

BAHRAIN ISLAMIC BANK B.S.C.
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
30 SEPTEMBER 2022

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the nine months ended 30 SEPTEMBER 2022

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

**To the Board of Directors of
Bahrain Islamic Bank BSC
Kingdom of Bahrain**

Introduction

We have reviewed the accompanying 30 September 2022 condensed consolidated interim financial information of Bahrain Islamic Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2022;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2022;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2022;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2022;
- the condensed consolidated statement of sources and uses of good faith qard fund for the nine-month period ended 30 September 2022;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the nine-month period ended 30 September 2022; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation 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 2022 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.

24 October 2022

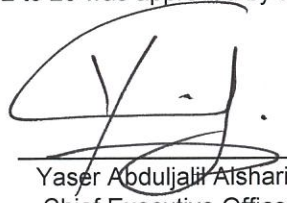
Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		30 September 2022 BD'000 (reviewed)	31 December 2021 BD'000 (audited)
	Note		
ASSETS			
Cash and balances with banks and Central Bank		65,081	45,591
Placements with financial institutions		105,754	86,894
Financing assets	9	687,358	609,468
Investment securities	10	239,851	274,624
Ijarah Muntahia Bittamleek	11	291,312	257,382
Investment in associates		8,821	9,314
Investment in real estate	12	13,678	14,680
Property and equipment		13,943	13,491
Other assets	13	16,512	13,092
TOTAL ASSETS		1,442,310	1,324,536
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		195,659	133,346
Placements from non-financial institutions and individuals		232,124	212,418
Financing from financial institutions	14	108,556	56,919
Customers' current accounts		230,838	249,749
Other liabilities	15	38,464	30,114
Total Liabilities		805,641	682,546
Equity of Investment Accountholders			
Financial institutions		34,391	42,239
Non-financial institutions and individuals		469,632	473,991
Total Equity of Investment Accountholders	16	504,023	516,230
Owners' Equity			
Share capital		106,406	106,406
Subordinated Mudaraba (AT1)		25,000	25,000
Treasury shares		(892)	(892)
Shares under employee share incentive scheme		(293)	(289)
Share premium		206	206
Reserves		2,219	(4,671)
Total Owners' Equity		132,646	125,760
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,442,310	1,324,536

The condensed consolidated interim financial information comprising of pages 2 to 26 was approved by the Board of Directors on 24 October 2022 and signed on its behalf by:

		
Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Yaser Abduljalil Alsharifi Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2022

		Nine months ended 30 September		Three months ended 30 September	
		2022	2021	2022	2021
	Note	BD'000 (reviewed)	BD'000 (reviewed)	BD'000 (reviewed)	BD'000 (reviewed)
INCOME					
Income from financing		35,941	31,849	12,252	10,745
Income from investment in Sukuk	17	9,404	10,005	3,174	3,152
Total income from jointly financed assets		45,345	41,854	15,426	13,897
Return on equity of investment accountholders		(17,567)	(18,903)	(5,185)	(6,304)
Group's share as Mudarib		14,882	16,160	4,072	5,419
Net return on equity of investment accountholders		(2,685)	(2,743)	(1,113)	(885)
Group's share of income from jointly financed assets (both as mudarib and investor)		42,660	39,111	14,313	13,012
Expense on placements from financial institutions		(3,775)	(2,137)	(1,959)	(643)
Expense on placements from non-financial institutions and individuals		(5,177)	(5,524)	(1,905)	(1,877)
Expense on financing from financial institutions		(759)	(114)	(297)	(46)
Fee and commission income, net		4,205	4,150	1,065	1,351
Income from investment securities		19	72	4	58
Income from investment in real estate, net		(694)	(442)	14	(388)
Share of results of associates, net		1	(356)	9	2
Other income, net		1,267	1,041	549	257
Total income		37,747	35,801	11,793	11,726
EXPENSES					
Staff costs		10,107	8,540	3,404	2,778
Depreciation and amortization		1,266	1,173	439	400
Other expenses		8,395	7,008	2,805	2,477
Total expenses		19,768	16,721	6,648	5,655
Profit before impairment allowances and other provisions		17,979	19,080	5,145	6,071
Impairment allowance and other provisions, net	18	(8,553)	(15,726)	(3,984)	(5,316)
PROFIT FOR THE PERIOD		9,426	3,354	1,161	755
BASIC AND DILUTED EARNINGS PER SHARE (fils)		7.14	3.19	1.10	0.72



