KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

31 March 2021

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour Harbour Tower East PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Mustafa Ghazi Kheriba (resigned on 25 JAN 2021) Mosobah Saif Al Mutairy (Appointed on 23 SEP 2020) Isa Abdulla Zainal (Appointed on 23 SEP 2020) Mazen Ibrahim Abdulkarim (Appointed on 23 SEP 2020) Salah Abdulla Sharif (Appointed on 19 NOV 2020) Hussain Sayed Ali Al Hussaini (Appointed on 10 DEC 2020)
Chief Executive Officer	:	Sattam Sulaiman Algosaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Auditors	:	KPMG Fakhro, Bahrain

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2021

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

10 May 2021

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

Introduction

We have reviewed the accompanying 31 March 2021 condensed consolidated interim financial information of Khaleeji Commercial Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2021;
- the condensed consolidated income statement for the three-month period ended 31 March 2021;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2021;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2021;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2021;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the three-month period ended 31 March 2021; and
- notes to the condensed consolidated interim financial information.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 of the condensed consolidated interim financial information.

Other matter

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

KPMG

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2021

BD 000's

	Note	**31 March 2021** (Reviewed)	31 December 2020 (Audited)
ASSETS			
Cash and bank balances		167,252	83,017
Placements with financial institutions		21,113	17,720
Financing assets	8	310,899	307,717
Investment in sukuk	9	268,778	261,132
Assets acquired for leasing	10	123,983	126,934
Lease rentals receivables	10	18,703	12,820
Investment securities	11	48,191	55,892
Investment in real estate		83,056	83,303
Equity accounted investees		31,572	31,963
Other assets		28,602	27,646
Property and equipment		7,426	7,450
Total assets		**1,109,575**	1,015,594
LIABILITIES			
Placements from financial institutions		111,624	79,545
Placements from non-financial institutions and individuals		200,962	214,243
Term borrowings		75,432	75,477
Customers' current accounts		62,545	55,676
Other liabilities		11,224	13,269
Total liabilities		**461,787**	438,210
Equity of investment account holders	12		
From financial institutions		99,390	26,154
From non-financial institutions and individuals		394,502	399,195
Total equity of investment account holders		**493,892**	425,349
OWNERS' EQUITY			
Share capital	14	89,212	89,212
Subordinated mudaraba (AT 1)	13	47,222	47,222
Statutory reserve		9,024	9,024
Treasury shares		(11,859)	(11,859)
Investment fair value reserve		303	348
Retained earnings		9,762	7,863
Total owners' equity		**143,664**	141,810
Non-controlling interest		10,232	10,225
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		**1,109,575**	1,015,594

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

Jassim Mohamed Alseddiqi Chairman	Sh. Ahmed Bin Isa Al Khalifa Vice Chairman	Sattam Sulaiman Algosaibi Chief Executive Officer

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2021

BD 000's

	Note	**Three months ended 31 March 2021** (Reviewed)	Three months ended 31 March 2020 (Unreviewed)
Income from financing assets and assets acquired for leasing		8,165	8,330
Income from placements with financial institutions		63	307
Income from sukuks		4,219	2,778
Income from investment securities		(205)	2
Fees and other income	17	586	785
Total income before return to investment account holders		**12,828**	12,202
Less: Return to investment account holders before Bank's share as Mudarib		(7,838)	(6,370)
Bank's share as a Mudarib		4,713	2,792
Return to investment account holders		**(3,125)**	(3,578)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(3,193)	(2,966)
Finance expense on term borrowings		(210)	(1)
Total income		**6,300**	5,657
Staff cost		1,745	1,847
Other operating expenses		1,120	1,005
Total expenses		**2,865**	2,852
Profit before impairment allowances		**3,435**	2,805
Net impairment charge	18	(1,322)	(1,368)
PROFIT FOR THE PERIOD		**2,113**	1,437
Attributable to:			
Shareholders of the parent		2,106	1,437
Non-controlling interest		7	-
		2,113	1,437
Earnings per share			
Basic and diluted earnings per share (fils)		**2.62**	1.79

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algosaibi
Chief Executive Officer

