

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2021

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	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Mustafa Ghazi Kheriba (resigned on 25 JAN 2021) Mosobah Saif Al Mutairy (Appointed on 23 SEP 2020) Isa Abdulla Zainal (Appointed on 23 SEP 2020) Mazen Ibrahim Abdulkarim (Appointed on 23 SEP 2020) Salah Abdulla Sharif (Appointed on 19 NOV 2020) Hussain Sayed Ali Al Hussaini (Appointed on 10 DEC 2020)
Chief Executive Officer	:	Sattam Sulaiman Algosaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Auditors	:	KPMG Fakhro, Bahrain

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 August 2021

The Board of Directors
Khaleeji Commercial Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 June 2021 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 30 June 2021;
- the condensed consolidated income statement for the three-month and six-month periods ended 30 June 2021;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2021;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2021;
- the condensed consolidated statement of changes in restricted investment accounts for the six-month period ended 30 June 2021;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the six-month period ended 30 June 2021; 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 stated in note 2 of the 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed 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 30 June 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 of the condensed consolidated interim financial information.

Other matter

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain vide its circular OG/124/2020 dated 30 March 2020 had exempted all public shareholding companies and locally incorporated banks from preparation and publication of condensed consolidated interim financial information for the three-month period ended 31 March 2020. We have not reviewed comparative information presented for the three-month period ended 30 June 2020 in the condensed consolidated income statement, which has been extracted from management accounts of the Group and, we do not express any review conclusion on them.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

BD 000's

	Note	30 June 2021 (Reviewed)	31 December 2020 (Audited)
ASSETS			
Cash and bank balances		69,189	83,017
Placements with financial institutions		27,144	17,720
Financing assets	7	309,087	307,717
Investment in sukuk	8	290,244	261,132
Assets acquired for leasing	9	111,631	126,934
Lease rentals receivables	9	34,807	12,820
Investment securities	10	48,161	55,892
Investment in real estate		94,204	83,303
Equity accounted investees	11	31,350	31,963
Other assets	12	17,465	27,646
Property and equipment		7,577	7,450
Total assets		1,040,859	1,015,594
LIABILITIES			
Placements from financial institutions		96,591	79,545
Placements from non-financial institutions and individuals		197,831	214,243
Term borrowings		76,980	75,477
Customers' current accounts		57,969	55,676
Other liabilities	13	9,983	13,269
Total liabilities		439,354	438,210
Equity of investment account holders			
From financial institutions	14	88,265	26,154
From non-financial institutions and individuals		358,529	399,195
Total equity of investment account holders		446,794	425,349
OWNERS' EQUITY			
Share capital	15	89,212	89,212
Subordinated mudaraba (AT 1)	16	47,222	47,222
Statutory reserve		9,024	9,024
Treasury shares		(11,926)	(11,859)
Investment fair value reserve		254	348
Retained earnings		10,733	7,863
Total owners' equity		144,519	141,810
Non-controlling interest		10,192	10,225
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,040,859	1,015,594

The Board of Directors approved the condensed consolidated interim financial information on 10 August 2021 and signed on its behalf by:


Jassim Mohamed Alseddiqi
Chairman


Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman


Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2021

BD 000's

	Note	Six months ended		Three months ended	
		30 June 2021 (Reviewed)	30 June 2020 (Reviewed)	30 June 2021 (Reviewed)	30 June 2020 (Unreviewed)
Income from financing assets and assets acquired for leasing		14,987	15,558	6,822	7,228
Income from placements with financial institutions		97	352	34	45
Income from sukuk	8	12,262	6,035	8,043	3,257
Income from investment securities		203	174	408	172
Share of loss from equity accounted investees	11	(613)	(12)	(222)	(12)
Fees and other income	19	1,503	1,209	526	423
Total income before return to investment account holders		28,439	23,316	15,611	11,113
Less: Return to investment account holders before Bank's share as Mudarib		(13,920)	(11,477)	(6,082)	(5,107)
Bank's share as a Mudarib		7,853	5,453	3,140	2,661
Return to investment account holders		(6,067)	(6,024)	(2,942)	(2,446)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(6,243)	(5,767)	(3,050)	(2,801)
Finance expense on term borrowings		(545)	(156)	(335)	(155)
Total income		15,584	11,369	9,284	5,711
Staff cost		3,005	3,472	1,260	1,625
Other operating expenses		2,431	2,093	1,311	1,088
Total expenses		5,436	5,565	2,571	2,713
Profit before impairment allowances		10,148	5,804	6,713	2,998
Net impairment (charge) / reversal	20	(4,174)	(119)	(2,852)	1,249
PROFIT FOR THE PERIOD		5,974	5,685	3,861	4,247
Attributable to:					
Shareholders of the parent		6,007	5,709	3,901	4,271
Non-controlling interest		(33)	(24)	(40)	(24)
		5,974	5,685	3,861	4,247
Earnings per share					
Basic and diluted earnings per share (fils)	21	3.74	7.10	1.12	5.31