Dr. Esam Abdulla Fakhro
Chairman



Khalid Yousif Abdul Rahman
Vice Chairman



Yaser Abduljalil Alsharifi
Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2022

	<i>Nine months ended 30 September</i>	
	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>
	<i>(reviewed)</i>	<i>(reviewed)</i>
OPERATING ACTIVITIES		
Profit for the period	9,426	3,354
Adjustments for non-cash items:		
Depreciation	1,021	935
Fair value movement on investment in real estate	827	517
Impairment allowance and other provisions, net	8,553	15,726
Amortization of right-of-use asset	245	238
Amortization of gain on sale of investment in real estate	(14)	(14)
Gain on sale of investment securities	(696)	(649)
Gain on sale of investment in associates	-	(49)
Share of results of associates, net	(1)	356
Operating profit before changes in operating assets and liabilities	19,361	20,414
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	(15,850)	555
Financing assets	(83,359)	(37,751)
Ijarah Muntahia Bittamleek	(36,019)	(39,780)
Other assets	(1,618)	(81)
Customers' current accounts	(18,911)	54,538
Other liabilities	8,228	(1,928)
Placements from financial institutions	61,451	(5,394)
Placements from non-financial institutions and individuals	19,706	(39,852)
Equity of investment accountholders	(12,207)	28,181
Net cash used in operating activities	(59,218)	(21,098)
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,473)	(593)
Purchase of investment securities	(1,117)	(30,264)
Proceeds from disposal of investment securities	34,064	58,005
Redemption of investment in associates	-	9,287
Net cash from investing activities	31,474	36,435
FINANCING ACTIVITIES		
Proceeds from AT1 Capital	-	24,542
Profit distribution on AT1 Capital	(1,901)	-
Financing from financial institutions	51,637	19,113
Lease liability paid	(276)	(279)
Purchase of treasury shares	(80)	(114)
Net cash from financing activities	49,380	43,262
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,636	58,599
Cash and cash equivalents at 1 January	106,678	68,580
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	128,314	127,179
Cash and cash equivalents comprise of:		
Cash on hand	14,110	9,820
Balances with CBB, excluding mandatory reserve deposits	929	44
Balances with banks and other financial institutions excluding restricted balances	7,521	6,683
Placements with financial institutions with original maturities less than 90 days	105,754	110,632
	128,314	127,179

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the nine months ended 30 September 2022

	Reserves										Total owners' equity BD'000	
	Shares under employee share incentive scheme BD'000					Investment securities fair value reserve BD'000						Total reserves 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	Real estate fair value reserve BD'000	Investment securities fair value reserve BD'000	(Accumulated losses) / Retained earnings BD'000			
2022 - reviewed												
Balance at 1 January 2022	106,406	25,000	(892)	(289)	206	5,349	1,545	1,778	(13,343)	(4,671)	125,760	
Profit for the period	-	-	-	-	-	-	-	-	9,426	9,426	9,426	
Zakah approved	-	-	-	-	-	-	-	-	(138)	(138)	(138)	
Donations approved	-	-	-	-	-	-	-	-	(350)	(350)	(350)	
Profit distribution on AT1 Capital (refer note 21)	-	-	-	-	-	-	-	-	(1,901)	(1,901)	(1,901)	
Share of reserve of investment in associate	-	-	-	-	-	-	-	(204)	204	-	-	
Purchase of treasury shares	-	-	(80)	-	-	-	-	-	-	-	(80)	
Transfer to shares under employee share incentive scheme	-	-	80	(80)	-	-	-	-	-	-	-	
Shares allocated to staff during the period	-	-	-	76	-	-	-	-	-	-	76	
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(175)	28	-	28	28	
Net movement in real estate fair value reserve	-	-	-	-	-	-	-	-	-	(175)	(175)	
Balance at 30 September 2022	106,406	25,000	(892)	(293)	206	5,349	1,370	1,602	(6,102)	2,219	132,646	
2021 - reviewed												
Balance at 1 January 2021	106,406	-	(892)	(257)	206	4,736	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	
Balance at 30 September 2021	106,406	25,000	(892)	(289)	206	4,736	2,178	1,777	(15,507)	(6,816)	123,615	

