

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 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
Auditors	:	KPMG Fakhro, Bahrain

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2021

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2021

BD 000's

	Note	30 September 2021 (Reviewed)	31 December 2020 (Audited)
ASSETS			
Cash and bank balances		65,807	83,017
Placements with financial institutions		36,937	17,720
Investment in sukuk	7	282,879	261,132
Financing assets	8	315,344	307,717
Ijarah assets	9	148,644	139,754
Investment securities	10	48,057	55,892
Investment in real estate		94,205	83,303
Equity accounted investees	11	31,841	31,963
Other assets	12	16,973	27,646
Property and equipment		7,559	7,450
Total assets		1,048,246	1,015,594
LIABILITIES			
Placements from financial institutions		100,980	79,545
Placements from non-financial institutions and individuals		190,293	214,243
Term borrowings		81,084	75,477
Customers' current accounts		50,658	55,676
Other liabilities	13	11,177	13,269
Total liabilities		434,192	438,210
Equity of investment account holders			
From financial institutions	14	63,172	26,154
From non-financial institutions and individuals		393,555	399,195
Total equity of investment account holders		456,727	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		36	348
Retained earnings		13,567	7,863
Total owners' equity		147,135	141,810
Non-controlling interest		10,192	10,225
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		1,048,246	1,015,594

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


 Jassim Mohamed Alseddqi
 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 nine months ended 30 September 2021

BD 000's

	Note	Nine months ended		Three months ended	
		30 September 2021 (Reviewed)	30 September 2020 (Reviewed)	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)
Income from financing and Ijarah assets		22,183	22,963	7,196	7,405
Income from placements with financial institutions		125	482	28	130
Income from sukuk	7	16,892	9,366	4,630	3,331
Income from investment securities		435	180	232	6
Share of loss from equity accounted investees	11	(722)	(12)	(109)	-
Fees and other income	19	2,238	1,839	735	630
Total income before return to investment account holders		41,151	34,818	12,712	11,502
Less: Return to investment account holders before Bank's share as Mudarib		(19,710)	(15,861)	(5,790)	(4,384)
Bank's share as a Mudarib		10,681	6,569	2,828	1,116
Return to investment account holders		(9,029)	(9,292)	(2,962)	(3,268)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(9,338)	(9,064)	(3,095)	(3,297)
Finance expense on term borrowings		(923)	(609)	(378)	(453)
Total income		21,861	15,853	6,277	4,484
Staff cost		4,327	4,689	1,322	1,217
Other operating expenses		3,696	2,979	1,265	886
Total expenses		8,023	7,668	2,587	2,103
Profit before impairment allowances		13,838	8,185	3,690	2,381
Net impairment charge	20	(5,030)	(464)	(856)	(345)
PROFIT FOR THE PERIOD		8,808	7,721	2,834	2,036
Attributable to:					
Shareholders of the parent		8,841	7,777	2,834	2,068
Non-controlling interest		(33)	(56)	-	(32)
		8,808	7,721	2,834	2,036
Earnings per share					
Basic and diluted earnings per share (fils)	21	7.268	9.674	3.526	2.572


 Jassim Mohamed Alseddiq
 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 STATEMENT OF CHANGES IN EQUITY
for the nine months ended 30 September 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 September 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	-	-	-	(312)	-	-	(312)	-	(312)
Profit for the period	-	-	-	-	-	8,841	8,841	(33)	8,808
Total recognised income and expense for the period	-	-	-	(312)	-	8,841	8,529	(33)	8,496
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 September 2021	89,212	9,024	(11,926)	36	47,222	13,567	147,135	10,192	157,327

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 nine months ended 30 September 2021 (Continued)

BD 000's

30 September 2020 (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
Balance at 1 January 2020	105,000	8,225	(11,730)	-	-	(15,788)	85,707	2,200	87,907
Fair value changes	-	-	-	(54)	-	-	(54)	-	(54)
Profit for the period	-	-	-	-	-	7,777	7,777	(56)	7,721
Total recognised income and expense for the period	-	-	-	(54)	-	7,777	7,723	(56)	7,667
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 2a)	-	-	-	-	-	(9,452)	(9,452)	-	(9,452)
Government grant (Note 2b)	-	-	-	-	-	1,069	1,069	-	1,069
Capital reduction (note 15)	(15,788)	-	-	-	-	15,788	-	-	-
Purchase of treasury shares	-	-	(129)	-	-	-	(129)	-	(129)
Issue of shares under incentive share scheme	-	-	-	-	-	109	109	-	109
Gain of Control	-	-	-	-	-	-	-	8,106	8,106
Transfer to Zakah fund	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 30 September 2020	89,212	8,225	(11,859)	(54)	47,060	11,285	143,869	10,250	154,119