 Jassim Mohamed Alseddiqi
 Chairman


 Sh. Ahmed Bin Isa Al Khalifa
 Vice Chairman


 Sattam Sulaiman Algosaiabi
 Chief Executive Officer

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2021

BD 000's

	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
30 June 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 (note 3(l)(b))	-	-	-	-	-	23	23	-	23
Balance as restated	89,212	9,024	(11,859)	348	47,222	7,886	141,833	10,225	152,058
Fair value changes	-	-	-	(94)	-	-	(94)	-	(94)
Profit for the period	-	-	-	-	-	6,007	6,007	(33)	5,974
Total recognised income and expense for the period	-	-	-	(94)	-	6,007	5,913	(33)	5,880
Purchase of Treasury shares	-	-	(67)	-	-	-	(67)	-	(67)
Issue of shares under incentive scheme	-	-	-	-	-	69	69	-	69
Profit distribution on AT 1 Capital	-	-	-	-	-	(3,000)	(3,000)	-	(3,000)
Transfer to Zakah fund	-	-	-	-	-	(229)	(229)	-	(229)
Balance at 30 June 2021	89,212	9,024	(11,926)	254	47,222	10,733	144,519	10,192	154,711

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2021 (Continued)

BD 000's

	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
30 June 2020 (Reviewed)									
Balance at 1 January 2020	105,000	8,225	(11,730)	-	-	(15,788)	85,707	2,200	87,907
Fair value changes	-	-	-	(226)	-	-	(226)	-	(226)
Profit for the period	-	-	-	-	-	5,709	5,709	(24)	5,685
Total recognised income and expense for the period	-	-	-	(226)	-	5,709	5,483	(24)	5,459
Issuance of AT1 (Note 16)	-	-	-	-	60,000	12,000	72,000	-	72,000
Issuance cost of AT1 (Note 16)	-	-	-	-	(12,940)	-	(12,940)	-	(12,940)
Modification loss (note 2)	-	-	-	-	-	(9,536)	(9,536)	-	(9,536)
Government grant (Note 2b)	-	-	-	-	-	791	791	-	791
Capital reduction (note 15)	(15,788)	-	-	-	-	15,788	-	-	-
Purchase of treasury shares	-	-	(35)	-	-	-	(35)	-	(35)
Transfer to Zakah fund	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 30 June 2020	89,212	8,225	(11,765)	(226)	47,060	8,746	141,252	2,176	143,428

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2021**

BD 000's

	Six months ended 30 June 2021 (Reviewed)	Six months ended 30 June 2020 (Reviewed)
OPERATING ACTIVITIES		
Receipts from / (payments for) financing assets, net	6,391	(127)
(Payments for) / receipts from assets acquired for leasing, net	(3,517)	4,932
Income from short-term placements received	97	352
Returns paid to investment account holders	(8,395)	(9,502)
Receipts / (withdrawals) from investment account holders, net	21,444	(123,265)
Payments for expenses	(6,586)	(8,510)
Other receipts	1,503	1,209
Contributions paid to charitable organisations	(462)	(46)
Receipts / (withdrawals) from customers' current accounts, net	2,294	(6,969)
Receipts / (withdrawals) from placements from financial institutions, net	17,046	(8,955)
(Withdrawals) / receipts from placements from non-financial institutions and individuals, net	(16,412)	30,861
Net receipts from CBB reserve account	406	12,696
Payment of profit on placements	(6,243)	(5,767)
Net cash from / (used in) operating activities	7,566	(113,091)
INVESTING ACTIVITIES		
Purchase of sukuk	(124,442)	(45,971)
Proceeds from sale / redemption of sukuk	100,144	10,453
Income from sukuk received	6,958	6,062
Purchase of investments	-	(18)
Proceeds from disposal / redemption of investments	7,321	-
Proceeds from disposal of investment in real estate	243	728
Income from investment securities	519	202
Purchase of property and equipment, net	(320)	(83)
Net cash used in investing activities	(9,577)	(28,627)
FINANCING ACTIVITIES		
Treasury shares, net	55	(35)
Drawdown of term borrowings	1,503	79,636
Proceeds from AT1 capital	-	11,447
Profit distribution on AT 1 capital	(3,000)	-
Finance expenses paid on term borrowings	(545)	(156)
Net cash (used in) / from financing activities	(1,987)	90,892
Net decrease in cash and cash equivalents	(3,998)	(50,826)
Cash and cash equivalents at beginning of the period	85,323	144,454
Cash and cash equivalents at end of the period	81,325	93,628
Cash and cash equivalents comprises:*		
Cash and bank balances (excluding CBB reserve)	54,181	83,592
Placement with financial institutions	27,144	10,036
	81,325	93,628

* Cash and cash equivalents is net of the expected credit loss of BD 4 thousands.