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 2022

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
2022 - reviewed			
Balance at 1 January 2022	<u>94</u>	<u>123</u>	<u>217</u>
Sources of Qard Fund			
Repayments	<u>(31)</u>	<u>31</u>	<u>-</u>
Total sources during the period	<u>(31)</u>	<u>31</u>	<u>-</u>
Uses of Qard fund			
Marriage	-	-	-
Others (Waqf)	<u>48</u>	<u>(48)</u>	<u>-</u>
Total uses during the period	<u>48</u>	<u>(48)</u>	<u>-</u>
Balance at 30 September 2022	<u>111</u>	<u>106</u>	<u>217</u>
2021 - reviewed			
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	5	(5)	-
Others (Waqf)	<u>15</u>	<u>(15)</u>	<u>-</u>
Total uses during the period	<u>20</u>	<u>(20)</u>	<u>-</u>
Balance at 30 September 2021	<u>83</u>	<u>134</u>	<u>217</u>
	<i>30 September 2022 BD'000 (reviewed)</i>	<i>30 September 2021 BD'000 (reviewed)</i>	
Sources of Qard fund			
Contribution by the Bank	125	125	
Donation	3	3	
Non-Islamic income	<u>89</u>	<u>89</u>	
	<u>217</u>	<u>217</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 2022

	30 September 2022 BD'000 (reviewed)	30 September 2021 BD'000 (reviewed)
Sources of Zakah and charity funds		
Undistributed Zakah and charity funds at the beginning of the period	353	243
Non-Islamic income / late payment fee	109	61
Contributions by the Bank for zakah	138	122
Contributions by the Bank for donations	350	250
Others	3	38
Total sources of Zakah and charity funds during the period	953	714
Uses of Zakah and charity funds		
Philanthropic societies	14	79
Aid to needy families	154	236
Islamic events	-	-
Others	41	10
Total uses of funds during the period	209	325
Undistributed Zakah and charity funds at the end of the period	744	389

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 and Commerce ("MOIC") 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.

National Bank of Bahrain (NBB) owns 78.81% of shares. 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 (2021: 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 Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the Central Bank of Bahrain ("CBB").

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered 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'.

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group's audited financial statements for the year ended 31 December 2021 for the details of the COVID-19 related modifications applied). Since the CBB modification were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group's interim financial information for the nine months ended 30 September 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

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 2021. 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 2021.

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.

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 2022, 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 CBB in 2020:

- For assessment of SICR from stage 1 to stage 2 Increase in number of days from 30 to 74 days
- Payment holiday without profit 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 ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

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), BD 220,774 thousand for the fourth deferral (July 2021 to December 2021) and BD 195,710 thousand for the fifth deferral (January 2022 to June 2022).

Further, the CBB issued another regulatory directive in June 2022 to discontinue the instalments deferral program after the 5th deferral, which ended on 30th June 2022, and the COVID-19 pandemic concessionary measures that were issued in 2020.

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 2021, except for adoption of following standards and amendments to standards effective from 1 January 2022. 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 2022.

(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 with an option to early adopt.

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.

The Group has applied FAS 38 "Wa'ad, Khiyar and Tahawwut". The impact of the adoption of this standard is disclosed in (b) below:

(a) Change in Accounting Policies:

Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of income line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of income under other income.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as an other asset or other liability.

Hedge accounting (Tahawwut)

The Group designates certain derivatives as hedging instruments in respect of profit rate risk in fair value hedges. The Group does not apply fair value hedge accounting of portfolio hedges of profit rate risk.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022. (continued)

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

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in the consolidated statement of income except when the hedging instrument hedges an equity instrument designated at FVTE in which case it is recognised in equity. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTE.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in the consolidated statement of income. For debt instruments measured at FVTE, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in the consolidated statement of income instead of equity. When the hedged item is an equity instrument designated at FVTE, the hedging gain/loss remains in equity to match that of the hedging instrument.