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2021 BD 000's

31 March 2021 (Reviewed)	Equity attributable to shareholders of the parent								
	Share Capital	**Statutory reserve**	**Treasury shares**	**Investment fair value reserve**	**Subordinated mudaraba (AT1)**	**Retained earnings**	**Total**	**Non-Controlling interest**	**Total Equity**
Balance at 1 January 2021	**89,212**	**9,024**	**(11,859)**	**348**	**47,222**	**7,863**	**141,810**	**10,225**	**152,035**
Impact on adoption of FAS 32 (note 3(I)(b))	-	-	-	-	-	23	23	-	23
Balance as restated	**89,212**	**9,024**	**(11,859)**	**348**	**47,222**	**7,886**	**141,833**	**10,225**	**152,058**
Profit for the period	-	-	-	-	-	2,106	2,106	7	2,113
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**-**	**2,106**	**2,106**	**7**	**2,113**
Fair value changes	-	-	-	(45)	-	-	(45)	-	(45)
Transfer to Zakah fund	-	-	-	-	-	(230)	(230)	-	(230)
Balance at 31 March 2021	**89,212**	**9,024**	**(11,859)**	**303**	**47,222**	**9,762**	**143,664**	**10,232**	**153,896**

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2021 *(Continued)*

BD 000's

31 March 2020 (Unreviewed)	Equity attributable to shareholders of the parent							
	Share Capital	Statutory reserve	Treasury shares	Investment fair value reserve	Accumulated losses	Total	Non-Controlling Interest	Total Equity
Balance at 1 January 2020	105,000	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907
Profit for the period	-	-	-	-	1,437	1,437	-	1,437
Total recognised income and expense	-	-	-	-	1,437	1,437	-	1,437
Modification loss (Note 2a & 8)	-				(9,452)	(9,452)	-	(9,452)
Capital reduction (note 14)	(15,788)				15,788	-	-	-
Fair value changes	-	-	-	(752)	-	(752)	-	(752)
Transfer to Zakah fund	-	-	-	-	(218)	(218)	-	(218)
Balance at 31 March 2020	89,212	8,225	(11,730)	(752)	(8,233)	76,722	2,200	78,922

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2021 BD 000's

	Three months ended 31 March 2021 (Reviewed)	Three months ended 31 March 2020 (Unreviewed)
OPERATING ACTIVITIES		
Receipts from / (payments for) financing assets, net	2,249	(4,399)
(Payments for) / receipts from assets acquired for leasing, net	(1,516)	4,438
Income from short-term placements received	63	307
Returns paid to investment account holders	(6,031)	(6,235)
Receipts / (withdrawals) from investment account holders, net	68,542	(86,240)
Payments for expenses	(2,845)	(15,414)
Other receipts	977	785
Contributions paid to charitable organisations	(221)	(11)
Receipts / (withdrawals) from customers' current accounts, net	6,870	(1,282)
Receipts from placements from financial institutions, net	32,079	11,623
(Withdrawals) / receipts from placements from non-financial institutions and individuals, net	(13,281)	20,207
Net (payments) to / receipts from CBB reserve account	(2,340)	12,413
Payment of profit on placements	(3,193)	(3,016)
Income from sukuk received	4,360	2,580
Net cash from / (used in) operating activities	**85,713**	(64,244)
INVESTING ACTIVITIES		
Purchase of sukuk	(19,922)	(38,198)
Proceeds from sale / redemption of sukuk	12,127	1,951
Purchase of investments	-	(754)
Proceeds from disposal / redemption of investments	7,321	752
Proceeds from disposal of investment in real estate	248	-
Dividend income from investments	129	16
Purchase of property and equipment, net	(73)	(26)
Net cash used in investing activities	**(170)**	(36,259)
FINANCING ACTIVITIES		
(Repayment) / drawdown of term borrowings	(45)	18,851
Finance expenses paid on term borrowings	(210)	(1)
Net cash (used in) / from financing activities	**(255)**	18,850
Net increase / (decrease) in cash and cash equivalents	**85,288**	(81,653)
Cash and cash equivalents at beginning of the period	85,323	144,454
Cash and cash equivalents at end of the period	**170,611**	62,801
Cash and cash equivalents comprises:		
Cash and bank balances (excluding CBB reserve)	149,498	49,646
Placement with financial institutions	21,113	13,155
	170,611	62,801

