

**BAHRAIN ISLAMIC BANK B.S.C.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**30 SEPTEMBER 2021**

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

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

The Board of Directors  
Bahrain Islamic Bank B.S.C.  
Manama  
Kingdom of Bahrain

25 October 2021

### **Introduction**

We have reviewed the accompanying 30 September 2021 condensed consolidated interim financial information of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of sources and uses of good faith qard fund for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the nine-month period ended 30 September 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 as stated in note 2 of this condensed consolidated interim financial information. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation as stated in note 2 of this condensed consolidated interim financial information.


# Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

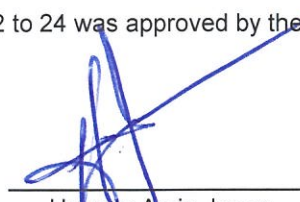
As at 30 September 2021

	Note	30 September 2021 BD'000 (reviewed)	31 December 2020 BD'000 (audited)
<b>ASSETS</b>			
Cash and balances with banks and Central Bank		50,258	50,362
Placements with financial institutions		110,632	44,442
Financing assets	9	601,554	571,513
Investment securities	10	245,866	276,608
Ijarah Muntahia Bittamleek	11	226,786	191,365
Ijarah rental receivables	11	24,640	20,677
Investment in associates		9,231	19,024
Investment in real estate	12	15,709	16,226
Property and equipment		13,705	14,047
Other assets	13	7,155	7,317
<b>TOTAL ASSETS</b>		<b>1,305,536</b>	<b>1,211,581</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		146,547	147,893
Placements from non-financial institutions and individuals		221,150	261,002
Borrowings from financial institutions	14	19,113	-
Customers' current accounts		243,280	188,742
Other liabilities	15	29,390	23,642
<b>Total Liabilities</b>		<b>659,480</b>	<b>621,279</b>
<b>Equity of Investment Accountholders</b>			
Financial institutions		53,822	33,986
Non-financial institutions and individuals		468,619	460,274
<b>Total Equity of Investment Accountholders</b>	16	<b>522,441</b>	<b>494,260</b>
<b>Owners' Equity</b>			
Share capital		106,406	106,406
Subordinated Mudaraba (AT1)		25,000	-
Treasury shares		(892)	(892)
Shares under employee share incentive scheme		(289)	(257)
Share premium		206	206
Reserves		(6,816)	(9,421)
<b>Total Owners' Equity</b>		<b>123,615</b>	<b>96,042</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,305,536</b>	<b>1,211,581</b>

The condensed consolidated interim financial information comprising of pages 2 to 24 was approved by the Board of Directors on 25 October 2021 and signed on its behalf by:

  
Dr. Esam Abdulla Fakhro  
Chairman

  
Khalid Yousif Abdul Rahman  
Vice Chairman

  
Hassan Amin Jarrar  
Chief Executive Officer



Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2021

		Nine months ended 30 September		Three months ended 30 September	
	Note	2021 BD'000 (reviewed)	2020 BD'000 (reviewed)	2021 BD'000 (reviewed)	2020 BD'000 (reviewed)
<b>INCOME</b>					
Income from financing		31,849	30,017	10,745	9,632
Income from investment in Sukuk	18	10,005	9,283	3,152	3,279
<b>Total income from jointly financed assets</b>		<b>41,854</b>	<b>39,300</b>	<b>13,897</b>	<b>12,911</b>
Return on equity of investment accountholders		(18,903)	(17,933)	(6,304)	(7,765)
Group's share as Mudarib		16,160	14,758	5,419	6,742
Net return on equity of investment accountholders		(2,743)	(3,175)	(885)	(1,023)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>		<b>39,111</b>	<b>36,125</b>	<b>13,012</b>	<b>11,888</b>
Expense on placements from financial institutions		(2,137)	(3,944)	(643)	(1,182)
Expense on placements from non-financial institutions and individuals		(5,524)	(7,223)	(1,877)	(2,485)
Expense on borrowings from financial institutions		(114)	(178)	(46)	-
Fee and commission income, net		4,150	3,034	1,351	859
Income from investment securities, net		72	925	58	-
Income from investment in real estate, net		(442)	(383)	(388)	70
Share of results of associates, net		(356)	(227)	2	(230)
Other income, net		1,041	1,429	257	338
<b>Total income</b>		<b>35,801</b>	<b>29,558</b>	<b>11,726</b>	<b>9,258</b>
<b>EXPENSES</b>					
Staff costs		8,540	9,778	2,778	3,166
Depreciation and amortization		1,173	1,077	400	363
Other expenses		7,008	6,622	2,477	2,171
<b>Total expenses</b>		<b>16,721</b>	<b>17,477</b>	<b>5,655</b>	<b>5,700</b>
<b>Profit before impairment allowances and other provisions</b>		<b>19,080</b>	<b>12,081</b>	<b>6,071</b>	<b>3,558</b>
Impairment allowance and other provisions, net	19	(15,726)	(14,611)	(5,316)	(7,568)
<b>PROFIT / (LOSS) FOR THE PERIOD</b>		<b>3,354</b>	<b>(2,530)</b>	<b>755</b>	<b>(4,010)</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (filis)</b>		<b>3.19</b>	<b>(2.40)</b>	<b>0.72</b>	<b>(3.81)</b>