Where hedging gains/losses are recognised in the consolidated statement of income, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the Effective profit Rate (EPR) method is used (i.e. debt instruments measured at amortised cost or at FVTE) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability Profit rate risk.

(b) Impact on adoption of FAS 38

Fair value hedges: The Group uses Profit rate swaps to hedge its exposure to changes in fair value, of certain investments in fixed rate Sukuk, attributable to changes in market profit rates. Fair values of the Profit rate swap agreements are estimated based on the prevailing market rates of profit. During the period, the group has entered into a profit rate swaps with its Parent.

The derivatives are valued based on observable inputs. The fair values of derivative financial instruments held by the Group as at 30 September are provided below:

	2022		2021	
	Assets BD'000	Liabilities BD'000	Assets BD'000	Liabilities BD'000
Profit rate swaps (Fair value hedges)	2,066	-	-	-
At 30 September	2,066	-	-	-

The notional amount of derivative financial instruments held by the Group as at 30 September are provided below:

	2022 BD'000	2021 BD'000
Profit rate swaps (Fair value hedges)	78,284	-
At 30 September	78,284	-

The net hedge ineffectiveness gain/losses recognized in the condensed consolidated income statement are as follows:

	2022 BD'000	2021 BD'000
Losses on the hedged items attributable to risk hedged	(2,066)	-
Gains on the hedging instruments	2,066	-
Net hedge ineffectiveness (loss)/gain	-	-

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) FAS 39 Financial Reporting for Zakah

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

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

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

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

(ii) FAS 1 General Presentation and Disclosures in the Financial Statements

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

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

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

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

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

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 2021.

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

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

As of 30 September 2022, the Group have four outstanding contracts linked to benchmark rates and it continues to enhance its systems and processes to cope with the change in benchmark rates.

To manage its profit rate risk on the sukuk portfolio, the group entered into a profit rate swaps with its Parent during the period.

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 2021.

Russia-Ukraine conflict

On 24 February 2022, Russia started an invasion on Ukraine (the "conflict"). Owing to this various countries and international bodies have imposed trade and financial sanctions on Russia and Belarus. Further, various organisations have discontinued their operations in Russia. This conflict has resulted in an economic downturn and increased volatility in commodity prices due to disruption of supply chain.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct or indirect exposures to / from the impacted countries. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 30 September 2022 the Group does not have a material impact of this conflict.

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 2021 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 2021.

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.

8 SEASONALITY

The Bank does not have significant income of seasonal nature. The Other income includes BD 19 thousand (2021: BD 24 thousand) of dividends received from Bank's investments.

9 FINANCING ASSETS

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Murabaha	712,239	625,381
Musharaka	90,800	90,238
Mudaraba	3,662	3,565
Gross financing assets	806,701	719,184
Deferred profits	(82,502)	(79,100)
Impairment allowance	(36,841)	(30,616)
Net financing assets	687,358	609,468

9.1 The movement on net financing assets is as follows:

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross financing assets	643,999	98,891	63,811	806,701
Less: Deferred profits	62,401	10,912	9,189	82,502
Less: Impairment allowance				
At 1 January 2022	3,136	9,209	18,271	30,616
Net movement between stages	47	(649)	602	-
Net charge for the period	(275)	3,516	3,755	6,996
Write-off	-	-	(771)	(771)
Impairment allowance at 30 September 2022	2,908	12,076	21,857	36,841
Net financing assets	578,690	75,903	32,765	687,358
2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross financing assets	586,427	70,523	62,234	719,184
Less: Deferred profits	61,714	8,074	9,312	79,100
Less: Impairment allowance				
At 1 January 2021	2,627	5,052	18,360	26,039
Net movement between stages	(58)	(34)	92	-
Net charge for the year	567	4,191	463	5,221
Write-off	-	-	(644)	(644)
Impairment allowance at 31 December 2021	3,136	9,209	18,271	30,616
Net financing assets	521,577	53,240	34,651	609,468