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2021

BD 000's

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

31 March 2020 (Unreviewed)	Balance at 1 January 2020			Movements during the period						Balance at 31 March 2020		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the three months ended 31 March 2021 BD 000's

	Three months ended 31 March 2021 (Reviewed)	Three months ended 31 March 2020 (Unreviewed)
Sources of zakah and charity fund		
At 1 January	696	714
Contributions by the bank	230	218
Non-Islamic income	3	33
Total sources	**929**	965
Uses of zakah and charity fund		
Contributions to charitable organisations	(221)	(11)
Total uses	**(221)**	(11)
Undistributed zakah and charity fund at end of the period	**708**	954

The accompanying notes 1 to 23 form an integral part of this condensed consolidated interim financial information.

1 Reporting entity

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

The Bank is 55.41% owned by GFH Financial Group BSC (the "Parent"), a Bahraini incorporated investments bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain ("CBB") and listed on Bahrain Bourse, Kuwait Stock Exchange and Dubai Financial Markets ("DFM").

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

2 Basis of preparation and presentation

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

a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 8 for further details; and

b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS.

c) recognition of specific impairment allowances and expected credit losses in line with the specific CBB guidelines for application of staging rules issued as part of its COVID-19 response measures.

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

The modification to accounting policies have been applied retrospectively.

Modification loss

During the previous period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification loss amounting to BD 9,452 thousand arising from the 6 month payment holiday provided to financing customers without charging additional profits was recognised directly in equity.

2 Basis of preparation and presentation (continued)

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Accordingly, the condensed consolidated interim financial information of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using 'Financial Accounting Standards as modified by CBB'.

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

Comparatives

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the Central Bank of Bahrain had exempted all public shareholding companies and locally incorporated banks from preparation and publication of their interim financial information for the three-month period ended 31 March 2020. Accordingly, the comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2020 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the management accounts of the Group for the three month period ended 31 March 2020 and adjusted for accounting policy changes, if any, applied in preparation of the annual consolidated financial statements for the year ended 31 December 2020. Hence, the comparative information included in the current period statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund were not reviewed.

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's last audited consolidated financial statements as at and for the year ended 31 December 2020, except for those arising from adoption of the following standards and amendments to standards effective from 1 January 2021.

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

FAS 32 Ijarah

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

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

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

3 Significant accounting policies (Continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy

Identifying an Ijarah
At inception of a contract, the Group assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration. For Ijarah contracts with multiple components, the Group accounts for each Ijarah component within a contract separately from non-Ijarah components of the contract (e.g. service fee, maintenance charges, toll manufacturing charges etc.).

Measurement
For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Group allocates the consideration in the contract to each Ijarah component on the basis of relative stand-alone price of the Ijarah component and the aggregate estimated stand-alone price of the non-Ijarah components, that may be charged by the lessor, or a similar supplier, to the lessee.

At the commencement date, a lessee shall recognise a right-of-use (usufruct) asset and a net ijarah liability.

(i) Right-of-use (usufruct) asset
On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:
- the prime cost of the right-of-use asset;
- initial direct costs incurred by the lessee; and
- dismantling or decommissioning costs.

The prime cost is reduced by the expected terminal value of the underlying asset. If the prime cost of the right-of-use asset is not determinable based on the underlying cost method (particularly in the case of an operating Ijarah), the prime cost at commencement date may be estimated based on the fair value of the total consideration paid/ payable (i.e. total Ijarah rentals) against the right-of-use assets, under a similar transaction. As per the group's assessment, at the time of implementation the fair value of right-of-use assets are equal to the net Ijarah liability.

After the commencement date, the lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modification or reassessment.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. The amortizable amount comprises of the right-of-use asset less residual value, if any.

The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:
- extension periods if it is reasonably certain that the Bank will exercise that option; and/ or
- termination options if it is reasonably certain that the Bank will not exercise that option.

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

The Group carries out impairment assessment in line with the requirements of FAS 30 “Impairment, Credit Losses and Onerous Commitments” to determine whether the right-of-use asset is impaired and to account for any impairment losses. The impairment assessment takes into consideration the salvage value, if any. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 “Impairment, Credit Losses and Onerous Commitments”.