Dr. Esam Abdulla Fakhro  
Chairman

Khalid Yousif Abdul Rahman  
Vice Chairman

Hassan Amin Jarrar  
Chief Executive Officer

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the nine months ended 30 September 2021

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
	<b>(reviewed)</b>	<b>(reviewed)</b>
<b>OPERATING ACTIVITIES</b>		
Profit / (loss) for the period	3,354	(2,530)
Adjustments for non-cash items:		
Depreciation	935	1,077
Fair value movement on investment in real estate	517	395
Impairment allowance and other provisions, net	15,726	14,611
Amortization of right-of-use asset	238	-
Amortization of gain on sale of investment in real estate	(14)	(14)
Gain on sale of investment in associates	(49)	-
Gain on sale of investment securities	(649)	(836)
Loss on sale of investment in real estate	-	52
Loss on foreign exchange revaluation	-	95
Share of results of associates, net	356	227
Operating profit before changes in operating assets and liabilities	20,414	13,077
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	555	11,812
Financing assets	(37,751)	(5,429)
Ijarah Muntahia Bittamleek	(39,780)	(28,165)
Other assets	(81)	871
Customers' current accounts	54,538	14,451
Other liabilities	(1,928)	3,878
Placements from financial institutions	(5,394)	(12,095)
Placements from non-financial institutions and individuals	(39,852)	62,103
Equity of investment accountholders	28,181	(27,163)
<b>Net cash (used in) / from operating activities</b>	<b>(21,098)</b>	<b>33,340</b>
<b>INVESTING ACTIVITIES</b>		
Disposal of investment in real estate	-	130
Purchase of property and equipment	(593)	(1,526)
Purchase of investment securities	(30,264)	(64,661)
Proceeds from disposal of investment securities	58,005	34,052
Redemption of investment in associates	9,287	3,155
<b>Net cash from / (used in) investing activities</b>	<b>36,435</b>	<b>(28,850)</b>
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(114)	(149)
Proceeds from AT1 Capital	24,542	-
Borrowings from financial institutions	19,113	(29,287)
Lease liability paid	(279)	-
Dividends paid	-	(271)
<b>Net cash from / (used in) financing activities</b>	<b>43,262</b>	<b>(29,707)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>58,599</b>	<b>(25,217)</b>
Cash and cash equivalents at 1 January	68,580	99,670
<b>CASH AND CASH EQUIVALENTS AT 30 September</b>	<b>127,179</b>	<b>74,453</b>
Cash and cash equivalents comprise of:		
Cash on hand	9,820	20,312
Balances with CBB, excluding mandatory reserve deposits	44	15
Balances with banks and other financial institutions excluding restricted balances	6,683	7,467
Placements with financial institutions with original maturities less than 90 days	110,632	46,659
	<b>127,179</b>	<b>74,453</b>

# Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the nine months ended 30 September 2021

	Reserves									
	Shares under employee share incentive scheme			Real estate fair value reserve			Investment securities fair value reserve			Total owners' equity BD'000
	Share capital BD'000	Sub-ordinated mudaraba (AT1) BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	Real estate fair value reserve BD'000	Investment securities fair value reserve BD'000	(Accumulated losses) / Retained earnings BD'000	Total reserves BD'000	
<b>2021 - reviewed</b>										
Balance at 1 January 2021	106,406	-	(892)	(257)	206	2,178	1,696	(18,031)	(9,421)	96,042
Profit for the period	-	-	-	-	-	-	-	3,354	3,354	3,354
Zakah approved	-	-	-	-	-	-	-	(122)	(122)	(122)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)
Issuance of AT1	-	25,000	-	-	-	-	-	-	-	25,000
Issuance costs of AT1	-	-	-	-	-	-	-	(458)	(458)	(458)
Shares allocated to staff during the period	-	-	-	82	-	-	-	-	-	82
Purchase of treasury shares	-	-	(114)	-	-	-	-	-	-	(114)
Transfer to shares under employee share incentive scheme	-	-	114	(114)	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	81	-	81	81
<b>Balance at 30 September 2021</b>	<b>106,406</b>	<b>25,000</b>	<b>(892)</b>	<b>(289)</b>	<b>206</b>	<b>2,178</b>	<b>1,777</b>	<b>(15,507)</b>	<b>(6,816)</b>	<b>123,615</b>
<b>2020 - reviewed</b>										
Balance at 1 January 2020	106,406	-	(892)	(281)	180	2,049	718	8,007	15,510	120,923
Loss for the period	-	-	-	-	-	-	-	(2,530)	(2,530)	(2,530)
Zakah approved	-	-	-	-	-	-	-	(328)	(328)	(328)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)
Shares allocated to staff during the period	-	-	-	173	26	-	-	-	-	199
Government Subsidy*	-	-	-	-	-	-	-	1,814	1,814	1,814
Modification loss*	-	-	-	-	-	-	-	(14,584)	(14,584)	(14,584)
Purchase of treasury shares	-	-	(149)	-	-	-	-	-	-	(149)
Transfer to shares under employee share incentive scheme	-	-	149	(149)	-	-	-	-	-	-
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(513)	-	(513)	(513)
<b>Balance at 30 September 2020</b>	<b>106,406</b>	<b>-</b>	<b>(892)</b>	<b>(257)</b>	<b>206</b>	<b>2,049</b>	<b>205</b>	<b>(7,871)</b>	<b>(881)</b>	<b>104,582</b>

