

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

31 March 2022

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour Harbour Tower East PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Hisham Ahmed Al Rayes – Chairman Jassim Mohamed Alseddiqi – Ex - Chairman (resigned on 04 APRIL 2022) Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Reyadh Eid Al Yaqoob Mosobah Saif Al Mutairy Isa Abdulla Zainal Mazen Ibrahim Abdulkarim Salah Abdulla Sharif Hussain Sayed Ali Al Hussaini
Chief Executive Officer	:	Sattam Sulaiman Algozaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Auditors	:	KPMG Fakhro, Bahrain

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

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Independent auditors' report on review of condensed consolidated interim financial information

To the Board of Directors of
Khaleeji Commercial Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 31 March 2022 condensed consolidated interim financial information of Khaleeji Commercial Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2022;
- the condensed consolidated income statement for the three-month period ended 31 March 2022;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2022;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2022;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2022;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the three-month period ended 31 March 2022; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation and presentation as stated in note 2 of this condensed consolidated interim financial information. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the 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 Auditing standards for Islamic Financial Institutions 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 31 March 2022 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation and presentation as stated in note 2 of this condensed consolidated interim financial information.

10 May 2022

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2022

	Note	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
ASSETS			
Cash and bank balances		91,126	124,115
Placements with financial institutions		29,045	26,391
Sovereign sukuk	7	304,130	295,040
Financing assets	8	337,132	324,373
Ijarah assets	9	157,422	152,394
Investment securities	10	182,700	59,690
Assets held-for-sale	11	4,341	63,103
Investment in real estate		80,919	80,919
Equity accounted investees	12	24,978	25,268
Other assets	13	14,709	13,192
Property and equipment		1,612	1,699
Total assets		1,228,114	1,166,184
LIABILITIES			
Placements from financial institutions		135,548	130,199
Placements from non-financial institutions and individuals		123,728	183,217
Term financing from financial institutions		138,222	71,617
Customers' current accounts		55,042	52,936
Other liabilities	14	28,360	25,629
Total liabilities		480,900	463,598
Equity of investment account holders			
- From financial institutions	15	107,347	125,707
- From non-financial institutions and individuals		482,509	419,488
Total equity of investment account holders		589,856	545,195
OWNERS' EQUITY			
Share capital	16	84,783	89,212
Subordinated Mudaraba (AT1)	17	47,222	47,222
Statutory reserve		10,110	10,110
Treasury shares		(5,963)	(11,926)
Investment fair value reserve		(1,934)	187
Retained earnings		13,012	11,493
Total owners' equity		147,230	146,298
Non-controlling interest		10,128	11,093
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,228,114	1,166,184

The Board of Directors approved the condensed consolidated interim financial information on 10 May 2022 and signed on its behalf by:

Hisham Ahmed Al Rayes
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algoasibi
Chief Executive Officer

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2022

	Note	Three months ended 31 March 2022 BD '000 (Reviewed)	Three months ended 31 March 2021 BD '000 (Reviewed)
Income from financing and ijarah assets		8,002	8,165
Income from placements with financial institutions		39	63
Income from sukuk		4,754	4,219
Income from investment securities		374	(205)
Share of loss from equity accounted investees		(291)	(391)
Fees and other income	20	825	977
Total income before return to investment account holders		13,703	12,828
Less: Return to investment account holders before Bank's share as Mudarib		(8,049)	(7,838)
Bank's share as a Mudarib		4,838	4,713
Return to investment account holders		(3,211)	(3,125)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(2,529)	(3,193)
Finance expense on term financing from financial institutions		(517)	(210)
Total income		7,446	6,300
Staff cost		2,284	1,745
Other operating expenses		1,072	1,120
Total expenses		3,356	2,865
Profit before impairment allowances		4,090	3,435
Net impairment charge	21	(642)	(1,322)
PROFIT FOR THE PERIOD		3,448	2,113
Attributable to:			
Shareholders of the parent		3,448	2,106
Non-controlling interest		-	7
		3,448	2,113
Earnings per share			
Basic and diluted earnings per share (fils)	22	4.29	2.62

Hisham Ahmed Al Rayes
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2022

31 March 2022 (Reviewed)	Equity attributable to shareholders of the parent						Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Investment fair value reserve	Subordinated mudaraba (AT1)	Retained earnings			Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000			BD '000
Balance at 1 January 2022	89,212	10,110	(11,926)	187	47,222	11,493	146,298	11,093	157,391
Fair value changes on investments FVTE (note 10)	-	-	-	(2,121)	-	-	(2,121)	-	(2,121)
Profit for the period	-	-	-	-	-	3,448	3,448	-	3,448
Total recognised income and expense for the period	-	-	-	-	-	3,448	3,448	-	3,448
Cancellation of treasury shares (note 16)	(4,429)	-	5,963	-	-	(1,534)	-	-	-
Loss of control (note 11)	-	-	-	-	-	-	-	(965)	(965)
Transfer to Zakah fund	-	-	-	-	-	(395)	(395)	-	(395)
Balance at 31 March 2022	84,783	10,110	(5,963)	(1,934)	47,222	13,012	147,230	10,128	157,358