3 Significant accounting policies (Continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Measurement (continued)
(ii) Net ijarah liability

The net ijarah liability comprises of the gross Ijarah liability, plus deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability is initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rentals payable comprise of the following payments for the right to use the underlying asset during the Ijarah term:
- fixed Ijarah rentals less any incentives receivable;
- variable Ijarah rentals including supplementary rentals; and
- payment of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Variable Ijarah rentals are Ijarah rentals that depend on an index or rate, such as payments linked to a consumer price index, financial markets, regulatory benchmark rates, or changes in market rental rates. Supplementary rentals are rentals contingent on certain items, such as additional rental charge after provision of additional services or incurring major repair or maintenance. As of 31 March 2021, the Group did not have any contracts with variable or supplementary rentals.

After the commencement date, the Group measures the net Ijarah liability by:
- increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost)
- reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid
- re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals

The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Group recognises the following in the income statement:
- amortisation of deferred Ijarah cost; and
- Variable Ijarah rentals (not already included in the measurement of Ijarah liability) as and when the triggering events/ conditions occur

Ijarah contract modifications
After the commencement date, the Group accounts for Ijarah contract modifications as follows:
- change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset.

For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

for the three months ended 31 March 2021 BD 000's

3 Significant accounting policies (Continued)

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

FAS 32 Ijarah (continued)

(a) Change in accounting policy (continued)

Expenses relating to underlying asset
Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are recognised by the Bank in income statement in the period incurred. Major repair and maintenance, takaful, and other expenses incidental to ownership of underlying assets (if incurred by lessee as agent) are recorded as receivable from lessor.

Recognition exemptions and simplified accounting for the lessee
The Group has elected not to apply the requirements of Ijarah recognition and measurement of recognizing right-of-use asset and lease liability for the following:

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

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

Impact as lessor on accounting for Ijara Muntahia Bittamleek contracts
There is no change in the accounting for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

(b) Impact on adoption of FAS 32

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

	Total Assets	Total Liabilities	Retained Earnings
Closing balance (31 December 2020)	1,015,594	438,210	143,943
Impact on adoption:			
Right-of-use asset	1,234	-	-
Ijarah liability	-	1,119	-
Derecognition of prepayments	-	92	-
Opening impact of FAS 32	-	-	23
	1,234	1,211	23
Balance on date of initial application of 1 January 2021	**1,016,828**	**439,421**	**143,966**

Right of Use Asset

	31 March 2021 (reviewed)
Recognition of right-of-use assets on initial application of FAS 32	1,234
Additional right-of-use assets for the period, net of amortisation charge	14
Balance as at 31 March	1,248

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3 *Significant accounting policies (Continued)*

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

FAS 32 Ijarah (continued)

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

Net Ijarah Liability

	31 March 2021 (reviewed)		
Maturity analysis	Gross Ijarah liability	Deferred Ijarah	Net Ijarah liability
Less than one year	588	(9)	579
One to five years	782	(161)	621
Total	**1,370**	**(170)**	**1,200**

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

FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

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

III. New standards early adopted

The Group has early adopted FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in the previous year prior to its effective date of 1 January 2021.

4 Financial risk management

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

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. The main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading.

Considering this situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

During the period, further payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue. Customers will be charged profits during this payment holiday extension period, and hence the Group does not expect significant modification loss as a result of the extension and the management will take appropriate steps to mitigate its impact on the liquidity position.

4 Financial risk management (continued)

Liquidity risk and capital management

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in banking sector. Following are some of the significant measures that have an impact on the liquidity risk and regulatory capital profile of the Group:

- payment holiday for 6 months to eligible customers;
- for stage 1 ECL, increase in the number of days from 30 days to 74 days;
- concessionary repo to eligible banks at zero percent;
- reduction of cash reserve ratio from 5% to 3%;
- reduction in LCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period 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.

Operational risk management

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted.

As of 31 March 2021, the Group did not have any significant issues relating to operational risks.

5 Estimates and judgements

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those applied to the audited consolidated financial statements as at and for the year ended 31 December 2020. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements.