\* Refer to note 3

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF  
GOOD FAITH QARD FUND

For the nine months ended 30 September 2021

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
<b>2021 - reviewed</b>			
Balance at 1 January 2021	<u>79</u>	<u>138</u>	<u>217</u>
Sources of Qard Fund			
Repayments	<u>(16)</u>	<u>16</u>	<u>-</u>
Total sources during the period	<u>(16)</u>	<u>16</u>	<u>-</u>
Uses of Qard fund			
Marriage	<u>5</u>	<u>(5)</u>	<u>-</u>
Others (Waqf)	<u>15</u>	<u>(15)</u>	<u>-</u>
Total uses during the period	<u>20</u>	<u>(20)</u>	<u>-</u>
<b>Balance at 30 September 2021</b>	<u><b>83</b></u>	<u><b>134</b></u>	<u><b>217</b></u>
<b>2020 - reviewed</b>			
Balance at 1 January 2020	<u>57</u>	<u>160</u>	<u>217</u>
Sources of Qard Fund			
Repayments	<u>(11)</u>	<u>11</u>	<u>-</u>
Total sources during the period	<u>(11)</u>	<u>11</u>	<u>-</u>
Uses of Qard fund			
Marriage	<u>12</u>	<u>(12)</u>	<u>-</u>
Others (Waqf)	<u>28</u>	<u>(28)</u>	<u>-</u>
Total uses during the period	<u>40</u>	<u>(40)</u>	<u>-</u>
<b>Balance at 30 September 2020</b>	<u><b>86</b></u>	<u><b>131</b></u>	<u><b>217</b></u>
	<b>30 September 2021 BD'000 (reviewed)</b>	<b>30 September 2020 BD'000 (reviewed)</b>	
<b>Sources of Qard fund</b>			
Contribution by the Bank	<u>125</u>	<u>125</u>	
Donation	<u>3</u>	<u>3</u>	
Non-Islamic income	<u>89</u>	<u>89</u>	
	<u><b>217</b></u>	<u><b>217</b></u>	



# Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the nine months ended 30 September 2021

	<b>30 September 2021 BD'000 (reviewed)</b>	<b>30 September 2020 BD'000 (reviewed)</b>
<b>Sources of Zakah and charity funds</b>		
Undistributed Zakah and charity funds at the beginning of the period	243	401
Non-Islamic income / late payment fee	61	132
Contributions by the Bank for zakah	122	328
Contributions by the Bank for donations	250	250
Others	38	10
Total sources of Zakah and charity funds during the period	<u>714</u>	<u>1,121</u>
<b>Uses of Zakah and charity funds</b>		
Philanthropic societies	79	159
Aid to needy families	236	227
Others	10	421
Total uses of funds during the period	<u>325</u>	<u>807</u>
<b>Undistributed Zakah and charity funds at the end of the period</b>	<u><u>389</u></u>	<u><u>314</u></u>

## 1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

During 2019, one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse. The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank, NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%. Hence NBB is considered as Parent of the Bank for financial reporting purposes.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2020: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company W.L.L.

## 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") including the recently issued CBB circulars on regulatory concessionary measures in response to Coronavirus (COVID-19). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization 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 as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognized in accordance with the requirements of applicable FAS. Please refer to note (3) 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 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 recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss. Any other financial assistance is recognized in accordance with the requirements of FAS. Please refer to note (3) for further details.

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

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Accordingly, the 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 accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with FAS as modified by CBB. However, except for the changes due to adoption of new accounting standards as explained in note 4 below, all other accounting policies remain the same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's audited annual 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 consolidated financial statements as at and for the year ended 31 December 2020.

### 3 COVID-19 IMPACT

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

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

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

As of 30 September 2021, the Bank is compliant with the required Capital Adequacy Ratio, Net Stable Funding Ratio (NSFR), and Liquidity Coverage Ratio (LCR).

Following are some of the significant concessionary measures which were announced by the CBB in the year 2020:

- For assessment of SICR from stage 1 to stage 2 increase in number of days from 30 to 74 days
- 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%;
- Reduction of LCR and NSFR ratio from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and ending 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

#### Modification of financial assets

During the second quarter of 2020, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 14,711 thousand arising from the 6-month payment holidays provided to financing customers without charging additional profit was recognized directly in equity. The modification loss was calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had provided payment holidays on financing exposures amounting to BD 554,875 thousand (first deferral - March 2020 to September 2020) as part of its support to impacted customers.

#### Concessionary measures

In September 2020, December 2020 and May 2021, the CBB issued another regulatory directive 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 200,435 thousand for the second deferral (September 2020 to December 2020), BD 218,446 thousand for the third deferral (January 2021 to June 2021) and BD 220,774 thousand for the fourth deferral (July 2021 to December 2021).