10 INVESTMENT SECURITIES

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
<i>i) Debt type instruments*</i>		
<i>Quoted Sukuk - carried at amortised cost</i>		
Gross balance at the beginning of the period	230,283	229,189
Acquisitions	1,117	42,569
Disposals and redemptions	(28,742)	(41,475)
Gross balance at the end of the period**	202,658	230,283
Impairment allowance	(136)	(161)
Fair value losses on hedged items attributable to profit rate risk hedged**	(2,066)	-
Net balance at the end of the period	200,456	230,122
<i>Unquoted Sukuk - carried at amortised cost</i>		
Gross balance at the beginning of the period	36,087	35,495
Acquisitions	-	23,518
Disposals and redemptions	(4,626)	(22,947)
Foreign currency translation changes	(83)	21
Gross balance at the end of the period	31,378	36,087
Impairment allowance	(12,487)	(12,570)
Net balance at the end of the period	18,891	23,517
<i>ii) Equity type instruments</i>		
<i>Unquoted shares - at fair value through equity</i>		
Balance at beginning of the period	20,549	24,288
Fair value movement - net***	(481)	(3,739)
Balance at the end of the period	20,068	20,549
<i>Unquoted managed funds</i>	436	436
Total net investment securities	239,851	274,624

* As of 30 September 2022, debt type instruments includes Sukuk of BD 128,563 thousand (31 December 2021: BD 64,533 thousand) pledged against financing from financial institutions of BD 108,556 thousand (31 December 2021: BD 56,919 thousand) (note 14).

** As of 30 September 2022, sukuk of BD 78,284 thousand (2021: BD Nil) carried at amortised cost were hedged through profit rate swaps and the resultant fair value losses on the hedged items related to profit rate risk of BD 2,066 thousand (2021: BD Nil) were adjusted to the carrying value.

***Includes BD 28 thousand (2021: BD 81 thousand) reported in investment securities fair value reserve and BD 509 thousand (2021: BD 3,821 thousand) is disclosed in condensed consolidated income statement.

11 IJARAH MUNTAHIA BITTAMLEEK

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Gross Ijarah Muntahia Bittamleek	295,750	259,731
Impairment allowance	(4,438)	(2,349)
Ijarah muntahia bittamleek carrying amount	<u>291,312</u>	<u>257,382</u>

11.1 The movement on impairment allowances is as follows:

2022	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross Ijarah Muntahia Bittamleek	<u>278,905</u>	<u>13,960</u>	<u>2,885</u>	<u>295,750</u>
Less: Impairment allowance				
At 1 January 2022	730	414	1,205	2,349
Net movement between stages	9	13	(22)	-
Net charge for the period	655	1,490	(56)	2,089
Impairment allowance at 30 September 2022	<u>1,394</u>	<u>1,917</u>	<u>1,127</u>	<u>4,438</u>
Ijarah muntahia bittamleek carrying amount	<u>277,511</u>	<u>12,043</u>	<u>1,758</u>	<u>291,312</u>
2021	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
Gross Ijarah Muntahia Bittamleek	<u>244,834</u>	<u>11,778</u>	<u>3,119</u>	<u>259,731</u>
Less: Impairment allowance				
At 1 January 2021	467	601	1,275	2,343
Net movement between stages	119	(52)	(67)	-
Net charge for the year	144	(135)	(3)	6
Impairment allowance at 31 December 2021	<u>730</u>	<u>414</u>	<u>1,205</u>	<u>2,349</u>
Ijarah muntahia bittamleek carrying amount	<u>244,104</u>	<u>11,364</u>	<u>1,914</u>	<u>257,382</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2022

12 INVESTMENT IN REAL ESTATE

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Lands	13,678	14,680
	<u>13,678</u>	<u>14,680</u>
	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Movement on investment in real estate:		
Beginning of the period	14,680	16,226
Fair value changes	(1,002)	(1,546)
End of the period	<u>13,678</u>	<u>14,680</u>

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

13 OTHER ASSETS

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Reposessed assets*	2,515	2,515
Receivables	8,339	8,013
Staff advances	1,610	1,536
Prepaid expenses	497	367
Right of use asset (13.1)	294	361
Other	3,257	300
	<u>16,512</u>	<u>13,092</u>

*Reposessed assets comprise lands located in Kingdom of Bahrain and are net of impairment allowance of BD 1,143 thousand (2021: BD 1,143 thousand).