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6 Regulatory ratios

a. Liquidity Coverage Ratio (LCR)

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. As of 31 March 2021, the Bank maintained LCR of 205.39% (31 December 2020: 198.28%) which is above regulatory minimum of 80% applicable until 31 December 2021.

b. Net stable funding Ratio (NSFR)

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

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

	Unweighted values (i.e. before applying relevant factors)				
	No specified maturity	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
<u>Available Stable Funding (ASF):</u>					
Capital:					
Regulatory Capital	155,393	-	-	9,207	**164,600**
Other Capital Instruments	-	-	-	-	**-**
Retail deposits and deposits from small business customers:					
Stable deposits	-	-	-	-	**-**
Less Stable deposits	-	178,448	114,426	16,838	**280,424**
Wholesale funding:					
Operational deposits	-	-	-	-	**-**
Other wholesale funding	-	489,875	110,014	35,522	**198,131**
Other liabilities:					
NSFR derivative liabilities	-	-	-	-	**-**
All other liabilities not included in the above categories	-	9,632	-	-	**-**
Total ASF	**155,393**	**677,955**	**224,440**	**61,567**	**643,155**
<u>Required Stable Funding (RSF):</u>					
Total NSFR high-quality liquid assets (HQLA)	308,141	-	-	-	**15,719**
Performing financing assets and loans / securities					
Performing loan to financial institutions secured by level 1 HQLA	-	-	-	-	**-**
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	111,711	-	-	**16,757**
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	58,440	35,935	316,493	**316,207**
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	13,559	**8,813**
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	131,660	32,180	-	5,512	**152,435**

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6 *Regulatory ratios (continued)*

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

Other Assets:					
Physical traded commodities, including gold	-	-	-	-	**-**
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPS	-	-	-	-	**-**
NSFR derivative assets	-	-	-	-	**-**
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	**-**
All other assets not included in the above categories	92,614	-	-	-	**92,614**
OBS items	-	56,725	-	-	**2,836**
Total RSF	**532,415**	**259,056**	**35,935**	**335,564**	**605,381**
NSFR%					**106.24%**

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 31 December 2020 is as follows:

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

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6 Regulatory ratios (continued)

b. Net stable funding Ratio (NSFR)

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

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6 Regulatory ratios (continued)

c. Capital Adequacy Ratio

	31 March 2021	31 December 2020
CET 1 Capital before regulatory adjustments	118,253	116,422
Less: regulatory adjustments	(11,859)	(11,859)
CET 1 Capital after regulatory adjustments	106,394	104,563
T1 Capital	47,222	47,222
T 2 Capital adjustments	9,207	8,940
Regulatory Capital	**162,823**	160,725
Risk weighted exposure:		
Credit Risk Weighted Assets	736,550	715,233
Market Risk Weighted Assets	8,213	8,263
Operational Risk Weighted Assets	67,775	67,775
Total Regulatory Risk Weighted Assets	**812,538**	791,271
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	**812,538**	791,271
Capital Adequacy Ratio	**20.04%**	20.31%
Tier 1 Capital Adequacy Ratio	**18.91%**	19.18%
Minimum required by CBB	**12.50%**	12.50%

7 Seasonality

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

8 Financing assets

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Murabaha*	325,984	322,220
Musharaka	104	104
Wakala	90	90
Mudaraba	999	1,014
Istisna	1,526	1,344
Less: Impairment allowances	(17,804)	(17,055)
	310,899	307,717

*Murabaha financing receivables are net of deferred profits of BD 16,957 thousand (2020: BD 18,862 thousand).

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

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8 *Financing Assets (continued)*

The movement on impairment allowances is as follows:

2021 (Reviewed)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI***	**Total**
Gross financing assets	**268,482**	**39,970**	**30,774**	**6,434**	**345,660**
Less: Deferred profits	**12,992**	**3,350**	**615**	**-**	**16,957**
Less: Impairment allowance					
At 1 January 2021	7,230	1,934	7,891	-	**17,055**
Net movement between stages	255	(35)	(220)	-	**-**
Charge for the period	(1,667)	515	1,862	39	**749**
Write back for the period	-	-	-	-	**-**
Write off	-	-	-	-	**-**
Disposal	-	-	-	-	**-**
Impairment allowance as at 31 March	**5,818**	**2,414**	**9,533**	**39**	**17,804**
Net financing assets	**249,672**	**34,206**	**20,626**	**6,395**	**310,899**