In addition, the existing regulatory concessionary measures issued in 2020 (i.e. reduced levels of LCR, NSFR, SMEs risk weight, cash reserve ratio, cooling-off period for transferring exposures from stage 3 to stage 2, the relaxations concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days) were extended by the regulator until 31 December 2021.

#### 4 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 audited consolidated financial statements as at and for the year ended 31 December 2020, except for adoption of following standards and amendments to standards effective from 1 January 2021. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

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

###### (i) 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.

###### *(a) Change in accounting policy*

###### *Identifying an Ijarah*

At inception of a contract, the Bank 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 Bank 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 Bank 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 amortization and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Bank amortizes 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 Bank 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.

The Bank 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".

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*(i) FAS 32 Ijarah (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 are initially recognized as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:

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

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

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 Bank did not have any contracts with variable or supplementary rentals.

After the commencement date, the Bank measures the net Ijarah liability by:

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

The deferred Ijarah cost is amortized to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank recognizes the following in the income statement:

- Amortization 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 Bank 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 Bank considers the Ijarah as a modified Ijarah as of the effective date and recognizes a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognize the existing Ijarah transaction and balances.

*Expenses relating to underlying asset*

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

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

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

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

(i) FAS 32 Ijarah (Continued)

(b) Impact on adoption of FAS 32

The management of the Bank has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the Ijarah contracts outstanding as at 31 December 2020 are reflected in the balances as of 1 January 2021) and therefore comparative information has not been restated. The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in net Ijarah liability by BD 503 thousand. The lease contracts comprise of ATM sites, branches and car parks.

	Total Assets BD'000	Total Liabilities BD'000
Closing balance (31 December 2020)	1,211,581	621,279
<u>Impact on adoption:</u>		
Right-of-use asset	503	-
Net Ijarah liability		503
Opening balance under FAS 32 on date of initial application of 1 January 2021	<u>1,212,084</u>	<u>621,782</u>

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

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

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

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

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

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

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

**5 FINANCIAL RISK MANAGEMENT**

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

**IBOR reform**

Phase 2 of the IBOR project relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services remain a key area of focus. Management is in the process of planning for a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is expected to be significant in terms of scale and complexity and will impact products, internal systems and processes.

**6 JUDGMENT AND ESTIMATES**

Preparation of the 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 the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2020.

**7 COMPARATIVE INFORMATION**

The condensed interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the Group's audited consolidated financial statements for the year ended 31 December 2020 and comparatives for the condensed consolidated statements of income, changes in owner's equity, cash flows, sources and uses of Good Faith Qard Fund and sources and uses of Zakah and Charity Fund have been extracted from the Group's reviewed condensed consolidated interim financial information for the nine months ended 30 September 2020.

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group. FAS 32 has been adopted on a retrospective basis and comparatives have not been restated.

**8 SEASONALITY**

The Bank does not have significant income of seasonal nature. The Other income includes BD 24 thousand (2020: BD 89 thousand) of dividends received from Bank's investments.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

## 9 FINANCING ASSETS

	30 September 2021 BD'000 (Reviewed)	31 December 2020 BD'000 (Audited)
Murabaha	624,069	570,805
Musharaka	88,968	93,239
<b>Gross financing assets</b>	<b>713,037</b>	<b>664,044</b>
Deferred profits	(82,170)	(66,492)
Impairment allowance	(29,313)	(26,039)
<b>Net financing assets</b>	<b>601,554</b>	<b>571,513</b>

## 9.1 The movement on impairment allowance is as follows:

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
<b>Gross financing assets</b>	<b>580,929</b>	<b>70,467</b>	<b>61,641</b>	<b>713,037</b>
<b>Less: Deferred profits</b>	<b>63,884</b>	<b>8,847</b>	<b>9,439</b>	<b>82,170</b>
<b>Less: Impairment allowance</b>				
At 1 January 2021	2,627	5,052	18,360	26,039
Net movement between stages	(63)	228	(165)	-
Net charge for the period	965	2,438	363	3,766
Write-off	-	-	(492)	(492)
<b>Impairment allowance at 30 September 2021</b>	<b>3,529</b>	<b>7,718</b>	<b>18,066</b>	<b>29,313</b>
<b>Net financing assets</b>	<b>513,516</b>	<b>53,902</b>	<b>34,136</b>	<b>601,554</b>
2020	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
<b>Gross financing assets</b>	<b>544,058</b>	<b>58,524</b>	<b>61,462</b>	<b>664,044</b>
<b>Less: Deferred profits</b>	<b>52,576</b>	<b>5,064</b>	<b>8,852</b>	<b>66,492</b>
<b>Less: Impairment allowance</b>				
At 1 January 2020	1,615	1,557	26,298	29,470
Net movement between stages	434	(164)	(270)	-
Net charge for the year	578	3,659	11,376	15,613
Write-off	-	-	(19,044)	(19,044)
<b>Impairment allowance at 31 December 2020</b>	<b>2,627</b>	<b>5,052</b>	<b>18,360</b>	<b>26,039</b>
<b>Net financing assets</b>	<b>488,855</b>	<b>48,408</b>	<b>34,250</b>	<b>571,513</b>