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2022 (Continued)

	Equity attributable to shareholders of the parent						Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Investment fair value reserve	Subordinated mudaraba (AT1)	Retained earnings			Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000			BD '000
31 March 2021 (Reviewed)									
Balance at 1 January 2021	89,212	9,024	(11,859)	348	47,222	7,863	141,810	10,225	152,035
Impact on adoption of FAS 32	-	-	-	-	-	23	23	-	23
Balance as restated	89,212	9,024	(11,859)	348	47,222	7,886	141,833	10,225	152,058
Profit for the period	-	-	-	-	-	2,106	2,106	7	2,113
Total recognised income and expense for the period	-	-	-	-	-	2,106	2,106	7	2,113
Fair value changes	-	-	-	(45)	-	-	(45)	-	(45)
Transfer to Zakah fund	-	-	-	-	-	(230)	(230)	-	(230)
Balance at 31 March 2021	89,212	9,024	(11,859)	303	47,222	9,762	143,664	10,232	153,896

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2022

	Three months ended 31 March 2022 BD '000 (Reviewed)	Three months ended 31 March 2021 BD '000 (Reviewed)
OPERATING ACTIVITIES		
(Payments) / receipts from financing assets, net	(8,453)	2,249
Payments from ijarah assets, net	(2,211)	(1,516)
Receipt of profit on short-term placements	39	63
Returns paid to investment account holders	(4,344)	(6,031)
Receipts from investment account holders, net	44,661	68,542
Payments for expenses	(1,758)	(2,845)
Other receipts	824	977
Payment for charity	(2)	(221)
Receipts from customers' current accounts, net	2,106	6,870
Receipts from placements from financial institutions, net	5,349	32,079
Payments from placements from non-financial institutions and individuals, net	(59,489)	(13,281)
Net receipts / (payments) from CBB reserve account	465	(2,340)
Payment of profit on placements	(2,529)	(3,193)
Net cash (used) / generated from operating activities	(25,342)	81,353
INVESTING ACTIVITIES		
Purchase of sukuk	(112,496)	(19,922)
Proceeds from sale / redemption of sukuk	33,609	12,127
Income from sukuk received	5,047	4,360
Proceeds from disposal / redemption of investments securities	-	7,321
Proceeds from disposal of investment in real estate, net	3,229	248
Receipt of dividends / income from investment securities	3	129
Purchase of property and equipment, net	(8)	(73)
Net cash (used) / generated from investing activities	(70,616)	4,190
FINANCING ACTIVITIES		
Receipt / (Repayment) of term financing from financial institutions, net	66,605	(45)
Finance expense on term financing from financial institutions	(517)	(210)
Net cash generated from / (used in) financing activities	66,088	(255)
Net (decrease) / increase in cash and cash equivalents	(29,870)	85,288
Cash and cash equivalents at beginning of the period	135,216	85,323
Cash and cash equivalents at end of the period	105,346	170,611
Cash and cash equivalents comprises:		
Cash and bank balances (excluding CBB reserve)	76,301	149,498
Placements with financial institutions with original maturities of 90 days or less	29,045	21,113
	105,346	170,611

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2022

31 March 2022 (Reviewed)		Balance at 1 January 2022			Movements during the period					Balance at 31 March 2022		
No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's	
Safana Investment WLL (RIA 1) and NS 12	1,247	1,247	-	-	-	-	-	-	1,247	1.00	1,247	
Shaden Real Estate Investment WLL (RIA 5)	269	269	-	-	-	-	-	-	269	1.00	269	
Locata Corporation Pty Ltd (RIA 6)	-	-	-	-	-	-	-	-	-	-	-	
		1,516	-	-	-	-	-	-			1,516	

31 March 2021 (Reviewed)		Balance at 1 January 2021			Movements during the period					Balance at 31 March 2021		
No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's	
Safana Investment WLL (RIA 1) and NS 12	6,254	6,254	-	-	-	-	-	-	6,254	1.00	6,254	
Shaden Real Estate Investment WLL (RIA 5)	3,434	3,434	-	-	-	-	-	-	3,434	1.00	3,434	
Locata Corporation Pty Ltd (RIA 6)	2,633	993	-	-	-	-	-	-	2,633	0.38	993	
		10,681	-	-	-	-	-	-			10,681	

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the three months ended 31 March 2022

	Three months ended 31 March 2022 BD '000 (Reviewed)	Three months ended 31 March 2021 BD '000 (Reviewed)
Sources of zakah and charity fund		
At 1 January	471	696
Contributions by the Bank	395	230
Non-shari'a compliant income	3	3
Total sources	869	929
Uses of zakah and charity fund		
Contributions to charitable organisations	(2)	(221)
Total uses	(2)	(221)
Undistributed zakah and charity fund at end of the period	867	708

The accompanying notes 1 to 28 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

1 Reporting entity

Khaleeji Commercial Bank BSC (the “Bank”), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail license granted by the Central Bank of Bahrain (“CBB”). The Bank is listed on the Bahrain Bourse.