2020 (Audited)	Stage 1	Stage 2	Stage 3	POCI	Total
Gross financing assets	265,320	37,037	33,966	7,311	343,634
Less: Deferred profits	13,860	3,702	1,300	-	18,862
Less: Impairment allowance					
At 1 January 2020	4,581	2,730	20,653	10,082	38,046
Net movement between stages	85	(1,701)	771	845	-
Charge for the period	2,672	905	1,180	-	4,757
Write back for the period	-	-	(2,046)	-	(2,046)
Write off	-	-	(11,010)	-	(11,010)
Disposal	(108)	-	(1,657)	(10,927)	(12,692)
Impairment allowance as at 31 December 2020	7,230	1,934	7,891	-	17,055
Net financing assets	244,230	31,401	24,775	7,311	307,717

* Purchased or originated credit impaired assets

9 Investment in Sukuk

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Debt type instruments - at amortised cost:		
- Quoted sukuk**	269,183	261,539
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,722)	(1,724)
	268,778	261,132

** As of 31 March 2021, Sukuk with carrying value of BD 114,020 thousand (31 December 2020: BD 113,952 thousand) was pledged against term borrowings of BD 75,432 thousand (31 December 2020: BD 75,477 thousand).

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10 Assets acquired for leasing

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Assets acquired for leasing	171,729	173,389
Less: accumulated depreciation	(43,198)	(42,472)
Lease rental receivables	18,703	12,820
Total	**147,234**	143,737
Less: Impairment allowance	(4,548)	(3,983)
Assets acquired for leasing & lease rental receivables carrying amount	**142,686**	139,754

The movement on impairment allowances is as follows:

2021 (Reviewed)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Assets acquired for leasing (net) & lease rental receivables	98,069	35,811	13,354	**147,234**
At 1 January 2021	545	424	3,014	**3,983**
Net movement between stages	(286)	289	(3)	**-**
Charge for the period	(71)	19	617	**565**
Write back for the period	-	-	-	**-**
Impairment allowance as at 31 March 2021	188	732	3,628	**4,548**
Assets acquired for leasing & lease rental receivables carrying amount	**97,881**	**35,079**	**9,726**	**142,686**

2020 (Audited)	Stage 1	Stage 2	Stage 3	Total
Assets acquired for leasing (net) & lease rental receivables	105,559	22,970	15,208	143,737
Less: Impairment allowance				
At 1 January 2020	140	376	2,705	3,221
Net movement between stages	231	(84)	(147)	-
Charge for the period	174	132	1,114	1,420
Write back for the period	-	-	(658)	(658)
Impairment allowance as at 31 December 2020	545	424	3,014	3,983
Assets acquired for leasing & lease rental receivables carrying amount	105,014	22,546	12,194	139,754

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11 Investment securities

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
At fair value through income statement		
- Structured notes	15,144	15,080
At fair value through equity		
- Unquoted equity securities*	33,047	40,812
	48,191	55,892

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

12 Equity of investment account holders

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Mudaraba	493,892	425,349
	493,892	425,349

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

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Balances with banks	90,595	33,280
CBB reserve account	17,754	15,414
Placements with financial institutions	21,113	17,720
Debt type instruments – sukuk	268,778	261,132
Financing assets	95,652	97,803
	493,892	425,349

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13 Subordinated mudaraba

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Subordinated mudaraba	47,222	47,222
	47,222	47,222

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

Summary of key terms and conditions are as follows:

- Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a.
- The Subordinated Mudaraba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits.
- Security holder will not have a right to claim the profits and such event will not be considered as event of default.

14 Paid up share capital

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

15 Commitments and contingencies:

	31 March 2021 (Reviewed)	31 December 2020 (Audited)
Undrawn commitments to extend finance*	40,337	31,389
Financial guarantees	15,982	10,180
Legal contingencies	19,000	19,000
	75,319	60,569

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

Litigations and claims

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.

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

17 Other income

Includes recovery during the period of BD 402 thousand (2020: BD 12 thousand) from financing assets written-off in prior years.