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the six months ended 30 June 2021

BD 000's

30 June 2021 (Reviewed)		Balance at 1 January 2021			Movements during the period					Balance at 30 June 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	1.00	6,254	-	-	-	-	-	6,254	1.00	6,254	
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	3,434	1.00	3,434	
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	(17)	2	45	-	-	2,633	0.39	1,023	
			10,681	(17)	2	45	-	-			10,711	

30 June 2020 (Reviewed)		Balance at 1 January 2020			Movements during the period					Balance at 30 June 2020		
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	1.00	6,254	-	-	-	-	-	6,254	1.00	6,254	
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	3,434	1.00	3,434	
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	2,633	0.38	993	
			10,681	-	-	-	-	-			10,681	

The accompanying notes 1 to 27 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 six months ended 30 June 2021

BD 000's

	Six months ended 30 June 2021 (Reviewed)	Six months ended 30 June 2020 (Reviewed)
Sources of zakah and charity fund		
At 1 January	696	714
Contributions by the bank	229	218
Non-Islamic income	6	36
Total sources	931	968
Uses of zakah and charity fund		
Contributions to charitable organisations	(462)	(46)
Total uses	(462)	(46)
Undistributed zakah and charity fund at end of the period	469	922

The accompanying notes 1 to 27 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**for the six months ended 30 June 2021**

BD 000's

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.

The Bank is 69.06% owned by GFH Financial Group BSC (the "Parent"), a Bahraini incorporated investments bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain ("CBB") and listed on Bahrain Bourse, Kuwait Stock Exchange and Dubai Financial Markets ("DFM").

The condensed consolidated interim financial information comprises financial information of the Bank and its subsidiaries (together the "Group"). There has been no changes in the groups holdings in subsidiaries and associates as reported in annual consolidated financial statements for the year ended 31 December 2020.

Subsequent to the period end, on 8 July 2021, the Parent announced that it is considering a voluntary offer for the issued shares of the Group. As of the date of approval of the condensed consolidated interim financial information, the Group is in discussions with its Parent regarding terms of the takeover offer for issued shares of the Group.

2 Basis of preparation and presentation

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), except for:

- a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 7 for further details; and
- b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS.
- c) recognition of specific impairment allowances and expected credit losses in line with the specific CBB guidelines for application of staging rules issued as part of its COVID-19 response measures.

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

The modification to accounting policies have been applied retrospectively.

Modification loss

During the previous period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification loss amounting to BD 9,536 thousand arising from the 6 month payment holiday provided to financing customers without charging additional profits was recognised directly in equity.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021**

BD 000's

2 *Basis of preparation and presentation (continued)*

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 as modified by CBB'.

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the Group's last audited consolidated financial statements for the year ended 31 December 2020. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual audited consolidated financial statements as at and for the year ended 31 December 2020.

Comparatives

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain had exempted all public shareholding companies and locally incorporated banks from preparation and publication of their interim financial information for the three-month period ended 31 March 2020. Accordingly, the comparatives for:

- a) the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2020;
- b) the condensed consolidated statements of income (six months ended), 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 of the Group for the six month period ended 30 June 2020 and adjusted for accounting policy changes, if any, applied in preparation of the annual consolidated financial statements for the year ended 31 December 2020; and
- c) the condensed consolidated income statement (three months ended) have been extracted from the management accounts of the Group and hence not reviewed.

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 2020, except for those arising from adoption of the following standards and amendments to standards effective from 1 January 2021.

I. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021**FAS 32 Ijarah**

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021**

BD 000's

3 Significant accounting policies (Continued)

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

FAS 32 Ijarah (continued)

(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:

- extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- termination options if it is reasonably certain that the Bank will not exercise that option.

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

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".

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021**

BD 000's

3 Significant accounting policies (Continued)**1. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2021 (continued)****FAS 32 Ijarah (continued)****(a) Change in accounting policy (continued)****Measurement (continued)****(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 is 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).

Variable ijarah rentals are ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 30 June 2021, the Group did not have any contracts with variable or supplementary rentals.

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
- 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 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.

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.