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 nine months ended 30 September 2021

BD 000's

	Nine months ended 30 September 2021 (Reviewed)	Nine months ended 30 September 2020 (Reviewed)
OPERATING ACTIVITIES		
Receipts from financing assets, net	4,439	5,191
(Payments for) / receipts from Ijarah assets	(3,883)	3,551
Income from short-term placements received	126	482
Returns paid to investment account holders	(10,308)	(12,539)
Receipts / (withdrawals) from investment account holders, net	31,377	(98,362)
Payments for expenses	(8,726)	(10,681)
Other receipts	2,238	1,839
Contributions paid to charitable organisations	(463)	(57)
Withdrawals from customers' current accounts, net	(5,018)	(8,564)
Receipts / (withdrawals) from placements from financial institutions, net	21,434	(7,116)
(Withdrawals) / receipts from placements from non-financial institutions and individuals, net	(23,950)	70,035
Net receipts from CBB reserve account	306	10,365
Payment of profit on placements	(9,338)	(9,064)
Net cash used in operating activities	(1,766)	(54,920)
INVESTING ACTIVITIES		
Purchase of sukuk	(165,635)	(75,821)
Proceeds from sale / redemption of sukuk	149,193	10,458
Income from sukuk received	10,972	9,612
Purchase of investments	-	(15,127)
Proceeds from disposal / redemption of investments	7,321	-
Proceeds from disposal of investment in real estate	242	728
Income from investment securities	636	202
Purchase of property and equipment, net	(389)	(119)
Net cash from / (used in) investing activities	2,340	(70,067)
FINANCING ACTIVITIES		
Treasury shares, net	55	49
Drawdown of term borrowings	5,607	43,632
Cash from injection of AT1 Capital	-	11,447
Profit distribution on AT 1 capital	(3,000)	-
Finance expenses paid on term borrowings	(923)	(330)
Net cash from financing activities	1,739	54,798
Net increase / (decrease) in cash and cash equivalents	2,313	(70,189)
Cash and cash equivalents at beginning of the period	85,323	144,454
Cash and cash equivalents at end of the period	87,636	74,265
Cash and cash equivalents comprises:*		
Cash and bank balances (excluding CBB reserve)	50,699	27,097
Placement with financial institutions	36,937	47,168
	87,636	74,265

* Cash and cash equivalents is net of the expected credit loss of BD Nil thousand (2020: BD 4 thousand).

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 nine months ended 30 September 2021

BD 000's

30 September 2021

(Reviewed)

	Balance at 1 January 2021			Movements during the period					Balance at 30 September 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	Administration 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 September 2020 (Reviewed)

	Balance at 1 January 2020			Movements during the period					Balance at 30 September 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	Administration 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 nine months ended 30 September 2021

BD 000's

	Nine months ended 30 September 2021 (Reviewed)	Nine months ended 30 September 2020 (Reviewed)
Sources of zakah and charity fund		
At 1 January	696	714
Contributions by the bank	230	218
Non-Islamic income	9	37
Total sources	935	969
Uses of zakah and charity fund		
Contributions to charitable organisations	(463)	(57)
Total uses	(463)	(57)
Undistributed zakah and charity fund at end of the period	472	912

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 nine months ended 30 September 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 4 November 2021, the Parent made a public announcement on Bahrain Bourse of a voluntary conditional offer to acquire 100% of the issued and paid up ordinary shares of the Bank. Which represents up to 187,589,034 ordinary shares of the Bank (constituting voting rights), not currently owned by the Parent, representing up to 21.03% stake of the Bank's issued and paid up share capital. The offer would be carried out through exchange of shares in the ratio of 0.914 shares of the Parent for each share of the Bank, at the discretion of each shareholder of the Bank and subject to satisfaction or waiver of the conditions precedent by the Parent, where applicable.

