared for 2020 and 2019.

16 CONTINGENT LIABILITIES AND COMMITMENTS**Contingent liabilities**

	30 September 2021	31 December 2020
Endorsements	76,617	66,883
Guarantees and irrevocable letters of credit	751,542	589,686
Customer and other claims	198,035	224,481
	1,026,194	881,050

Commitments

	30 September 2021	31 December 2020
Undrawn facilities, financing lines and other commitments to finance	1,477,877	1,600,375

Ithmaar Holding B.S.C.**Notes to interim condensed consolidated financial information
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17 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:

	30 September 2021				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	390,527	-	-	39	390,566
Investment in associates	-	635,282	-	-	635,282
Other assets	-	-	-	753	753
Liabilities					
Customers' current accounts	24,043	2,754	-	865	27,662
Due to banks, financial and other institutions	21,729	7,560	-	-	29,289
Equity of unrestricted investment accounts	-	-	-	5,182	5,182
Other liabilities	13	-	-	-	13
Income					
Return to unrestricted investment accounts	-	-	-	(117)	(117)
Income from murabaha and other financings	2,910	-	-	-	2,910
Share of results after tax from associates	-	26,040	-	-	26,040
Profit paid to banks, financial and other institutions – net	-	(221)	-	-	(221)
Expenses					
Administrative and general expenses	(600)	-	(38)	-	(638)

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

	31 December 2020				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	392,972	-	-	2,153	395,125
Investment in associates	-	623,161	-	-	623,161
Other assets	-	-	-	557	557
Liabilities					
Customers' current accounts	14,054	538	-	2,460	17,052
Due to banks, financial and other institutions	-	10,002	-	-	10,002
Equity of unrestricted investment accounts	32,661	-	-	6,379	39,040
Other liabilities	129	-	-	-	129
					30 September 2020
Income					
Return to unrestricted investment accounts	-	-	-	(126)	(126)
Income from murabaha and other financings	2,853	-	-	-	2,853
Share of results after tax from associates	-	20,594	-	-	20,594
Profit paid to banks, financial and other institutions – net	-	(1,402)	-	-	(1,402)
Reversal of provision for impairment on associate	-	17,915	-	-	17,915
Expenses					
Administrative and general expenses	(600)	-	(38)	-	(638)

Ithmaar Holding B.S.C.
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18 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.

	30 September 2021				30 September 2020			
	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Asset Management / Investment Banking	Others	Total
Operating income/(loss)	186,135	4,176	26,338	216,649	205,792	(15,939)	25,084	214,937
Total expenses	(140,612)	(20,069)	(19,556)	(180,237)	(129,261)	(18,433)	(17,965)	(165,659)
Net income/(loss) before provision and overseas taxation	45,523	(15,893)	6,782	36,412	76,531	(34,372)	7,119	49,278
Provision and overseas taxation - net	(17,761)	(2,176)	(738)	(20,675)	(48,692)	9,742	(1,549)	(40,499)
Net income/(loss) for the period	27,762	(18,069)	6,044	15,737	27,839	(24,630)	5,570	8,779
Attributable to:								
Equity holders of Ithmaar	15,109	(16,249)	2,616	1,476	17,115	(22,834)	2,431	(3,288)
Minority interests	12,653	(1,820)	3,428	14,261	10,724	(1,796)	3,139	12,067
	27,762	(18,069)	6,044	15,737	27,839	(24,630)	5,570	8,779
								31 December 2020
Total assets	7,523,732	1,068,782	369,286	8,961,800	6,907,505	1,126,662	349,498	8,383,665
Total liabilities and equity of unrestricted investment account holders	8,457,186	24,523	190,850	8,672,559	7,838,742	72,547	180,239	8,091,528