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BD 000's

3 *Significant accounting policies (Continued)*

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Expenses relating to underlying asset

Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank 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 lease liability for the following:

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

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

Impact as lessor on accounting for Ijara Muntahia Bittamleek contracts

There is no change in the accounting for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

(b) Impact on adoption of FAS 32

As permitted by FAS 1, the Group has adopted a modified retrospective application of FAS 32 where the cumulative effect of the adoption of the standard is reflected in the opening retained earnings and statement of financial position of the current period. The lease contracts comprise ATM sites, branches. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in the following changes at 1 January 2021.

	Total Assets	Total Liabilities	Retained Earnings
Closing balance (31 December 2020)	1,015,594	438,210	141,810
<u>Impact on adoption:</u>			
Right-of-use asset	1,234	-	-
Ijarah liability	-	1,119	-
Derecognition of prepayments	-	92	-
Opening impact of FAS 32	-	-	23
	1,234	1,211	23
Balance on date of initial application of 1 January 2021	1,016,828	439,421	141,833

Right of Use Asset

	30 June 2021 (reviewed)
Recognition of right-of-use assets on initial application of FAS 32	1,234
Additional right-of-use assets for the period, net of amortisation charge and adjustments	(149)
Balance as at 30 June	1,085

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BD 000's

3 Significant accounting policies (Continued)

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

FAS 32 Ijarah (continued)

(b) Impact on adoption of FAS 32 (continued)

Net Ijarah Liability

Maturity analysis	30 June 2021 (reviewed)		
	Gross Ijarah liability	Deferred Ijarah	Net Ijarah liability
Less than one year	489	(59)	430
One to five years	556	(69)	487
Total	1,045	(128)	917

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

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

III. New standards early adopted

The Group has not early adopted any new standards in the current period prior to its effective date of 1 January 2022 or later.

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 2020.

IBOR reforms

IBOR reforms are heading to second phase, which relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services is one of the critical drivers of this project. With an aim to achieve an orderly transition and to mitigate the risks resulting from the transition, the Group's management is in the process of planning for the Group's transition project and continues to engage with various stakeholders.

This project is expected to have a pervasive impact on the Group, in terms of scale and complexity and will impact products, internal systems and processes.

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 2020.

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6 Seasonality

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

7 Financing assets

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Murabaha	344,187	341,082
<i>Deferred profit on Murabaha</i>	<i>(15,902)</i>	<i>(18,862)</i>
Musharaka	104	104
Wakala	90	90
Mudaraba	989	1,014
Istisna	14	1,344
Gross financing assets	329,482	324,772
Less: Impairment allowances	(20,395)	(17,055)
Net financing assets	309,087	307,717

In September 2020, December 2020 and May 2021, the CBB issued regulatory directives to extend the concessionary measures, i.e. holiday payments to customers till end of December 2020, June 2021 and December 2021 respectively. However, customers will be charged profits during this holiday payment extension period, and hence the Group does not expect significant modification loss as a result of the extension. The Group has provided payment holidays on financing exposures amounting to BD 21,634 thousand for the second deferral (September 2020 to December 2020) and BD 23,943 thousand for the third deferral (January 2021 to June 2021). The Group is still in the process of finalizing the fourth deferral (July 2021 to December 2021).

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

2021 (Reviewed)	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross financing assets	258,755	34,954	29,152	6,621	329,482
Less: Impairment allowance	(6,251)	(2,355)	(11,417)	(372)	(20,395)
Net financing assets	252,504	32,599	17,735	6,249	309,087

2020 (Audited)	Stage 1	Stage 2	Stage 3	POCI	Total
Gross financing assets	251,460	33,335	32,666	7,311	324,772
Less: impairment allowance	(7,230)	(1,934)	(7,891)	-	(17,055)
Net financing assets	244,230	31,401	24,775	7,311	307,717

* 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 23% (31 December 2020: 26%) compared to their original contractual outstanding amounts.

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8 Investment in Sukuk

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk*	290,643	261,539
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,716)	(1,724)
	290,244	261,132

During the period, Group sold Sukuk of BD 95,423 thousand (2020: BD 10,431 thousand) for a gain of BD 4,781 thousand (2020: BD 22 thousand).

* As of 30 June 2021, Sukuk with carrying value of BD 115,858 thousand (31 December 2020: BD 113,952 thousand) was pledged against term borrowings of BD 76,980 thousand (31 December 2020: BD 75,477 thousand).