13.1 RIGHT OF USE ASSET

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
At 1 January	361	503
Additions for the period	178	183
Amortisation charge for the period	(245)	(325)
End of the period	<u>294</u>	<u>361</u>

14 FINANCING FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 108,556 thousand (2021: BD 56,919 thousand) secured by pledge over Sukuk of BD 128,563 thousand (2021: BD 64,533 thousand). The term murabaha facilities includes BD 70,500 thousand (2021: BD 19,159 thousand) from the Parent. The average rate of financing is 2.74% (2021: 1.05%) (note 10).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2022

15 OTHER LIABILITIES

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Managers' cheques	7,544	5,754
Payable to vendors	3,590	3,911
Accrued expenses	6,401	4,879
Zakah and charity fund	744	353
Net Ijarah liability (15.1)	253	344
Other*	19,932	14,873
	<u>38,464</u>	<u>30,114</u>

* Other includes impairment allowance for commitments and contingent liabilities of BD 1,569 thousand (2021: BD 3,296 thousand) (refer note 19) and provision for litigation claims of BD 3,402 thousand (2021: BD 3,202 thousand)

15.1 NET IJARAH LIABILITY

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Maturity analysis – Gross Ijarah liability		
Less than one year	198	214
One to five years	106	140
Total gross Ijarah liability	<u>304</u>	<u>354</u>
Maturity analysis – net Ijarah liability		
Less than one year	163	203
One to five years	90	141
Total net Ijarah liability	<u>253</u>	<u>344</u>

16 EQUITY OF INVESTMENT ACCOUNTHOLDERS

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Placements from financial institutions – Wakala	34,391	42,239
Placements from non-financial institutions and individuals – Wakala	23,166	47,197
Mudharaba	446,466	426,794
	<u>504,023</u>	<u>516,230</u>

16 EQUITY OF INVESTMENT ACCOUNT HOLDERS (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:

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Cash and balances with banks and Central Bank	14,785	23,346
Placements with financial institutions	-	11,400
Financing assets, net	280,698	261,894
Investment securities, net	89,575	108,991
Ijarah Muntahia Bittamleek	118,965	110,599
	504,023	516,230

17 INCOME FROM INVESTMENT IN SUKUK

	30 September 2022 BD'000 (Reviewed)	30 September 2021 BD'000 (Reviewed)
Profit income on investment in Sukuk	8,708	9,356
Gain on sale of Sukuk	696	649
	9,404	10,005

18 IMPAIRMENT ALLOWANCE AND OTHER PROVISIONS, NET

	30 September 2022 BD'000 (Reviewed)	30 September 2021 BD'000 (Reviewed)
Financing assets (note 9.1)	6,996	3,766
Ijarah Muntahia Bittamleek (note 11.1)	2,089	396
Investments in Sukuk	(25)	(91)
Investments at fair value through equity	509	3,821
Investment in associates	495	200
Placements with financial institutions	-	3,690
Other assets	16	-
Commitments	(1,727)	742
Impairment allowance, net	8,353	12,524
Litigation claims	200	3,202
Total impairment allowance and other provisions, net	8,553	15,726

19 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:

	30 September 2022 BD'000 (Reviewed)	31 December 2021 BD'000 (Audited)
Letters of credit and acceptances	978	4,522
Guarantees	29,453	43,088
Credit Cards	39,047	37,613
Altamweel Almaren	26,083	24,722
Commitments to finance	31,374	31,644
	126,935	141,589

Impairment allowance of BD 1,569 thousand (2021: BD 3,296 thousand) has been provided on account of the credit risk on these for commitments and contingent liabilities. During the period, an amount of BD 1,679 thousand (2021: Nil) relating to a guarantee was called upon. Accordingly, this exposure and its related impairment allowance of BD 1,679 thousand (2021: Nil) were transferred to financing assets.

20 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 or staff.