**10 INVESTMENT SECURITIES**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
<b>i) Debt type instruments*</b>		
<i>Quoted Sukuk - carried at amortized cost</i>		
Gross balance at the beginning of the period	229,189	190,473
Acquisitions	6,377	60,059
Disposals and redemptions	(34,410)	(21,343)
<b>Gross balance at the end of the period</b>	<b>201,156</b>	<b>229,189</b>
Impairment allowance	(161)	(236)
<b>Net balance at the end of the period</b>	<b>200,995</b>	<b>228,953</b>
<i>Unquoted Sukuk - carried at amortized cost</i>		
Gross balance at the beginning of the period	35,495	35,534
Acquisitions	23,887	3,798
Disposals and redemptions	(22,946)	(3,822)
Foreign currency translation changes	32	(15)
<b>Gross balance at the end of the period</b>	<b>36,468</b>	<b>35,495</b>
Impairment allowance	(12,581)	(12,564)
<b>Net balance at the end of the period</b>	<b>23,887</b>	<b>22,931</b>
<b>ii) Equity type instruments</b>		
<i>Unquoted shares</i>	<b>20,548</b>	<b>24,288</b>
<i>Unquoted managed funds</i>	<b>436</b>	<b>436</b>
<b>Total net investment securities</b>	<b>245,866</b>	<b>276,608</b>

\* As of 30 September 2021, debt type instruments includes Sukuk of BD 20,920 thousand (31 December 2020: BD Nil thousand) pledged against borrowings from financial institutions of BD 19,113 thousand (31 December 2020: BD Nil thousand).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

## 11 IJARAH MUNTAHIA BITTAMLEEK &amp; IJARAH RENTAL RECEIVABLES

	30 September 2021 BD'000 (Reviewed)	31 December 2020 BD'000 (Audited)
Ijarah Muntahia Bittamleek	226,786	191,365
Ijarah rental receivables	24,640	20,677
<b>Ijarah muntahia bittamleek &amp; ljarah rental receivables carrying amount</b>	<b>251,426</b>	<b>212,042</b>
Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables	254,165	214,385
Impairment allowance	(2,739)	(2,343)
<b>Ijarah muntahia bittamleek &amp; ljarah rental receivables carrying amount</b>	<b>251,426</b>	<b>212,042</b>

## 11.1 The movement on impairment allowance is as follows:

2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables	239,389	11,058	3,718	254,165
Less: Impairment allowance				
At 1 January 2021	467	601	1,275	2,343
Net movement between stages	129	(145)	16	-
Net charge for the period	422	(114)	88	396
Impairment allowance at 30 September 2021	1,018	342	1,379	2,739
<b>Ijarah muntahia bittamleek &amp; Ijarah rental receivables carrying amount</b>	<b>238,371</b>	<b>10,716</b>	<b>2,339</b>	<b>251,426</b>
2020	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross Ijarah Muntahia Bittamleek & Ijarah rental receivables	196,014	14,714	3,657	214,385
Less: Impairment allowance				
At 1 January 2020	208	2,786	11,797	14,791
Net movement between stages	127	(2,351)	2,224	-
Net charge for the year	132	166	6,418	6,716
Write-off	-	-	(19,164)	(19,164)
Impairment allowance at 31 December 2020	467	601	1,275	2,343
<b>Ijarah muntahia bittamleek &amp; Ijarah rental receivables carrying amount</b>	<b>195,547</b>	<b>14,113</b>	<b>2,382</b>	<b>212,042</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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**12 INVESTMENT IN REAL ESTATE**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Lands	<b>15,709</b>	16,226
	<b>15,709</b>	16,226
	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Movement on investment in real estate:		
Beginning of the period	16,226	18,756
Disposal	-	(182)
Fair value changes	(517)	(2,348)
<b>End of the period</b>	<b>15,709</b>	<b>16,226</b>

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

**13 OTHER ASSETS**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Repossessioned assets*	4,116	3,992
Receivables	473	632
Staff advances	1,520	1,550
Prepaid expenses	365	485
Right-of-use asset (13.1)	440	-
Other	241	658
	<b>7,155</b>	<b>7,317</b>

\* During the period, repossessioned assets were impaired by BD Nil thousand (2020: BD 55 thousand).

**13.1 RIGHT-OF-USE ASSET**

	<b>30 September 2021 BD'000 (Reviewed)</b>
Recognition of right-of-use assets on initial application of FAS 32	503
Additions for the period	175
Amortization charge for the period	(238)
<b>Balance as at 30 September</b>	<b>440</b>

**14 BORROWINGS FROM FINANCIAL INSTITUTIONS**

Represents term murabaha facilities of BD 19,113 thousand with Parent (2020: BD Nil) with a tenor of one year maturing on 16 February 2022 secured by pledge over Sukuk of BD 20,920 thousand (2020: BD Nil) (note 10). The average rate of borrowings is 0.95% (2020: 2.53%).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

**15 OTHER LIABILITIES**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Managers' cheques	6,070	8,761
Payable to vendors	6,415	3,647
Accrued expenses	4,407	3,886
Zakah and charity fund	389	243
Net Ijarah liability (15.1)	409	-
Other*	11,700	7,105
	<b>29,390</b>	<b>23,642</b>

\* Other liabilities includes ECL of BD 879 thousand as of 30 September 2021 (31 December 2020: BD 136 thousand) on commitments.