85.41% (2021: 69.06%) of the ordinary shares of the Bank are held by GFH Financial Group BSC (the “Parent”), a Bahraini incorporated investment bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain (“CBB”) and listed on Bahrain Bourse, Boursa Kuwait and Dubai Financial Markets (“DFM”).

The condensed consolidated interim financial information comprises financial information of the Bank and its subsidiaries (together the “Group”). As of 31 December 2021, KHCB Board was committed to a plan to transfer assets amounting to BD 55.62 million to Infracorp BSC (c) under the terms of the program and BD 4.5 million to its asset management investors (as in-kind consideration). The plan included transfer of two subsidiaries. On 15 March 2022, transfer of assets was executed and assets as per the plan were transferred in exchange of sukuk of BD 54.17 million (refer note 11).

2 Basis of preparation and presentation

The condensed consolidated interim financial information of the Group has been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the Central Bank of Bahrain (“CBB”).

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the Group takes guidance from the relevant International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). Accordingly, the condensed consolidated interim 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’.

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group’s audited financial statements for the year ended 31 December 2021 for the details of the COVID-19 related modifications applied). Since the CBB modification were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group’s interim financial information for the three months ended 31 March 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

These consolidated financial information are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest thousand [BD ‘000], except where otherwise indicated.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

2 *Basis of preparation and presentation (continued)**Comparatives*

The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2021 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the three months ended 31 March 2021.

3 **Significant accounting policies**

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's last audited consolidated financial statements as at and for the year ended 31 December 2021, except for those arising from adoption of the following standards and amendments to standards effective from 1 January 2022.

I. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022**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.

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

There was no material impact on Group upon adoption of this standard.

II. New standards, amendments, and interpretations issued but not yet effective**1) FAS 39 Financial Reporting for Zakah**

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Group, this standard shall be applicable on all consolidated and separate / standalone financial statements of an institution.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

The Group is assessing the impact of adoption of this standard.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

3 *Significant accounting policies (continued)***2) FAS 1 General Presentation and Disclosures in the Financial Statements**

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:

- a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
- b) Definition of Quasi equity is introduced;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting;
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FAS's; and
- l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

4 **Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the last audited consolidated financial statements for the year ended 31 December 2021.

IBOR reforms

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The majority of LIBOR and other Interbank Offer Rates ("IBOR") are discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Assets and Liabilities committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of profit rate risk and risks arising from IBOR reform.

As of 31 March 2022, the Group did not have any outstanding contracts linked to benchmark rates and it continues to enhance its systems and processes to prepare for change in market benchmark rates.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

5 Estimates and judgements

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the audited consolidated financial statements as at and for the year ended 31 December 2021.

Russia-Ukraine conflict

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 March 2022 the Group does not have a material impact of this conflict.

6 Seasonality

The Bank does not have significant income of a seasonal nature.

7 Sovereign Sukuk

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk*	304,614	295,530
Less: impairment allowance	(484)	(490)
	304,130	295,040

During the period, Group sold Sukuk of BD 20,816 thousand (2021: BD 127,653 thousand) for a gain of BD 440 thousand (2021: BD 5,922 thousand).

* As of 31 March 2022, sovereign sukuk of BD 127,610 thousand and corporate sukuk of BD 26,657 thousand (refer note 10) with a total carrying value of BD 154,267 thousand (31 December 2021: BD 152,419 thousand) was pledged against term financing from financial institutions of BD 88,665 thousand (31 December 2021: BD 71,617 thousand).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

8 Financing assets

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Murabaha (net of deferred profit)	354,554	343,706
Wakala	90	90
Mudaraba	4,196	971
Gross financing assets	358,840	344,767
Less: Impairment allowances	(21,708)	(20,394)
Net financing assets	337,132	324,373

In December 2020, May 2021 and December 2021, the CBB issued regulatory directives to extend the concessionary measures, i.e. holiday payments to customers till end June 2021, December 2021 and June 2022 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect any significant modification loss as a result of these extensions. The Group has provided payment holidays on financing exposures amounting to BD 21,634 thousand for the third deferral (January 2021 to June 2021) and BD 41,780 thousand for the fourth deferral (July 2021 to December 2021). The Group is still in the process of finalizing the fifth deferral (January 2022 to June 2022).

Murabaha is net of deferred profits of BD 20,385 thousand (2021: BD 16,957 thousand).