9 Assets acquired for leasing and lease rental receivables

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Assets acquired for leasing	154,133	173,389
Less: accumulated amortisation	(42,501)	(42,472)
Lease rental receivables	39,504	12,820
Total	151,136	143,737
Less: Impairment allowance	(4,698)	(3,983)
Assets acquired for leasing & lease rental receivables carrying amount	146,438	139,754

The breakup of gross assets acquired for leasing and lease rental receivables and impairment allowance per stage is as follows:

2021 (Reviewed)	Stage 1	Stage 2	Stage 3	Total
Assets acquired for leasing before impairment allowances & lease rental receivables	105,078	32,931	13,127	151,136
Less: impairment allowance	(248)	(1,061)	(3,389)	(4,698)
Assets acquired for leasing & lease rental receivables carrying amount	104,830	31,870	9,738	146,438
2020 (Audited)				
Assets acquired for leasing before impairment allowances & lease rental receivables	105,559	22,970	15,208	143,737
Less: Impairment allowance	(545)	(424)	(3,014)	(3,983)
Assets acquired for leasing & lease rental receivables carrying amount	105,014	22,546	12,194	139,754

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2021

BD 000's

10 Investment securities

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
<i>At fair value through income statement</i>		
- Structured notes	15,273	15,080
<i>At fair value through equity</i>		
- Unquoted equity securities*	32,888	40,812
	48,161	55,892

* Additional impairment charge for the period of BD Nil thousand was made (2020: BD 500 thousand).

11 Equity accounted investees

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Balance at 1 January	31,963	4,524
Additions during the period / year	-	27,759
Share of loss for the period / year	(613)	(320)
	31,350	31,963

12 Other assets

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Reposessed assets	-	11,144
Profit accrued on sukuk	4,335	3,836
Due from investments	1,047	1,044
Prepaid expenses	692	608
Right of use asset	1,085	-
Other receivables*	10,306	11,014
	17,465	27,646

*This is net of impairment allowance of BD 1,742 thousand (2020: BD 1,742 thousand).

During the period, reposessed assets (held-for-sale) have been reclassified as held-for-use and transferred to investment in real estate due to change in likelihood of immediate sale of such assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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13 Other liabilities

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Mudaraba profit accrual	3,253	5,581
Advance received from customers	463	443
Employee related accruals	212	269
Zakah and charity payable	471	696
Payable for Istisna'a contracts	27	27
Net ijarah liability	917	-
Other payables and accrued expenses	4,640	6,253
	9,983	13,269

14 Equity of investment account holders

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Saving account	79,047	76,350
Term mudharaba	283,451	251,993
Others	84,296	97,006
	446,794	425,349

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

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Balances with banks	28,477	33,280
CBB reserve account	15,008	15,414
Placements with financial institutions	27,144	17,720
Debt type instruments – sukuk	290,244	261,132
Financing assets	85,921	97,803
	446,794	425,349

15 Paid up share capital

In their Extra -ordinary meeting on 25 March 2020, the shareholders resolved to write-off losses of BD 15,788 thousand against paid up capital by reducing the number of shares.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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16 Subordinated mudaraba (AT 1)

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Subordinated mudaraba (AT 1)	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.

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.
- 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.
- Subordinated Mudaraba is invested in a general mudarba pool of assets on a unrestricted comingled basis.
- 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.

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17 Commitments and contingencies

	30 June 2021 (Reviewed)	31 December 2020 (Audited)
Undrawn commitments to extend finance*	32,577	31,389
Financial guarantees	14,425	9,621
Letter of credit	568	559

* 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.

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 this claim. 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.

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

19 Fees and other income

	30 June 2021 (Reviewed)	30 June 2020 (Reviewed)
Fees income	553	685
Foreign exchange gain	416	442
Recovery of written off financing assets	458	17
Others	76	65
	1,503	1,209

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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BD 000's

20 Net impairment allowances

	30 June 2021 (Reviewed)	30 June 2020 (Reviewed)
Balances and placements with banks and financial institutions	4	1
Financing assets (note 7)	3,344	176
Investments in sukuk	(8)	59
Assets acquired for leasing (including lease rentals receivables) (note 9)	715	(124)
Commitments and financial guarantees	119	7
	4,174	119

The balance of allowance for credit losses in the below table includes all financial assets, assets acquired for leasing and off-balance sheet exposures.