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 8 for further details;
- 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; and
- 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 9,452 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 nine months ended 30 September 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

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 2020 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 nine months ended 30 September 2020.

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 nine months ended 30 September 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 nine months ended 30 September 2021

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)

(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 September 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 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)

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 (“Ijarah Assets”) 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 September 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	(292)
Balance as at 30 September	942

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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 September 2021 (reviewed)		
	Gross Ijarah liability	Deferred Ijarah	Net Ijarah liability
Less than one year	484	(19)	465
One to five years	399	(12)	387
Total	883	(31)	852

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 Investment in Sukuk

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk*	283,416	261,539
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,854)	(1,724)
	282,879	261,132

During the period, Group sold Sukuk of BD 127,653 thousand (2020: BD 10,431 thousand) for a gain of BD 5,922 thousand (2020: BD 22 thousand).

* As of 30 September 2021, Sukuk with carrying value of BD 109,572 thousand (31 December 2020: BD 113,952 thousand) was pledged against term borrowings of BD 81,084 thousand (31 December 2020: BD 75,477 thousand).

8 Financing assets

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Murabaha (net of deferred profit)	335,114	322,220
Musharaka	-	104
Wakala	90	90
Mudaraba	980	1,014
Istisna	-	1,344
Gross financing assets	336,184	324,772
Less: Impairment allowances	(20,840)	(17,055)
Net financing assets	315,344	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).

Murabaha is net of deferred profit of BD 17,936 thousand (2020:BD 18,862 thousand).

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8 *Financing assets (continued)*

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	264,139	35,959	29,796	6,290	336,184
Less: Impairment allowance	(6,796)	(1,923)	(11,549)	(572)	(20,840)
Net financing assets	257,343	34,036	18,247	5,718	315,344

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 21% (31 December 2020: 26%) compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) are carried at 34% (31 December 2020: 44%) compared to their original contractual outstanding amounts.

9 **Ijarah Assets**

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Gross Ijarah assets	153,354	143,737
Less: Impairment allowance	(4,710)	(3,983)
Ijarah assets carrying amount	148,644	139,754

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9 *Ijarah assets (continued)*

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

2021 (Reviewed)	Stage 1	Stage 2	Stage 3	Total
Gross Ijarah assets	106,194	33,817	13,343	153,354
Less: impairment allowance	(261)	(1,077)	(3,372)	(4,710)
Net Ijarah assets	105,933	32,740	9,971	148,644

2020 (Audited)	Stage 1	Stage 2	Stage 3	Total
Gross Ijarah assets	105,559	22,970	15,208	143,737
Less: Impairment allowance	(545)	(424)	(3,014)	(3,983)
Net Ijarah assets	105,014	22,546	12,194	139,754

10 **Investment securities**

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
<i>At fair value through income statement</i>		
- Structured notes	15,402	15,080
<i>At fair value through equity</i>		
- Unquoted equity securities*	32,655	40,812
	48,057	55,892

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

11 **Equity accounted investees**

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Balance at 1 January	31,963	4,524
Additions during the period	600	27,759
Share of loss for the period	(722)	(320)
	31,841	31,963

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12 Other assets

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Reposessed assets	-	11,144
Profit accrued on sukuk	4,320	3,836
Due from investments	1,046	1,044
Prepaid expenses	533	608
Right of use asset	942	-
Other receivables*	10,132	11,014
	16,973	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.

13 Other liabilities

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Mudaraba profit accrual	4,302	5,581
Advance received form customers	549	443
Employee related accruals	339	269
Zakah and charity payable	472	696
Payable for Istisna'a contracts	27	27
Net Ijarah liability	852	-
Other payables and accrued expenses	4,636	6,253
	11,177	13,269

14 Equity of investment account holders

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Saving account	79,192	76,350
Term mudharaba	292,611	251,993
Others	84,924	97,006
	456,727	425,349

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14 Equity of investment account holders (continued)

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

	30 September 2021 (Reviewed)	31 December 2020 (Audited)
Balances with banks	25,746	33,280
CBB reserve account	15,108	15,414
Placements with financial institutions	23,751	17,720
Debt type instruments – sukuk	282,879	261,132
Financing assets	109,243	97,803
	456,727	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.