The movement on impairment allowances is as follows:

31 March 2022 (Reviewed)	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI* BD '000	Total BD '000
Gross financing assets	295,608	33,032	24,044	6,156	358,840
Less: Impairment allowance					
At 1 January 2022	6,024	1,751	12,007	612	20,394
Net movement between stages	322	(223)	(99)	-	-
Net charge	328	419	505	62	1,314
Impairment allowances at 31 March 2022	6,674	1,947	12,413	674	21,708
Net financing assets	288,934	31,085	11,631	5,482	337,132
31 December 2021 (Audited)					
Gross financing assets	254,647	59,540	24,468	6,112	344,767
Less: Impairment allowance					
At 1 January 2021	7,230	1,934	7,891	-	17,055
Net movement between stages	395	47	(442)	-	-
Net charge	(1,601)	(230)	4,804	612	3,585
Write-off	-	-	(5)	-	(5)
Disposal	-	-	(241)	-	(241)
Impairment allowances at 31 December 2021	6,024	1,751	12,007	612	20,394
Net financing assets	248,623	57,789	12,461	5,500	324,373

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

8 *Financing assets (continued)*

* Purchased or originated credit impaired (POCI) assets are initially recognised at their fair values and subsequently remeasured for any change in ECL or expected recoverable amounts. The POCI assets are currently carried at 20% (31 December 2021: 14%) compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) are carried at 33% (31 December 2021: 34%) compared to their original contractual outstanding amounts.

9 **Ijarah Assets**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Cost		
At 1 January	191,481	186,209
Additions during the period	58,993	57,482
Settlements/adjustments during the period	(40,058)	(38,955)
At period end	210,416	204,736
Accumulated depreciation		
At 1 January	43,674	42,472
Charge for the period	21,846	21,245
Settlements during the period	(17,159)	(16,687)
At period end	48,361	47,030
Less: Impairment allowance	(4,633)	(5,312)
Net book value at period end	157,422	152,394

The breakup of gross Ijarah assets and impairment allowance per stage is as follows:

31 March 2022 (Reviewed)	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Ijarah assets	139,018	11,197	11,840	162,055
<i>Less: Impairment allowance</i>				
At 1 January 2022	242	929	4,141	5,312
Net movement between stages	382	(277)	(105)	-
Net charge	(242)	(397)	(40)	(679)
Disposal	-	-	-	-
Impairment allowance at 31 March 2022	382	255	3,996	4,633
Ijarah assets carrying amount	138,636	10,942	7,844	157,422

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

9 *Ijarah assets (continued)*

31 December 2021 (Audited)	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Ijarah assets	109,615	35,279	12,812	157,706
<i>Less: Impairment allowance</i>				
At 1 January 2021	545	424	3,014	3,983
Net movement between stages	(89)	286	(197)	-
Net charge	(214)	219	1,394	1,399
Disposal	-	-	(70)	(70)
Impairment allowance at 31 December 2021	242	929	4,141	5,312
Ijarah assets carrying amount	109,373	34,350	8,671	152,394

10 **Investment securities**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Equity type instruments:		
<i>At fair value through income statement</i>		
- Structured notes		
At 1 January	15,531	15,080
Accrued profit	129	451
	15,660	15,531
<i>At fair value through equity</i>		
- Unquoted equity securities*		
At 1 January	19,100	44,559
Acquisitions	54,171	9,201
Disposals and redemptions	(14)	(34,499)
Net changes in fair value	147	(161)
Transfer from asset held for sale	1,445	-
Less: Impairment allowances	(3,747)	(3,747)
	71,102	15,353
Debt type instruments - at amortised cost:		
- Quoted sukuk **	28,147	28,918
- Unquoted sukuk	1,317	1,317
Less: impairment allowances	(1,427)	(1,429)
	28,037	28,806
Debt type instruments - at fair value through equity:		
- Quoted sukuk	67,901	-
	182,700	59,690

* Includes perpetual sukuk amounting to BD 54,171 thousand acquired during the period in exchange of assets-held for sale as part of the restructuring (refer note 11).

** As of 31 March 2022, sovereign sukuk of BD 127,610 thousand and corporate sukuk of BD 26,657 thousand with a total carrying value BD 154,267 thousand (refer note 7).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

11 Assets held-for-sale

GFH Group is carrying out a group restructuring program (the 'program') which involves the spinning off of its infrastructure and real estate assets under a newly established entity "Infracorp B.S.C (c)" ("the Company"), which will be capitalized with more than US\$1 billion in infrastructure and development assets. Infracorp will specialise in investments focusing on accelerating growth and development of sustainable infrastructure assets and environments across the Gulf and global markets.

Under this program certain real estate and infrastructure assets will be transferred from the group entities, including the Bank, to Infracorp for an in-kind consideration in the form of Sukuk and/or equity shares issued by Infracorp.

The Board of Directors of KHCB, in its meeting dated 6 May 2021 had approved the consolidation and aggregation of its real estate and infrastructure exposures by offering a structured exit to its asset under management investors through a combination of cash and in-kind consideration.

As of 31 December 2021, the Group had acquired shares in and assets held by various real estate entities under management amounting to BD 22.27 million, which was part of the assets to be transferred to Infracorp.

The shareholders in their annual general meeting dated 24 March 2022 approved the transfer of the Bank's development properties and investment in real estate up to USD 200 million (BD 75.4 million) to Infracorp for an in-kind consideration in the form of Sukuk and/or equity shares issued by Infracorp.