18 Impairment allowances

	31 March 2021 (Reviewed)	31 March 2020 (Unreviewed)
Balances and placements with banks and financial institutions	3	1
Financing assets (note 8)	749	1,209
Investments in sukuk	(2)	39
Assets acquired for leasing (including lease rentals receivables) (note 10)	565	119
Commitments and financial guarantees	7	-
Investments in equity securities at fair value through equity	-	-
	1,322	1,368

Movement on ECL in various stages during the period:

31 March 2021 (Reviewed)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening ECL balance at 1 January	8,337	2,364	12,298	-	**22,999**
Transfer to Stage 1	368	(41)	(327)	-	**-**
Transfer to Stage 2	(255)	456	(201)	-	**-**
Transfer to Stage 3	(144)	(161)	305	-	**-**
Net movement	(31)	254	(223)	-	**-**
Charge for the period (net)	(1,726)	531	2,478	39	**1,322**
Write off	-	-	-	-	**-**
Disposal	-	-	-	-	**-**
Closing ECL balance as at 31 March	**6,580**	**3,149**	**14,553**	**39**	**24,321**

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18 Impairment allowances (Continued)

31 March 2020 (Unreviewed)	Stage 1	Stage 2	Stage 3	POCI	Total
Opening ECL balance at 1 January	4,909	3,123	34,833	-	42,865
Transfer to Stage 1	862	(780)	(82)	-	-
Transfer to Stage 2	(864)	2,259	(1,395)	-	-
Transfer to Stage 3	(19)	(135)	154	-	-
Net movement	(21)	1,344	(1,323)	-	-
Charge for the period (net)	43	(167)	1,532	-	1,408
Recoveries / write backs	-	-	(40)	-	(40)
Write off	-	-	-	-	-
Disposal	-	-	-	-	-
Closing ECL balance as at 31 March	4,931	4,300	35,002	-	44,233

19 Assets under management

The Bank provides corporate administration, investment management and advisory services to its investment entities, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these condensed consolidated interim financial information. At the reporting date, the Group had assets under management of BD 206.43 million (31 December 2020: BD 267.98 million). During the period, the Bank has not charged any management fees (2020: BD NIL) for the management of these assets.

20 Significant related party transactions

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

31 March 2021 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	-	3,590	6,563	-	**10,153**
Investment securities	-	-	2,284	18,472	**20,756**
Equity accounted investees	31,572	-	-	-	**31,572**
Other assets	117	-	-	825	**942**
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	2,509	-	-	**2,509**
Customers' current accounts	122	102	20,471	1,199	**21,894**
Equity of investment account holders	417	526	118,935	309	**120,187**
Other Liabilities	-	-	576	-	**576**

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20 Significant related party transactions (Continued)

Three months ended 31 March 2021 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Income					
Income from financing assets and assets acquired for leasing	-	52	594	-	**646**
Fees and other income	(391)	-	-	-	**(391)**
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	25	519	-	**544**
Return to investment account holders	3	2	756	2	**763**
Staff cost	-	166	-	-	**166**
Other expenses	-	-	-	7	**7**

31 December 2020 (Audited)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	3,576	6,671	-	10,247
Investment securities	-	-	2,284	18,537	20,821
Equity accounted investees	31,963	-	-	-	31,963
Other assets	117	-	-	825	942
Liabilities					
Placement from financial institutions, Non-FIs and individuals	-	2,105	42,438	-	44,543
Customers' current accounts	135	85	6,784	1,211	8,215
Equity of investment account holders	413	241	79,846	327	80,827
Other liabilities	-	-	1,030	-	1,030

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20 Significant related party transactions (continued)

Three months ended 31 March 2020 (Unreviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	41	153	-	194
Fees and other income	-	-	2	-	2
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	22	112	-	134
Return to investment account holders	3	1	372	3	379
Staff cost	-	990	-	-	990
Other expenses	-	-	-	6	6

21 Segment information

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

31 March 2020 (Unreviewed)	Corporate and Retail Banking	Investment Banking	Unallocated	Total
Segment revenue	12,172	30	-	12,202
Segment results	3,377	(161)	(1,779)	1,437
Segment assets	789,566	85,217	13,482	888,265

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22 Financial instruments

a) Fair values

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

The fair value of quoted Sukuk carried at amortised cost of BD 269,183 thousand (31 December 2020: BD 261,539 thousand) is BD 265,869 thousand as at 31 March 2021 (31 December 2020: BD 275,366 thousand).