30 June 2021 (Reviewed)	Stage 1	Stage 2	Stage 3	POCI	Total
Opening ECL balance at 1 January	8,337	2,364	12,298	-	22,999
Transfer to Stage 1	915	(285)	(630)	-	-
Transfer to Stage 2	(188)	391	(203)	-	-
Transfer to Stage 3	(146)	(322)	468	-	-
Net movement	581	(216)	(365)	-	-
Charge for the period (net)	(1,737)	1,268	4,271	372	4,174
Write off	-	-	(4)	-	(4)
Disposal	-	-	-	-	-
Closing ECL balance as at 30 June	7,181	3,416	16,200	372	27,169

30 June 2021 (Reviewed)

	Stage 1: 12-month ECL	Stage 2: Life time ECL non-credit impaired	Stage 3: Life time ECL credit impaired	Total
Balances and placements with banks and financial institutions	4	-	-	4
Financing assets (note 7)	6,251	2,355	11,789	20,395
Investments in sukuk	398	-	1,318	1,716
Assets acquired for leasing (including lease rentals receivables) (note 9)	248	1,061	3,389	4,698
Commitments and financial guarantees	280	-	76	356
	7,181	3,416	16,572	27,169

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BD 000's

20 *Net impairment allowances (continued)*

<i>30 June 2020 (Reviewed)</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Opening ECL balance at 1 January	4,909	3,123	24,751	10,082	42,865
Transfer to Stage 1	1,704	(1,160)	(544)	-	-
Transfer to Stage 2	(44)	772	(728)	-	-
Transfer to Stage 3	(20)	(2,229)	1,404	845	-
Net movement	1,640	(2,617)	132	845	-
Charge for the period (net)	278	1,444	(1,603)	-	119
Recoveries / write backs	-	-	-	-	-
Write off	-	-	(10,154)	-	(10,154)
Disposal	(108)	-	-	(10,927)	(11,035)
Closing ECL balance as at 30 June	6,719	1,950	13,126	-	21,795

30 June 2020 (Reviewed)

	Stage 1: 12-month ECL	Stage 2: Life time ECL non-credit impaired	Stage 3: Life time ECL credit impaired	Total
Balances and placements with banks and financial institutions	3	-	-	3
Financing assets (note 7)	6,147	1,846	9,045	17,038
Investments in sukuk	66	-	1,318	1,384
Assets acquired for leasing (including lease rentals receivables) (note 9)	310	99	2,687	3,096
Commitments and financial guarantees	193	5	76	274
	6,719	1,950	13,126	21,795

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21 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.

	Six months ended		Three months ended	
	30 June 2021 (Reviewed)	30 June 2020 (Reviewed)	30 June 2021 (Reviewed)	30 June 2020 (Unreviewed)
Profit for the period attributable to the shareholders of the parent	6,007	5,709	3,901	4,271
Less: Profit distribution on AT 1 Capital	(3,000)	-	(3,000)	-
Profit for the period attributable to the shareholders of the parent for basic and diluted earnings per share computation	3,007	5,709	901	4,271
Weighted average number of shares outstanding during the period, net of treasury shares (thousand)	803,538	803,929	803,370	803,753
Basic and diluted earnings per share (fils)	3.74	7.10	1.12	5.31

22 Assets under management

The Bank provides corporate administration, investment management and advisory services to its investment entities, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these condensed consolidated interim financial information. At the reporting date, the Group had assets under management of BD 265.95 million (31 December 2020: BD 267.98 million). During the period, the Bank has not charged any management fees (2020: BD NIL) for the management of these assets.

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23 Significant related party transactions

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

30 June 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
Assets					
Financing assets	-	2,922	6,670	-	9,592
Investment securities	-	-	2,284	18,314	20,598
Equity accounted investees	31,272	-	-	-	31,272
Other assets	117	-	-	828	945
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	2,404	11	-	2,415
Customers' current accounts	121	582	3,870	1,177	5,750
Equity of investment account holders	406	98	66,240	291	67,035
Other Liabilities	-	-	576	-	576

Six months ended 30 June 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
Income					
Income from financing assets and assets acquired for leasing	-	77	736	-	813
Income from investment in securities	-	-	-	263	263
Share of loss from equity accounted investees	(613)	-	-	-	(613)
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	18	529	-	547
Return to investment account holders	6	1	726	4	737
Staff cost	-	325	-	-	325
Other expenses	-	209	-	32	241

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23 *Significant related party transactions (Continued)*

31 December 2020 (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
Assets					
Financing assets	-	3,576	6,671	-	10,247
Investment securities	-	-	2,284	18,537	20,821
Equity accounted investees	31,963	-	-	-	31,963
Other assets	117	-	-	825	942
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	2,105	42,438	-	44,543
Customers' current accounts	135	85	6,784	1,211	8,215
Equity of investment account holders	413	241	79,846	327	80,827
Other liabilities	-	-	1,030	-	1,030