As of 31 March 2022, KHCB transferred assets amounting to BD 54.171 million to Infracorp under the terms of the program and BD 4.3 million are part of a committed plan for transfer to its asset management investors (as in-kind consideration). In addition, the Group entered into sale contracts for sale of investments in real estate with carrying value of BD 3 million. Accordingly, these assets were classified as held-for-sale.

The above transfers are subject to requisite corporate and regulatory approvals and are expected to be concluded within 12 months of the end of the reporting period. Of the total assets held-for sale BD Nil (2021:BD 965 thousand) is attributable to NCI.

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Investment securities	-	34,499
Investment in real estate	4,341	12,198
Property and equipment	-	6,714
Equity accounted investees	-	8,871
Other assets	-	821
	4,341	63,103

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

11 *Assets held for sale (continued)*

The movement of the assets held for sale during the period is as follows:

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
1 January 2022	63,103	-
Assets transferred to asset held for sale during the period	-	63,103
Sold during the period	(3,000)	-
Transferred to Infracorp (note 10)	(54,171)	-
Transferred to investment securities as held for use	(1,445)	-
Change of exit subscriptions by investors	(146)	-
31 March 2022	4,341	63,103

On 15 March 2022, the Bank transferred certain assets with carrying value of BD 54.17 million to Infracorp BSC (c) for in-kind consideration in form of hybrid perpetual certificates issued by its subsidiary Infracorp Sukuk Limited (note 10).

12 **Equity accounted investees**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
At 1 January	25,268	31,963
Additions	-	5,803
Derecognition on acquisition of controlling stake	-	(8,106)
Transfer to assets held-for-sale	-	(3,259)
Share of loss for the period	(290)	(1,133)
At period end	24,978	25,268

13 **Other assets**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Profit accrued on Sukuk	4,684	4,293
Right-of-use asset	713	820
Prepaid expenses	805	577
Due from investments	263	249
Receivable from customers	4,563	4,564
Other receivables	3,681	2,689
	14,709	13,192

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

13 *Other assets (continued)*

Below are further details related to the right of use asset:

	31 March 2022 BD '000 (reviewed)
Balance as at 1 Jan	820
Additional right-of-use assets for the period	18
Amortisation charge during the period	(125)
Balance as at 31 March	713

	31 December 2021 BD '000 (audited)
Recognition of right-of-use assets on initial application of FAS 32	1,234
Additional right-of-use assets for the year	114
Amortisation charge during the year	(528)
Balance as at 31 December	820

14 **Other liabilities**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Payable to Investors*	14,416	13,597
Mudaraba profit accrual	3,764	4,898
Net ijarah liability	665	806
Advance received from customers	257	556
Zakah and charity payable	867	471
Employee related accruals	1,291	258
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses**	7,073	5,016
	28,360	25,629

* relates to cash settlement with investors on account of restructuring.

** includes impairment allowance on commitments and financial guarantees of BD 81 thousand (2021: BD 85 thousand).

The breakup of the Net Ijarah liability per maturity analysis is as follows:

Net Ijarah Liability

	31 March 2022 (reviewed)		
Maturity analysis	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	558	(8)	549
One to five years	122	(6)	116
Total	680	(14)	665

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14 *Liabilities (continued)*

Maturity analysis	31 December 2021 (audited)		
	Gross Ijarah liability BD '000	Deferred Ijarah BD '000	Net Ijarah liability BD '000
Less than one year	566	(16)	550
One to five years	260	(4)	256
Total	826	(20)	806

15 **Equity of investment account holders**

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Equity of investment account holders		
From financial institutions	107,347	125,707
From non-financial institutions and individuals	482,509	419,488
	589,856	545,195

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes:

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Balances with banks	56,780	50,580
CBB reserve account	14,825	15,290
Placements with financial institutions	29,045	26,391
Debt type instruments – sukuk	300,750	172,029
Financing assets	188,456	280,905
	589,856	545,195

16 **Share capital**

The shareholders in their extraordinary general meeting dated 24 March 2022 approved the cancellation of the Bank's issued and paid-up capital by BD 4,428,895 through cancellation of 44,288,946 treasury shares of BD 0.100 each and accumulated losses of BD 1,534 thousand. As at 31 March 2022 the Bank's paid capital was BD 84,783,053 (31 December 2021 BD 89,211,948) representing 847,830,534 shares (31 December 2021 892,119,480 shares).

The shareholders in their annual general meeting dated 24 March 2022 approved the amendments to the share incentive scheme. In line with the revised scheme 104,734 shares (unallocated) were transferred from the KHC B employee benefit Trust to the Bank as treasury shares.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

17 Subordinated mudaraba (AT1)

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Subordinated mudaraba	47,222	47,222
	47,222	47,222

The Bank issued a Subordinated Mudaraba (Basel III compliant Additional Tier 1 capital securities) of face value of US\$ 159 million (BD 60 million). Such capital was raised in order to meet minimum regulatory requirements relating to total equity as prescribed by Central Bank of Bahrain. The carrying value is net of issuance costs.