16 Subordinated mudaraba (AT 1)

	30 September 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 mudaraba 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 September 2021 (Reviewed)	31 December 2020 (Audited)
Undrawn commitments to extend finance*	39,381	31,389
Financial guarantees	15,484	9,621
Letter of credit	282	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 September 2021 (Reviewed)	30 September 2020 (Reviewed)
Fees income	911	991
Foreign exchange gain	567	480
Recovery of written off financing assets	715	304
Others	45	64
	2,238	1,839

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20 Net impairment allowances

	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)
Balances and placements with banks and financial institutions	-	2
Financing assets (note 8)	4,031	160
Investments in sukuk (note 7)	131	54
Ijarah assets (note 9)	727	182
Commitments and financial guarantees	141	66
	5,030	464

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

30 September 2021
(Reviewed)

	Stage 1	Stage 2	Stage 3	POCI	Total
Opening ECL balance at 1 January	8,337	2,364	14,039	-	24,740
Transfer to Stage 1	842	(251)	(591)	-	-
Transfer to Stage 2	(186)	562	(376)	-	-
Transfer to Stage 3	(152)	(196)	348	-	-
Net movement	504	115	(619)	-	-
Charge for the period (net)	(951)	521	4,888	572	5,030
Write off	-	-	(4)	-	(4)
Disposal	-	-	-	-	-
Closing ECL balance as at 30 September	7,890	3,000	18,304	572	29,766

30 September 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	-	-	-	-
Financing assets (note 8)	6,796	1,923	12,121	20,840
Investments in sukuk (note 7)	537	-	1,317	1,854
Ijarah assets (note 9)	261	1,077	3,372	4,710
Commitments and financial guarantees	296	-	325	621
Other Assets	-	-	1,741	1,741
	7,890	3,000	18,876	29,766

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20 *Net impairment allowances (continued)*

<i>30 September 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	1,313	(948)	(365)	-	-
Transfer to Stage 2	(122)	285	(163)	-	-
Transfer to Stage 3	(131)	(2,305)	1,591	845	-
Net movement	1,060	(2,968)	1,063	845	-
Charge for the period (net)	274	2,799	37	-	3,110
Recoveries / write backs	-	-	(2,646)	-	(2,646)
Write off	-	-	(10,150)	-	(10,150)
Disposal	(113)	-	-	(10,927)	(11,040)
Closing ECL balance as at 30 September	6,130	2,954	13,055	-	22,139

30 September 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	4	-	-	4
Financing assets (note 8)	5,534	2,733	8,755	17,022
Investments in sukuk (note 7)	60	-	1,318	1,378
Ijarah assets (note 9)	273	221	2,906	3,400
Commitments and financial guarantees	259	-	76	335
	6,130	2,954	13,055	22,139

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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.

	Nine months ended		Three months ended	
	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)
Profit for the period attributable to the shareholders of the parent	8,841	7,777	2,833	2,068
Less: Profit distribution on AT 1 Capital	(3,000)	-	-	-
Profit for the period attributable to the shareholders of the parent for basic and diluted earnings per share computation	5,841	7,777	2,833	2,068
Weighted average number of shares outstanding during the period, net of treasury shares (thousand)	803,584	803,930	803,675	803,933
Basic and diluted earnings per share (fils)	7.268	9.674	3.526	2.572

AT1 Dividends are paid semi-annually and hence not adjusted every quarter. Accordingly, the quarterly EPS may not be indicative of the annual measure.

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 264.48 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 September 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	-	2,947	6,530	-	9,477
Investment securities	-	-	2,284	18,100	20,384
Equity accounted investees	31,990	-	-	-	31,990
Other assets	117	-	-	-	117
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	1,670	-	-	1,670
Customers' current accounts	561	138	5,210	24	5,933
Equity of investment account holders	410	134	66,555	291	67,390
Other Liabilities	-	-	576	-	576

Nine months ended 30 September 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 and Ijarah assets	-	117	879	-	996
Income from investment securities	-	-	-	263	263
Share of loss from equity accounted investees	(722)	-	-	-	(722)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	19	-	-	19
Return to investment account holders	9	1	1,927	5	1,942
Staff cost	-	485	-	-	485
Other operating expenses	-	-	280	44	324