In 2021, the Group was defending a claim from the Official Committee of Unsecured Creditors of Arcapita Bank B.S.C. (c) against it based on a preliminary judgement. The Group had filed an appeal against this judgement and a provision of USD 18.3 million (BD 6.9 million) was made, which consisted 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. The Group pledged a bond (against a deposit) for the full amount with a surety to allow itself to defend and conclude on the matter. The Group has further filed an appeal in relation to the profit amount and is simultaneously trying to reach to a settlement to conclude. In addition, during the year, based on management assessment an additional provision of USD 0.5 million (BD 0.2 million) has been made towards future contingencies such as legal expenses of the counterparty or otherwise relating to the case.

Further, an investor had filed a claim in 2021 against the Group. The Group received judgment in its favour from the Court. 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 and conclude on this matter in due course.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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21 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.

The significant balances and transactions with related parties at 30 September 2022 were as follows:

30 September 2022 (reviewed)					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	3,700	-	-	-	3,700
Placements with financial institutions	19,517	-	-	-	19,517
Financing assets	-	-	1,308	372	1,680
Ijarah Muntahia Bittamleek	-	-	238	193	431
Investment in associates	-	8,821	-	-	8,821
Other assets	571	-	-	260	831
Liabilities and Equity of investment accountholders					
Financing from financial institutions	70,500	-	-	-	70,500
Customers' current accounts	-	1,026	521	82	1,629
Other liabilities	2,199	-	261	-	2,460
Equity of investment accountholders	-	-	632	1,455	2,087
Off Balance sheet					
Profit rate swap - notional amount	78,284	-	-	-	78,284
30 September 2022 (reviewed)					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Income					
Income from financing	-	-	100	14	114
Income from investment in Sukuk	(339)	-	-	-	(339)
Placements with financial institutions	217	-	-	-	217
Share of results of associates, net	-	1	-	-	1
Return on equity of investment accountholders	-	-	(2)	(80)	(82)
Expense on financing from financial institutions	(445)	-	-	-	(445)
Expenses					
Staff costs	-	-	-	(1,522)	(1,522)
Other expenses	-	-	(457)	-	(457)
31 December 2021 (audited)					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Cash and balances with banks and Central Bank	317	-	-	-	317
Placements with financial institutions	18,509	-	-	-	18,509
Financing assets	-	-	1,396	167	1,563
Ijarah Muntahia Bittamleek	-	-	326	71	397
Investment in associates	-	9,314	-	-	9,314
Other assets	-	-	-	224	224
Liabilities and Equity of investment accountholders					
Placements from non-financial institutions and individuals	-	-	90	-	90
Financing from financial institutions	19,159	-	-	-	19,159
Customers' current accounts	-	1,374	650	226	2,250
Other liabilities	-	-	272	-	272
Equity of investment accountholders	-	-	516	1,995	2,511
30 September 2021 (reviewed)					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Income					
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 financing from financial institutions	(114)	-	-	-	(114)
Expenses					
Staff costs	-	-	-	(1,158)	(1,158)
Other expenses	-	-	(202)	-	(202)

21 RELATED PARTY TRANSACTIONS (continued)

During the period, the Group paid profit distribution on its AT1 to the Parent for an amount of BD 1,901 thousand.

Compensation of the key management personnel is as follows:

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>
Short term employee benefits	830	917
Other long term benefits	203	241
Others	489	-
	<u>1,522</u>	<u>1,158</u>

22 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 20,504 thousand (31 December 2021: BD 20,985 thousand) are treated as Level 3 investments. During the period fair value movement of BD 509 thousand (31 December 2021: BD 359 thousand) was charged to income statement and BD 28 thousand (31 December 2021: BD 48 thousand) was charged to 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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
30 September 2022				
Investment securities				
Unquoted shares	-	-	20,068	20,068
Unquoted managed funds	-	-	436	436
Other Assets	-	2,066	-	2,066
Total	<u>-</u>	<u>2,066</u>	<u>20,504</u>	<u>22,570</u>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
31 December 2021				
Investment securities				
Unquoted shares	-	-	20,549	20,549
Unquoted managed funds	-	-	436	436
Total	<u>-</u>	<u>-</u>	<u>20,985</u>	<u>20,985</u>

Transfers between Level 1, Level 2 and Level 3

During the nine-months period ended 30 September 2022 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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23 SEGMENTAL INFORMATION

For management purposes, the Group is organised 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.