The Subordinated Mudaraba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits.

Summary of key terms and conditions are as follows:

- Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a.
- Security holder will not have a right to claim the profits and such event will not be considered as event of default.
- In the event of non-viability, the certificates will be converted either in full or in part on a pro rata basis in accordance with the terms of the certificate which require conversion at the fair value of the Bank's share at the time of such non-viability event.
- The Certificates carry a call option after 5 years from the date of issue, subject to approval of the Central Bank of Bahrain.

18 Commitments and contingencies

	31 March 2022 BD '000 (Reviewed)	31 December 2021 BD '000 (Audited)
Undrawn commitments to extend finance*	46,889	35,946
Financial guarantees	14,564	15,078
Letter of credit	150	-

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Litigations and claims

In the normal course of business, legal cases are filed by the Bank against its customers and against the Bank by its customers or investors. The Group's legal department engages with in-house legal counsel and external legal counsel depending on the nature of the cases. A periodic assessment is carried out to determine the likely outcome of these legal cases and is reported to the senior management and Board of directors.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022
18 Commitments and contingencies (continued)

Based on the advice of the Bank's external legal counsel, the Board of Directors is of the opinion that the Group has strong grounds to successfully defend itself against these claims. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors believe that such disclosures may be prejudicial to the Group's legal position.

19 Appropriations of net profit, if any, are made only after obtaining approval of the shareholders.

20 Fees and other income

	31 March 2022 BD '000 (Reviewed)	31 March 2021 BD '000 (Reviewed)
Fees income	255	193
Foreign exchange gain	167	349
Recovery of written off financing assets	403	402
Others	-	33
	825	977

21 Net impairment allowances

	31 March 2022 BD '000 (Reviewed)	31 March 2021 BD '000 (Reviewed)
Balances and placements with banks and financial institutions	18	3
Financing assets (note 8)	1,314	749
Sovereign sukuk (note 7)	(7)	(2)
Ijarah assets (note 9)	(679)	565
Commitments and financial guarantees	(4)	7
	642	1,322

Movement on ECL in various stages during the period:

31 March 2022

(Reviewed)

	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI BD '000	Total BD '000
Opening ECL balance at 1 January	6,949	2,680	17,471	612	27,712
Transfer to Stage 1	767	(579)	(188)	-	-
Transfer to Stage 2	(60)	80	(20)	-	-
Transfer to Stage 3	(4)	-	4	-	-
Net movement	703	(499)	(204)	-	-
Charge for the period (net)	91	23	466	62	642
Write off	-	-	-	-	-
Disposal	-	-	-	-	-
Closing ECL balance as at 31 March	7,743	2,204	17,733	674	28,354

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

21 *Net impairment charge (continued)*

31 March 2022 (Reviewed)

	Stage 1: 12-month ECL BD '000	Stage 2: Life time ECL non-credit impaired BD '000	Stage 3: Life time ECL credit impaired BD '000	Total BD '000
Balances and placements with banks and financial institutions	18	-	-	18
Financing assets (note 8)	6,674	1,948	13,086	21,708
Sovereign sukuk (note 7)	484	-	-	484
Ijarah assets (note 9)	382	255	3,996	4,633
Investment securities	111	-	1,317	1,428
Commitments and financial guarantees	74	1	7	82
	7,743	2,204	18,407	28,354

31 March 2021 (Reviewed)

	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	POCI BD '000	Total BD '000
Opening ECL balance at 1 January	8,337	2,364	12,298	-	22,999
Transfer to Stage 1	368	(41)	(327)	-	-
Transfer to Stage 2	(255)	456	(201)	-	-
Transfer to Stage 3	(144)	(161)	305	-	-
Net movement	(31)	254	(223)	-	-
Charge for the period (net)	(1,726)	531	2,478	39	1,322
Write off	-	-	-	-	-
Disposal	-	-	-	-	-
Closing ECL balance as at 31 March	6,580	3,149	14,553	39	24,321

31 March 2021 (Reviewed)

	Stage 1: 12-month ECL BD '000	Stage 2: Life time ECL non-credit impaired BD '000	Stage 3: Life time ECL credit impaired BD '000	Total BD '000
Balances and placements with banks and financial institutions	3	-	-	3
Financing assets (note 8)	5,818	2,414	9,572	17,804
Sovereign sukuk (note 7)	292	-	-	292
Ijarah assets (note 9)	188	732	3,628	4,548
Investment securities	112	-	1,317	1,429
Commitments and financial guarantees	167	3	75	245
	6,580	3,149	14,592	24,321