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

b) Fair value hierarchy

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

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

31 March 2021 (Reviewed)	**Level 1**	**Level 2**	**Level 3**	**Total**
Structured notes at fair value through income statement	-	15,144	-	**15,144**
Unquoted equity type securities carried at fair value through equity	-	-	33,047	**33,047**
		15,144	**33,047**	**48,191**

31 December 2020 (Audited)	Level 1	Level 2	Level 3	Total
Structured notes at fair value through income statement	-	15,080	-	15,080
Unquoted equity type securities carried at fair value through equity	-	-	40,812	40,812
	-	15,080	40,812	55,892

for the three months ended 31 March 2021 BD 000's

22 *Financial instruments (continued)*

b) Fair value hierarchy (Continued)

The following table analyses the movement in Level 3 financial assets during the three month period ended 31 March 2021:

	31 March 2021 (Reviewed)	31 March 2020 (Unreviewed)
At 1 January	40,812	11,174
Reclassification due to FAS 33 implementation	-	32,815
Fair value loss in income statement	(15)	(15)
Movement in investment fair value reserve	(45)	(752)
Sales	(7,705)	-
Settlements	-	-
	33,047	43,222

During the three month period ended 31 March 2021, there were no transfers between Level 1 and Level 2 fair value measurements. Upon early adoption of FAS 33 on 1 January 2020, all investments in equity shares which were classified at cost less impairment were reclassified into fair value through equity and measured as level 3 financial assets.

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

31 March 2021

Valuation technique used	**Key unobservable inputs**	**Fair value at 31 March 2021**	**Reasonable possible shift +/- (in average input)**	**Increase / (decrease) in valuation**
Market multiples approach	Enterprise value to EBITDA	2,817	+/- 5%	81 / (81)
Market multiples approach	Price to book value	3,959	+/- 5%	210 / (210)
Market multiples approach	Price to total assets	1,142	+/- 5%	21 / (21)
Discounted cash flow	Cost of equity and terminal growth rate	778	+/- 5%	27 / (27)
		8,696		

for the three months ended 31 March 2021 BD 000's

22 *Financial instruments (continued)*

b) Fair value hierarchy (Continued)

31 December 2020

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

(i) Financial instruments not at fair value

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

31 March 2021	**Carrying amount** (Reviewed)	**Fair value** (Reviewed)
Financial assets:		
Financing assets	310,899	310,899
Investment in sukuk	268,778	265,869
Investment securities	48,191	48,191
Assets acquired for leasing	123,983	123,983
Lease rentals receivables	18,703	18,703
	770,554	**767,645**
Financial liabilities:		
Customers' current accounts	**62,545**	**62,545**

31 December 2020	Carrying amount (Audited)	Fair value (Audited)
Financial assets:		
Financing assets	307,717	307,717
Investment in sukuk	261,132	275,366
Investment securities	55,892	55,892
Assets acquired for leasing	126,934	126,934
Lease rentals receivables	12,820	12,820
	764,495	778,729
Financial liabilities:		
Customers' current accounts	55,676	55,676

22 Financial instruments (continued)
Valuation techniques (continued)

Other financial instruments

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

23 Comparative figures

The comparative figures have been regrouped in order to conform with the presentation for current year. Such regrouping did not affect previously reported profit for the period or total equity. FAS 32 was adopted prospectively effective 1 January 2021 and comparative figures have not been restated.

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

SUPPLEMENTARY DISCLOSURES – COVID-19

UNREVIEWED SUPPLEMENTARY DISCLOURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

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

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

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

- The CBB mandated 6-month payment holiday requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.

- The Government of Kingdom of Bahrain has announces various economic stimulus programmes ("Packages") to support business in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group's equity.

- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.

- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.

- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the 3 months ended 31 March 2021, financing assets bookings were 52.26% lower than the same period of the previous year.

SUPPLEMENTARY DISCLOSURES – COVID-19

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

- The stressed economic situation resulted in the Bank recognizing incremental ECL on its exposure.

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

	Net Impact on the Group's consolidated income statement	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	-	9,824	-
Concessionary repo at 0%	(278)	48,888	278
Modification loss	-	(9,452)	(9,452)
Modification loss amortization	9,452	9,452	-
Government grants	-	-	791
Credit card income	(313)	-	-
ECL attributable to COVID-19	(1,950)	(1,950)	-
	6,911	56,762	(8,383)

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