Six months ended 30 June 2020 (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
Income					
Income from financing assets and assets acquired for leasing	-	80	417	-	497
Share of loss from equity accounted investees	(12)	-	-	-	(12)
Fees and other income	-	-	2	-	2
Expenses					
Finance expense on placements from financial institutions, non- financial institutions and individuals	-	46	291	-	337
Return to investment account holders	7	-	965	4	976
Staff cost	-	1,143	-	-	1,143
Other expenses	-	-	-	21	21

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24 Segment information

30 June 2021 (Reviewed)	Corporate and Retail Banking	Investment Banking	Unallocated	Total
Segment revenue	28,816	(377)	-	28,439
Segment results	10,134	(746)	(3,414)	5,974
Segment assets	847,967	178,101	14,791	1,040,859

30 June 2020 (Reviewed)	Corporate and Retail Banking	Investment Banking	Unallocated	Total
Segment revenue	23,285	31	-	23,316
Segment results	9,502	(346)	(3,471)	5,685
Segment assets	788,259	158,450	14,104	960,813

25 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 290,643 thousand (31 December 2020: BD 261,539 thousand) is BD 284,122 thousand as at 30 June 2021 (31 December 2020: BD 275,366 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).

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25 *Financial instruments (continued)**b) Fair value hierarchy (Continued)***30 June 2021 (Reviewed)**

	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	-	15,273	-	15,273
Unquoted equity type securities carried at fair value through equity	-	-	32,888	32,888
	-	15,273	32,888	48,161

31 December 2020 (Audited)

	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	-	15,080	-	15,080
Unquoted equity type securities carried at fair value through equity	-	-	40,812	40,812
	-	15,080	40,812	55,892

The following table analyses the movement in Level 3 financial assets during the six month period ended 30 June 2021:

	30 June 2021 (Reviewed)	30 June 2020 (Reviewed)
At 1 January	40,812	11,174
Reclassification due to FAS 33 implementation	-	32,815
Fair value loss in income statement	(18)	(28)
Movement in investment fair value reserve	(94)	(226)
Purchases	-	8,205
Settlements / disposals	(7,812)	(11,174)
	32,888	40,766

During the six month period ended 30 June 2021, there were no transfers between Level 1 and Level 2 fair value measurements. Upon early adoption of FAS 33 on 1 January 2020, all investments in equity shares which were classified at cost less impairment were reclassified into fair value through equity and measured as level 3 financial assets.

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25 *Financial instruments (continued)**b) Fair value hierarchy (continued)*

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

30 June 2021 (Reviewed)

Valuation technique used	Key unobservable inputs	Fair value at 30 June 2021	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	103 / (103)
Market multiples approach	Price to book value	3,960	+/- 5%	212 / (212)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	763	+/- 5%	27 / (27)
		8,682		

31 December 2020 (Audited)

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2020	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	103 / (103)
Market multiples approach	Price to book value	11,664	+/- 5%	702 / (702)
Market multiples approach	Price to total assets	1,142	+/- 5%	32 / (32)
Discounted cash flow	Cost of equity and terminal growth rate	792	+/- 5%	27 / (27)
		16,415		

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25 *Financial instruments (continued)**b) Fair value hierarchy (Continued)***Financial instruments not at fair value**

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

30 June 2021

	Carrying amount (Reviewed)	Fair value (Reviewed)
Financial assets:		
Financing assets	309,087	309,087
Investment in sukuk	290,244	284,122
Investment securities	48,161	48,161
Assets acquired for leasing	111,631	111,631
Lease rentals receivables	34,807	34,807
	793,930	787,808
Financial liabilities:		
Customers' current accounts	57,969	57,969

31 December 2020

	Carrying amount (Audited)	Fair value (Audited)
Financial assets:		
Financing assets	307,717	307,717
Investment in sukuk	261,132	275,366
Investment securities	55,892	55,892
Assets acquired for leasing	126,934	126,934
Lease rentals receivables	12,820	12,820
	764,495	778,729
Financial liabilities:		
Customers' current accounts	55,676	55,676

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.

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26 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 30 June 2021, the Bank maintained LCR of 301.31% (31 December 2020: 198.28%) which is above regulatory minimum of 80% applicable until 31 December 2021.

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".