**15.1 NET IJARAH LIABILITY**

	<b>30 September 2021 BD'000 (Reviewed)</b>
Maturity analysis – Gross Ijarah liability	
Less than one year	243
One to five years	178
Total gross Ijarah liability	<b>421</b>
Maturity analysis – net Ijarah liability	
Less than one year	247
One to five years	162
Total net Ijarah liability	<b>409</b>

**16 EQUITY OF INVESTMENT ACCOUNTHOLDERS**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Placements and borrowings from financial institutions – Wakala	53,822	33,986
Placements from non-financial institutions and individuals – Wakala	52,964	53,259
Mudharaba	415,655	407,015
	<b>522,441</b>	<b>494,260</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

**16 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)**

The funds received from Wakala pool and mudharba pool together "IAH" have been commingled and jointly invested with the Group in the following asset classes and reported under equity of investment account holders:

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Cash and balances with banks and Central Bank	23,201	23,786
Placements with financial institutions	17,752	26,022
Financing assets	268,718	245,317
Debt type instruments – Sukuk	100,456	108,119
Ijarah Muntahia Bittamleek and Ijarah rental receivables	112,314	91,016
	<b>522,441</b>	<b>494,260</b>

**17 SUBORDINATED MUDARABA (AT1)**

In order to meet minimum regulatory requirements relating to total equity as prescribed by Central bank of Bahrain, during the period, the Bank issued a Subordinated Mudaraba Sukuk (Basel III compliant Additional Tier 1 capital securities) of BD 25 million. The issue was at par and was fully subscribed for and paid in cash by the Parent.

Summary of key terms and conditions of this issue 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 par value of the securities at an expected rate of 7.5% p.a.
- Security holder will not have a right to claim the profits and such event will not be considered as an event of default.
- Subordinated Mudaraba is invested in a general mudaraba pool of assets on an unrestricted comingled basis.
- In the event of non-viability, the Sukuk certificates will be converted either in full or in part in accordance with the conversion rules and procedures.
- The Sukuk certificates carry a call option after 5 years from the date of issue.

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) will be accounted for as appropriation of profits.

Issuance costs of BD 458 thousand representing BD 394 thousand underwriting fee to the Parent and BD 64 thousand other transaction costs have been adjusted in the retained earnings.

**18 INCOME FROM INVESTMENT IN SUKUK**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>30 September 2020 BD'000 (Reviewed)</b>
Profit income on investment in Sukuk	9,356	9,268
Gain on sale of Sukuk	649	15
	<b>10,005</b>	<b>9,283</b>

**19 IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET**

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>30 September 2020 BD'000 (Reviewed)</b>
Financing assets (note 9.1)	3,766	7,342
Ijarah rental receivables (note 11.1)	396	6,349
Investments in Sukuk	(91)	395
Investments at fair value through equity	3,821	481
Investment in associates	200	-
Placements with financial institutions	3,690	(2)
Other assets	-	56
Commitments	742	(10)
<b>Impairment allowance, net</b>	<b>12,524</b>	<b>14,611</b>
Litigation claims	3,202	-
<b>Total impairment allowance and other provisions, net</b>	<b>15,726</b>	<b>14,611</b>



**20 COMMITMENTS AND CONTINGENT LIABILITIES**

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	<b>30 September 2021 BD'000 (Reviewed)</b>	<b>31 December 2020 BD'000 (Audited)</b>
Letters of credit and acceptances	2,843	4,792
Guarantees	42,046	44,431
Credit Cards	37,616	37,041
Altamweel Almaren	21,609	28,447
Commitments to finance	32,390	31,826
Operating lease commitments*	-	217
	<b>136,504</b>	<b>146,754</b>

\* Represents commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

**21 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.

As of the period end, the Group is defending a claim from the Official Committee Of Unsecured Creditors Of Arcapita Bank B.S.C. (c) against it based on a preliminary judgement. While the Group has a right to appeal against this judgement, a provision of USD 18.3 million (BD 6.9 million) has been made, which consists of USD 9.8 million (BD 3.7 million) for the principal amount and USD 8.5 million (BD 3.2 million) for the profit amount.

Further, an investor has filed a claim against the Group. 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.

**22 RELATED PARTY TRANSACTIONS**

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

During the period, the Bank issued a Subordinated Mudaraba Sukuk of BD 25 million, which was fully subscribed for and paid in cash by the Parent. An underwriting fees of BD 394 thousand was paid to the Parent and charged to retained earnings.