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

22 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholder of the Bank (adjusted for Profit distribution on AT 1 Capital) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	Three months ended	
	31 March 2022 BD '000 (Reviewed)	31 March 2021 BD '000 (Reviewed)
Profit for the period attributable to the shareholders of the parent	3,448	2,106
Less: Profit distribution on AT 1 Capital	-	-
Profit for the period attributable to the shareholders of the parent for basic and diluted earnings per share computation	3,448	2,106
Weighted average number of shares outstanding during the period, net of treasury shares (thousand)	803,645	803,708
Basic and diluted earnings per share (fils)	4.29	2.62

23 Assets under management

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 201.41 million (31 December 2021: BD 201.41 million). During the year, the Group has not charged any management fees (2021: BD Nil) for the management of these assets. The Group has outsourced the day to day management of the assets under management to its Parent for no additional cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

24 Significant related party transactions

The significant related party transactions and balances included in this condensed consolidated interim financial information are as follows:

31 March 2022
(Reviewed)

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Financing assets	-	3,309	6,492	-	9,801
Investment securities	-	-	56,455	6,847	63,302
Equity accounted investees	24,978	-	-	-	24,978
Other assets	117	-	206	30	353
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,473	-	-	1,473
Customers' current accounts	1,026	1,080	5,163	-	7,269
Equity of investment account holders	413	399	128,784	292	129,888

**Three months ended
31 March 2022**
(Reviewed)

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Income					
Income from financing and Ijarah assets	-	68	117	-	185
Share of loss from equity accounted investees	(290)	-	-	-	(290)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	6	-	-	6
Return to investment account holders	3	2	823	1	829
Staff cost	-	140	-	-	140
Other operating expenses	-	96	-	6	102

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022
24 Significant related party transactions (Continued)

 31 December 2021
 (Audited)

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Assets					
Financing assets	-	3,227	6,061	-	9,288
Investment securities	-	-	2,284	4,754	7,038
Equity accounted investees	25,828	-	-	-	25,828
Investment in real estate	60,000	-	-	-	60,000
Assets held-for sale	55,620	-	-	-	55,620
Other assets	117	-	-	30	147
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,666	-	-	1,666
Customers' current accounts	866	340	5,952	24	7,182
Equity of investment account holders	409	102	138,833	292	139,636
Other Liabilities	-	-	-	-	-

 Three months ended
 31 March 2021
 (Reviewed)

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Income					
Income from financing and Ijarah assets	-	52	594	-	646
Share of loss from equity accounted investees	(391)	-	-	-	(391)
Expenses					
Finance expense on placements from financial institutions, non- financial institutions and individuals	-	25	519	-	544
Return to investment account holders	3	2	756	2	763
Staff cost	-	166	-	-	166
Other operating expenses	-	150	-	7	157

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

25 Segment information

31 March 2022 (Reviewed)	Corporate and Retail Banking BD '000	Investment Banking BD '000	Unallocated BD '000	Total BD '000
Segment revenue	13,618	85	-	13,703
Segment results	5,633	(143)	(2,042)	3,448
Segment assets	923,898	293,863	10,353	1,228,114

31 March 2021 (Reviewed)	Corporate and Retail Banking BD '000	Investment Banking BD '000	Unallocated BD '000	Total BD '000
Segment revenue	13,393	(565)	-	12,828
Segment results	4,650	(748)	(1,789)	2,113
Segment assets	916,696	177,865	15,014	1,109,575

26 Financial instruments

a) Fair values

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of quoted Sukuk carried at amortised cost of BD 332,167 thousand (31 December 2021: BD 323,846 thousand) is BD 332,096 thousand as at 31 March 2022 (31 December 2021: BD 333,124 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. The estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2022 (Reviewed)

	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Structured notes at fair value through income statement	-	15,660	-	15,660
Debt-type sukuk at fair value through equity	-	67,901	-	67,901
Unquoted equity type securities carried at fair value through equity	54,171	-	16,931	71,102
	54,171	83,561	16,931	154,663

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022

26 *Financial instruments (continued)*
b) Fair value hierarchy (Continued)

31 December 2021 (Audited)	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Structured notes at fair value through income statement	-	15,531	-	15,531
Unquoted equity type securities carried at fair value through equity	-	-	15,353	15,353
	-	15,531	15,353	30,884

The following table analyses the movement in Level 3 financial assets during the three month period ended 31 March 2022:

	31 March 2022 BD '000 (Reviewed)	31 March 2021 BD '000 (Unreviewed)
At 1 January	15,353	40,812
Fair value loss in income statement	(14)	(15)
Movement in investment fair value reserve	147	(45)
Transfer from assets held for sale / (sales)	1,445	(7,705)
	16,931	33,047

During the three month period ended 31 March 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

The potential effect of using reasonable possible alternative assumptions for fair valuing equity investments classified as level 3 are summarised below:

31 March 2022 (Reviewed)

Valuation technique used	Key unobservable inputs	Fair value at 31 March 2022 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	4 / (4)
Market multiples approach	Price to book value	3,959	+/- 5%	205 / (205)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	778	+/- 5%	27 / (27)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2022
26 *Financial instruments (continued)**b) Fair value hierarchy (Continued)*