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 30 June 2021 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	156,306	-	-	9,172	165,478
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	63,694	12,865	2,502	75,232
Less Stable deposits	-	153,844	74,687	10,742	216,420
Wholesale funding:					
Operational deposits	-	412,229	117,598	28,535	176,892
Other wholesale funding	-	412,229	117,598	28,535	176,892
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	8,396	-	-	-
Total ASF	156,306	638,163	205,150	50,951	634,022

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BD 000's

26 *Regulatory ratios (continued)**b. Net stable funding Ratio (NSFR) (continued)*

Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	293,675	-	-	-	16,793
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	-	55,626	-	-	8,344
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	69,206	33,215	316,135	319,925
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	13,163	8,556
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	131,408	32,154	-	5,523	152,179
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	89,683	-	-	-	89,683
OBS items	47,571	-	-	-	2,379
Total RSF	562,337	156,986	33,215	334,821	597,859
NSFR%					106.05%

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BD 000's

26 *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 December 2020 is as follows:

	Unweighted values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	153,561	-	-	8,980	162,541
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	-	-	-	-
Less Stable deposits	-	174,719	70,275	44,572	265,067
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	497,624	42,200	20,870	205,322
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	12,133	-	-	-
Total ASF	153,561	684,476	112,475	74,422	632,930

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BD 000's

26 *Regulatory ratios (continued)**b. Net stable funding Ratio (NSFR)*Required Stable Funding (RSF):

Total NSFR high-quality liquid assets (HQLA)	273,568	-	-	-	15,341
Performing financing assets and loans / securities					
Performing loan to financial institutions secured by level 1 HQLA	-	51,001	-	-	7,650
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	67,044	32,874	318,236	320,459
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	-	-
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	8,326	5,412
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	139,751	32,205	-	5,501	160,530
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	99,149	-	-	-	99,149
OBS items	41,570	-	-	-	2,078
Total RSF	554,038	150,250	32,874	332,063	610,619
NSFR%					103.65%

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BD 000's

26 *Regulatory ratios (continued)*c. *Capital Adequacy Ratio*

	30 June 2021	31 December 2020
CET 1 Capital before regulatory adjustments	119,166	116,422
Less: regulatory adjustments	(11,926)	(11,859)
<i>CET 1 Capital after regulatory adjustments</i>	107,240	104,563
<i>T1 Capital</i>	47,222	47,222
T 2 Capital adjustments	9,172	8,940
Regulatory Capital	163,634	160,725
Risk weighted exposure:		
Credit Risk Weighted Assets	733,743	715,233
Market Risk Weighted Assets	8,275	8,263
Operational Risk Weighted Assets	67,775	67,775
Total Regulatory Risk Weighted Assets	809,793	791,271
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	809,793	791,271
Capital Adequacy Ratio	20.21%	20.31%
Tier 1 Capital Adequacy Ratio	19.07%	19.18%
Minimum required by CBB	12.50%	12.50%

27 **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. FAS 32 was adopted prospectively effective 1 January 2021 and comparative figures have not been restated.

SUPPLEMENTARY DISCLOSURES – COVID-19

(The attached information do not form part of the condensed consolidated interim financial information)

SUPPLEMENTARY DISCLOSURES – COVID-19**UNREVIEWED SUPPLEMENTARY DISCLOSURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global slowdown with uncertainties in the economic environment. This included disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The Central Bank of Bahrain (CBB) announced various measures to combat the effect of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.
- The CBB subsequently announced second, third and fourth deferrals of instalments of financing effective September 2020 for a period of four months, January 2021 for a period of six months and July 2021 for a period of six months. These deferments allowed the Banks to charge profit, and as such, did not result any additional modification losses to the Group.

The aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holiday requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- The Government of Kingdom of Bahrain has announces various economic stimulus programmes (“Packages”) to support business in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group’s equity.
- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group’s fees income.
- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.
- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the 6 months ended 30 June 2021, financing assets bookings were 29.88% lower than the same period of the previous year.

SUPPLEMENTARY DISCLOSURES – COVID-19*UNREVIEWED SUPPLEMENTARY DISCLOSURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)*

- Decreased consumer spending caused by the economic slow-down in the booking of new financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday.
- The stressed economic situation resulted in the Bank recognizing incremental ECL on its exposure.

A summary of the cumulative financial impact of the impact of the above effects from March 2020 is as follows:

	Net Impact on the Group's consolidated income statement BD '000	Net Impact on the Group's consolidated financial position BD '000	Net Impact on the Group's consolidated owners' equity BD '000
Average reduction of cash reserve	-	9,873	-
Concessionary repo at 0%	(278)	48,888	278
Modification loss	-	(9,452)	(9,452)
Modification loss amortization	9,452	9,452	-
Government grants	-	-	791
Credit card income	(313)	-	-
ECL attributable to COVID-19	(2,200)	(2,200)	-
	<u>6,661</u>	<u>56,561</u>	<u>(8,383)</u>

The above supplementary information is provided to comply with CBB circular number OG/259/2020 (reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as indication of the results if the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of date of preparation of this information. Circumstances may change which may result in this information to be out-of-date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.