Segment information is disclosed as follows:

For the nine months ended 30 September 2022 (Reviewed)

	<i>Corporate</i> <i>BD'000</i>	<i>Retail</i> <i>BD'000</i>	<i>Investment</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Total net income	7,939	20,898	8,910	37,747
Total expenses	(4,259)	(13,575)	(1,934)	(19,768)
Impairment allowance, net	(5,345)	(2,228)	(980)	(8,553)
Profit / (loss) for the period	(1,665)	5,095	5,996	9,426

Other information

30 September 2022 (Reviewed)

	<i>Corporate</i> <i>BD'000</i>	<i>Retail</i> <i>BD'000</i>	<i>Investment</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Segment assets	369,036	678,023	395,251	1,442,310
Segment liabilities, and equity	513,837	626,117	302,356	1,442,310

For the nine months ended 30 September 2021 (Reviewed)

	<i>Corporate</i> <i>BD'000</i>	<i>Retail</i> <i>BD'000</i>	<i>Investment</i> <i>BD'000</i>	<i>Total</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, net	(2,471)	(1,683)	(11,572)	(15,726)
Profit / (loss) for the period	1,299	5,466	(3,411)	3,354

Other information

31 December 2021 (Audited)

	<i>Corporate</i> <i>BD'000</i>	<i>Retail</i> <i>BD'000</i>	<i>Investment</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Segment assets	280,324	636,343	407,869	1,324,536
Segment liabilities, and equity	441,740	630,758	252,038	1,324,536

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2022

24 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 30 September		Three months ended 30 September	
	2022 (Reviewed)	2021 (Reviewed)	2022 (Reviewed)	2021 (Reviewed)
Profit for the period attributable to the shareholders of the parent	9,426	3,354	1,161	755
Less: Profit distribution on AT 1 Capital	(1,901)	-	-	-
Profit for the period attributable to the shareholders of the parent for basic and diluted earnings per share computation	<u>7,525</u>	<u>3,354</u>	<u>1,161</u>	<u>755</u>
Weighted average number of shares outstanding during the period, net of treasury shares (thousand)	1,053,351	1,052,870	1,053,351	1,052,870
Basic and diluted earnings per share (fiis)	<u>7.14</u>	<u>3.19</u>	<u>1.10</u>	<u>0.72</u>

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

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 100%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2022

25 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 30 September 2022 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
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	148,430	-	-	20,082	168,513
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	262,453	6,506	1,878	257,389
Less stable deposits	-	302,170	53,154	23,794	343,585
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	508,263	111,163	1,819	157,180
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	21,050	-	-	-
Total ASF	148,430	1,093,936	170,823	47,573	926,667
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	273,353	-	-	-	10,974
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
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	-	102,566	599	10,592	26,276
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	108,324	112,357	741,285	732,764
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- 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	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	2,066	-	-	-	2,066
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	98,290	-	-	11,331	109,621
OBS items	126,935	-	-	-	6,347
Total RSF	500,644	210,890	112,956	763,208	888,048
NSFR (%)					104.3%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 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
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	141,369	-	-	15,369	156,739
Other Capital Instruments	-	-	-	-	-
Retail Deposits and deposits from small business customers:					
Stable Deposits	-	265,438	6,156	1,742	259,756
Less stable deposits	-	310,106	54,700	21,129	349,454
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	435,985	69,000	4,406	134,547
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	12,791	-	-	-
Total ASF	141,369	1,024,320	129,856	42,646	900,496
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	246,036	-	43,324	-	32,186
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
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	-	93,553	4,503	11,032	27,316
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	86,027	61,651	681,109	651,799
- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
- 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	-	-	-	-	-
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	100,489	-	-	10,468	110,957
OBS items	140,083	-	-	-	7,004
Total RSF	486,608	179,580	109,478	702,609	829,262
NSFR (%)					108.6%