**22 RELATED PARTY TRANSACTIONS (continued)**

The significant balances and transactions with related parties at 30 September 2021 were as follows:

<b>30 September 2021 (reviewed)</b>					
	<b>Shareholders BD'000</b>	<b>Associates and joint ventures BD'000</b>	<b>Directors and related entities BD'000</b>	<b>Senior management BD'000</b>	<b>Total BD'000</b>
<b>Assets</b>					
Placements with financial institutions	5,000	-	-	-	5,000
Financing assets	-	-	1,430	192	1,622
Ijarah Muntahia Bittamleek and Ijarah rental receivables	-	-	343	71	414
Investment in associates	-	9,231	-	-	9,231
Other assets	-	-	-	246	246
<b>Liabilities and Equity of investment accountholders</b>					
Placements from financial institutions	13,195	-	-	-	13,195
Placements from non-financial institutions and individuals	-	-	90	-	90
Borrowings from financial institutions	19,113	-	-	-	19,113
Customers' current accounts	-	1,455	820	185	2,460
Other liabilities	-	-	198	-	198
Equity of investment accountholders	-	-	499	2,184	2,683
<b>30 September 2021 (reviewed)</b>					
	<b>Shareholders BD'000</b>	<b>Associates and joint ventures BD'000</b>	<b>Directors and related entities BD'000</b>	<b>Senior management BD'000</b>	<b>Total BD'000</b>
<b>Income</b>					
Income from financing	-	-	84	7	91
Share of results of associates, net	-	(356)	-	-	(356)
Return on equity of investment accountholders	-	-	-	(68)	(68)
Expense on placements from non-financial institutions and individuals	-	-	(14)	-	(14)
Expense on borrowings from financial institutions	(114)	-	-	-	(114)
<b>Expenses</b>					
Staff costs	-	-	-	(1,158)	(1,158)
Other expenses	-	-	(202)	-	(202)
<b>31 December 2020 (audited)</b>					
	<b>Shareholders BD'000</b>	<b>Associates and joint ventures BD'000</b>	<b>Directors and related entities BD'000</b>	<b>Senior management BD'000</b>	<b>Total BD'000</b>
<b>Assets</b>					
Financing assets	-	-	905	681	1,586
Ijarah Muntahia Bittamleek and Ijarah rental receivables	-	-	689	146	835
Investment in associates	-	19,024	-	-	19,024
Other assets	-	-	-	500	500
<b>Liabilities and Equity of investment accountholders</b>					
Placements from non-financial institutions and individuals	-	-	1,054	999	2,054
Customers' current accounts	-	2,748	697	407	3,852
Other liabilities	801	-	320	-	1,121
Equity of investment accountholders	-	-	635	2,289	2,924
<b>30 September 2020 (reviewed)</b>					
	<b>Shareholders BD'000</b>	<b>Associates and joint ventures BD'000</b>	<b>Directors and related entities BD'000</b>	<b>Senior management BD'000</b>	<b>Total BD'000</b>
<b>Income</b>					
Income from financing	-	-	90	28	118
Share of results of associates, net	-	(227)	-	-	(227)
Return on equity of investment accountholders	-	-	(1)	(60)	(61)
Expense on placements from non-financial institutions and individuals	-	-	(18)	(31)	(49)
<b>Expenses</b>					
Staff costs	-	-	-	(1,336)	(1,336)
Other expenses	-	-	(403)	-	(403)

Compensation of the key management personnel is as follows:

<b>Nine months ended 30 September</b>	
<b>2021</b>	<b>2020</b>
<b>BD'000</b>	<b>BD'000</b>
Short term employee benefits	917
Other long term benefits	241
<b>1,158</b>	<b>1,336</b>

**23 FINANCIAL INSTRUMENTS****Fair value hierarchy**

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

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

In case of financing assets 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 from fair value of these assets. Unquoted shares and unquoted managed funds of BD 20,984 thousand (31 December 2020: BD 24,724 thousand) are treated as Level 3 investments. During the period net fair value movement of BD 3,821 thousand was debited to income statement (30 September 2020: BD 481 thousand) and BD 81 thousand was credited to the fair value reserve (30 September 2020: BD 513 thousand was debited from the fair value reserve). The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>30 September 2021</b>				
Unquoted shares	-	-	20,548	20,548
Unquoted managed funds	-	-	436	436
<b>Total</b>	<b>-</b>	<b>-</b>	<b>20,984</b>	<b>20,984</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>31 December 2020</b>				
Unquoted shares	-	-	24,288	24,288
Unquoted managed funds	-	-	436	436
<b>Total</b>	<b>-</b>	<b>-</b>	<b>24,724</b>	<b>24,724</b>

**Transfers between Level 1, Level 2 and Level 3**

During the nine-month period ended 30 September 2021 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

**24 SEGMENTAL INFORMATION**

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

**24 SEGMENTAL INFORMATION** (continued)

Segment information is disclosed as follows:

	<i>For the nine months ended 30 September 2021 (Reviewed)</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total net income	7,262	18,813	9,726	35,801
Total expenses	(3,492)	(11,664)	(1,565)	(16,721)
Impairment allowance and other provisions, net	(2,471)	(1,683)	(11,572)	(15,726)
<b>Profit / (loss) for the period</b>	<b>1,299</b>	<b>5,466</b>	<b>(3,411)</b>	<b>3,354</b>

**Other information**

	<i>30 September 2021 (Reviewed)</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Segment assets	280,582	620,239	404,715	1,305,536
Segment liabilities, and equity	431,624	636,658	237,254	1,305,536

	<i>For the nine months ended 30 September 2020 (Reviewed)</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total net income	5,052	15,026	9,480	29,558
Total expenses	(4,064)	(12,025)	(1,388)	(17,477)
Impairment allowance and other provisions, net	(12,344)	(1,337)	(930)	(14,611)
<b>Profit / (loss) for the period</b>	<b>(11,356)</b>	<b>1,664</b>	<b>7,162</b>	<b>(2,530)</b>

**Other information**

	<i>31 December 2020 (Audited)</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Segment assets	264,426	573,484	373,671	1,211,581
Segment liabilities, and equity	419,075	634,873	157,633	1,211,581

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

**25 NET STABLE FUNDING RATIO**

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 will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. 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.

The NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines issued by CBB and its effective from 31 December 2019. The minimum NSFR ratio as per CBB is 80%.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2021

**25 NET STABLE FUNDING RATIO (continued)**

The NSFR (as a percentage) as at 30 September 2021 is calculated as follows:

Item	No Specified maturity	Unweighted Values (before applying factors)			BD'000
		Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>					
Regulatory Capital	138,590	-	-	15,080	153,670
Other Capital Instruments	-	-	-	-	-
<b>Retail Deposits and deposits from small business customers:</b>					
Stable Deposits	-	266,599	6,500	2,347	261,791
Less stable deposits	-	299,589	60,198	26,548	350,356
<b>Wholesale funding:</b>					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	453,106	36,256	1,389	164,472
<b>Other liabilities:</b>					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	12,105	-	-	-
<b>Total ASF</b>	<b>138,590</b>	<b>1,031,399</b>	<b>102,954</b>	<b>45,364</b>	<b>930,289</b>
<b>Required Stable Funding (RSF):</b>					
Total NSFR high-quality liquid assets (HQLA)	258,064	-	-	-	11,252
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
<b>Performing financing and sukuk/ securities:</b>					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	123,632	1,789	8,819	28,258
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	83,605	61,450	677,691	643,886
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
<b>Performing residential mortgages, of which:</b>					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
<b>Other assets:</b>					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	103,258	-	-	-	103,258
OBS items	136,504	-	-	-	6,825
<b>Total RSF</b>	<b>497,826</b>	<b>207,237</b>	<b>63,239</b>	<b>686,510</b>	<b>793,479</b>
<b>NSFR (%)</b>					<b>117.2%</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 25 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

Item	No Specified maturity	Unweighted Values (before applying factors)			BD'000
		Less than 6 months	More than 6 months and less than one year	Over one year	Total Weighted Value
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>					
Regulatory Capital	111,018	-	-	11,314	122,332
Other Capital Instruments	-	-	-	-	-
<b>Retail Deposits and deposits from small business customers:</b>					
Stable Deposits	-	263,413	5,374	4,396	259,743
Less stable deposits	-	302,625	50,734	39,875	357,899
<b>Wholesale funding:</b>					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	371,029	53,141	1,310	168,307
<b>Other liabilities:</b>					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	6,350	-	-	-
<b>Total ASF</b>	<b>111,018</b>	<b>943,417</b>	<b>109,249</b>	<b>56,895</b>	<b>908,281</b>
<b>Required Stable Funding (RSF):</b>					
Total NSFR high-quality liquid assets (HQLA)	287,942	-	-	-	13,097
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
<b>Performing financing and sukuk/ securities:</b>					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	37,300	1,098	4,610	10,754
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	129,860	82,875	555,127	568,825
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
<b>Performing residential mortgages, of which:</b>					
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	3,798	-	-	1,899
<b>Other assets:</b>					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	117,969	-	-	-	117,969
OBS items	146,754	-	-	-	7,338
<b>Total RSF</b>	<b>552,665</b>	<b>170,958</b>	<b>83,973</b>	<b>559,737</b>	<b>719,882</b>
<b>NSFR (%)</b>					<b>126.2%</b>



## SUPPLEMENTARY DISCLOSURES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNREVIEWED)

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 economic slowdown with uncertainties in the economic environment. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

In 2020, the Central Bank of Bahrain (CBB) announced various measures to combat the effects of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measures 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%;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ended 31 December 2020 and ending 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

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

- The CBB mandated 6-month payment holidays 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 current carrying value of the financial assets on the date of modification. The CBB subsequently announced a second, third, and fourth payment holiday programmes 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. The latter three programmes permitted banks to charge profit, and as such, did not result in any additional modification losses to the Group.
- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver 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.
- Decreased consumer spending caused by the economic slow-down resulted in an increase in balances on demand held by the Group, whereas, time 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 series of payment holidays.
- The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

A summary of the financial impact of the above effects on the Group as at 30 September 2021 is as follows:

	Net impact on the Group's consolidated income statement	Net impact on the Group's consolidated financial position	Net impact on the Group's consolidated owners' equity
	BD'000	BD'000	BD'000
Average reduction of cash reserve	-	15,464	-
Concessionary repo at 0%	-	40,741	-
Modification loss	-	-	(14,711)
Government grants	-	-	1,814
Stressed liquidity	(189)	-	-
Credit card income	(274)	-	-
ECL attributable to COVID-19	342	(2,361)	(2,703)
	<b>(121)</b>	<b>53,844</b>	<b>(15,600)</b>

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as an indication of the results of 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 the date of preparation of this information. Circumstances may change which may result in this information 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.