31 December 2021 (Audited)

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2021 BD '000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	4 / (4)
Market multiples approach	Price to book value	3,959	+/- 5%	228 / (228)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	778	+/- 5%	27 / (27)

(i) Financial instruments not at fair value

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

31 March 2022

	Carrying amount BD '000 (Reviewed)	Fair value BD '000 (Reviewed)
Financial assets:		
Sovereign sukuk	304,130	301,293
Financing assets	337,132	337,132
Ijarah assets	157,422	157,422
Investment securities	28,037	30,803
	826,721	826,650
Financial liabilities:		
Customers' current accounts	55,042	55,042

31 December 2021

	Carrying amount BD '000 (Audited)	Fair value BD '000 (Audited)
Financial assets:		
Sovereign sukuk	295,040	297,718
Financing assets	324,373	324,373
Ijarah assets	152,394	152,394
Investment securities	28,806	35,406
	800,613	809,891
Financial liabilities:		
Customers' current accounts	52,936	52,936

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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26 *Financial instruments (continued)**Other financial instruments*

Placements with financial institutions and placements from financial institutions are for short term tenure hence their carrying value is not different from the fair value. Placements from non-financial institutions and individuals which are not short term are re-priced at regular intervals hence carrying value reflects the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

27 **Regulatory ratios***a. Liquidity Coverage Ratio (LCR)*

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. As of 31 March 2022, the Bank maintained LCR of 169.69% (31 December 2021: 177.58%) which is above regulatory minimum of 80% applicable until 30 June 2022.

b. Net stable funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of Banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability. NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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27 *Regulatory ratios (continued)*

b. Net stable funding Ratio (NSFR) (continued)

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 March 2022 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	157,196	-	-	9,278	166,473
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	64,922	11,880	1,420	74,382
Less Stable deposits	-	175,620	72,797	3,839	227,414
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	550,243	160,946	1,644	185,247
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	28,505	-	-	-
Total ASF	157,196	819,290	245,623	16,182	653,516
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	389,091	-	-	-	21,133
Performing financing assets and loans / securities					
Performing loan to financial institutions secured by level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	85,843	-	-	12,876
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	90,621	40,643	276,111	297,673
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	13,267	8,624
Performing residential mortgages, of which:	-	-	-	-	-
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	71,482	46,463
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	111,958	35,372	-	64,715	184,652

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27 *Regulatory ratios (continued)*

b. Net stable funding Ratio (NSFR) (continued)

Other Assets:

Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a compliant hedging contracts and contributions to default funds of CCPS	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a compliant hedging contracts liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	62,966	-	-	-	62,966
OBS items	61,603	-	-	-	3,080
Total RSF	625,618	211,836	40,643	412,307	628,843
NSFR%					103.92%

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2021 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	158,107	-	-	9,627	167,734
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits	-	68,722	9,797	1,037	75,630
Less Stable deposits	-	187,257	55,678	3,440	222,082
Wholesale funding:					
Operational deposits					
Other wholesale funding	-	580,012	52,547	25,589	179,209
Other liabilities:					
NSFR derivative liabilities					
All other liabilities not included in the above categories	-	25,844	-	-	-
Total ASF	158,107	861,835	118,022	39,693	644,655

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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27 *Regulatory ratios (continued)*

b. Net stable funding Ratio (NSFR)

<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	360,333	-	-	-	17,733
Performing financing assets and loans / securities					
Performing loan to financial institutions secured by level 1 HQLA	-	76,971	-	-	11,546
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	101,368	28,532	251,598	278,808
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	9,345	6,074
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	68,238	44,355
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	115,189	35,386	-	2,262	134,805
Other Assets:					
Physical traded commodities, including gold					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPS					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories	116,431	-	-	-	116,431
OBS items	51,024	-	-	-	2,551
Total RSF	642,977	213,725	28,532	331,443	612,303
NSFR%					105.28%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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27 *Regulatory ratios (continued)*

c. *Capital Adequacy Ratio*

	31 March 2022 BD '000	31 December 2021 BD '000
CET 1 Capital before regulatory adjustments	115,937	120,967
Less: regulatory adjustments	(5,963)	(11,926)
<i>CET 1 Capital after regulatory adjustments</i>	109,974	109,041
<i>T1 Capital</i>	47,222	47,222
T 2 Capital adjustments	9,278	9,627
Regulatory Capital	166,474	165,890
Risk weighted exposure:		
Credit Risk Weighted Assets	742,201	777,568
Market Risk Weighted Assets	73,199	73,199
Operational Risk Weighted Assets	8,113	8,175
Total Regulatory Risk Weighted Assets	823,513	858,942
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	823,513	858,942
Capital Adequacy Ratio	20.22%	19.31%
Tier 1 Capital Adequacy Ratio	19.09%	18.19%
Minimum required by CBB	12.5%	12.5%

28 **Comparative figures**

The comparative figures have been regrouped in order to conform with the presentation for current year. Such regrouping did not affect previously reported profit for the period or total equity.