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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
Nine months ended 30 September 2020 (Reviewed)					
Income					
Income from financing and Ijarah assets	-	49	721	-	770
Income from investment securities	-	-	-	-	-
Share of loss from equity accounted investees	(12)	-	2	-	(10)
Expenses					
Finance expense on placements from financial institutions, non- financial institutions and individuals	-	85	671	-	756
Return to investment account holders	10	3	1,200	6	1,219
Staff cost	-	1,296	-	-	1,296
Other operating expenses	-	-	-	27	27

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24 Segment information**30 September 2021
(Reviewed)**

	Corporate and Retail Banking	Investment Banking	Unallocated	Total
Segment revenue	41,406	(255)	-	41,151
Segment results	14,667	(770)	(5,089)	8,808
Segment assets	855,310	178,619	14,317	1,048,246

**30 September 2020
(Reviewed)**

	Corporate and Retail Banking	Investment Banking	Unallocated	Total
Segment revenue	34,803	15	-	34,818
Segment results	13,000	(510)	(4,769)	7,721
Segment assets	804,187	181,744	13,754	999,685

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 283,416 thousand (31 December 2020: BD 261,539 thousand) is BD 274,337 thousand as at 30 September 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 September 2021 (Reviewed)**

	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	-	15,402	-	15,402
Unquoted equity type securities carried at fair value through equity	-	-	32,655	32,655
	-	15,402	32,655	48,057

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 nine month period ended 30 September 2021:

	30 September 2021 (Reviewed)	30 September 2020 (Reviewed)
At 1 January	40,812	11,174
Reclassification due to FAS 33 implementation	-	-
Fair value loss in income statement	(33)	-
Movement in investment fair value reserve	(312)	(54)
Purchases	-	23,339
Settlements / disposals	(7,812)	(11,174)
	32,655	23,285

During the nine month period ended 30 September 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 September 2021 (Reviewed)

Valuation technique used	Key unobservable inputs	Fair value at 30 September 2021	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	38 / (38)
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)
		8,696		

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 September 2021

	Carrying amount (Reviewed)	Fair value (Reviewed)
Financial assets:		
Investment in sukuk	282,879	274,337
Financing assets	315,344	315,344
Ijarah assets	148,644	148,644
Investment securities	48,057	48,057
	794,924	786,382
Financial liabilities:		
Customers' current accounts	50,658	50,658

31 December 2020

	Carrying amount (Audited)	Fair value (Audited)
Financial assets:		
Investment in sukuk	261,132	275,366
Financing assets	307,717	307,717
Ijarah assets	139,754	139,754
Investment securities	55,892	55,892
	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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BD 000's

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 September 2021, the Bank maintained LCR of 252.47% (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 September 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	158,920	-	-	9,319	168,239
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	70,920	7,085	1,822	75,927
Less Stable deposits	-	192,346	39,883	8,628	217,633
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	480,227	50,720	28,641	170,079
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	9,590	-	-	-
Total ASF	158,920	753,083	97,688	48,410	631,878

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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)	285,813	-	-	-	16,192
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	-	62,683	-	-	9,402
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	86,391	23,045	324,822	330,817
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	5,267	3,424
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	131,794	32,129	-	5,534	152,562
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	89,390	-	-	-	89,390
OBS items	54,778	-	-	-	2,739
Total RSF	561,775	181,203	23,045	335,623	604,526
NSFR%					104.52%

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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)*

<u>Required Stable Funding (RSF):</u>					
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 September 2021	31 December 2020
CET 1 Capital before regulatory adjustments	121,780	116,422
Less: regulatory adjustments	(11,926)	(11,859)
<i>CET 1 Capital after regulatory adjustments</i>	109,854	104,563
<i>T1 Capital</i>	47,222	47,222
T 2 Capital adjustments	9,327	8,940
Regulatory Capital	166,403	160,725
Risk weighted exposure:		
Credit Risk Weighted Assets	746,164	715,233
Market Risk Weighted Assets	8,000	8,263
Operational Risk Weighted Assets	67,775	67,775
Total Regulatory Risk Weighted Assets	821,939	791,271
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	821,939	791,271
Capital Adequacy Ratio	20.25%	20.31%
Tier 1 Capital Adequacy Ratio	19.11%	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 nine months ended 30 September 2021, financing assets bookings were 24.9% 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 Group, 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 Group 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	-	9,899	-
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	(2,450)	(2,450)	-
	<u>6,411</u>	<u>56,337</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.