GFH FINANCIAL GROUP BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2021

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Jassim Al Seddiqi, *Chairman* H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Vice Chairman (resigned wef 25 Feb 2021)* Hisham Ahmed Alrayes Rashid Nasser Al Kaabi Ghazi Faisal Ebrahim Alhajeri Ali Murad Ahmed Abdulhamid AlAhmadi Alia Al Falasi Fawaz Talal Al Tamimi Edris Mohammed Rafi Alrafi
Chief Executive Officer	:	Hisham Ahmed Alrayes
Auditors	:	KPMG Fakhro

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KPMG Fakhro
Audit
12th Floor, Fakhro Tower
P O Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

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

The Board of Directors
GFH Financial Group BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 September 2021 condensed consolidated interim financial information of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the nine-month period ended 30 September 2021; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation 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 consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

KPMG

11 November 2021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2021 US$ 000's

	note	**30 September 2021 (reviewed)**	31 December 2020 (audited)	30 September 2020 (reviewed)
ASSETS				
Cash and bank balances		479,444	536,502	337,361
Treasury portfolio	9	2,726,882	1,878,546	1,767,975
Financing assets	10	1,275,680	1,267,266	1,234,951
Real estate Investments	11	1,851,407	1,812,315	1,840,586
Proprietary investments	12	172,148	216,108	287,898
Co-investments	13	135,813	126,319	103,774
Receivables and prepayments		655,455	605,658	482,435
Property and equipment		138,134	144,149	107,146
Total		**7,434,963**	6,586,863	6,162,126
LIABILITIES				
Clients' funds		132,610	130,935	94,320
Placements from financial, non-financial institutions and individuals		2,947,392	2,418,000	2,278,800
Customer current accounts		130,977	140,756	124,001
Term financing	14	1,311,877	1,089,077	933,275
Payables and accruals		485,554	465,038	400,382
Total		**5,008,410**	4,243,806	3,830,778
Equity of investment account holders		**1,218,909**	1,156,993	1,122,234
OWNERS' EQUITY				
Share capital	8	1,000,638	975,638	975,638
Treasury shares		(35,779)	(63,979)	(66,142)
Statutory reserve	8	24,058	19,548	15,039
Investment fair value reserve		(13,717)	5,593	(21,785)
Foreign currency translation reserve		(53,762)	(46,947)	(35,733)
Retained earnings	8	44,422	22,385	7,455
Share grant reserve		1,093	1,093	1,321
Total equity attributable to shareholders of Bank		**966,953**	913,331	875,793
Non-controlling interests		240,691	272,733	333,321
Total owners' equity		**1,207,644**	1,186,064	1,209,114
Total liabilities, equity of investment account holders and owners' equity		**7,434,963**	6,586,863	6,162,126

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

Jassim Al Seddiqi
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the nine months ended 30 September 2021 US$ 000's

	Note	Nine months ended		Three months ended	
		30 September 2021 (reviewed)	30 September 2020 (reviewed)	**30 September 2021** (reviewed)	30 September 2020 (reviewed)
Continuing operations					
Investment banking income					
Asset management		2,354	3,765	755	1,038
Deal related income		55,786	62,015	22,648	23,778
		58,140	*65,780*	***23,403***	*24,816*
Commercial banking income					
Income from financing		58,842	60,908	19,058	19,641
Treasury and investment income		46,292	26,568	12,968	9,196
Fee and other income		4,021	4,878	1,765	1,672
Less: Return to investment account holders		(23,950)	(24,648)	(7,856)	(8,670)
Less: Finance expense		(26,716)	(22,879)	(9,159)	(9,385)
		58,489	*44,827*	***16,776***	*12,454*
Income from proprietary and co-investments					
Direct investment income, net		14,344	20,374	424	1,074
Dividend from co-investments		10,445	6,415	5,433	2,306
		24,789	*26,789*	***5,857***	*3,380*
Real estate income					
Development and sale		12,268	10,707	4,922	1,451
Rental and operating income		4,135	3,119	2,001	1,962
		16,403	*13,826*	***6,923***	*3,413*
Treasury and other income					
Finance income		9,211	19,410	2,806	6,240
Dividend and net gain/(loss) on treasury investments		80,396	27,890	27,904	16,753
Other income, net		23,179	15,579	5,928	520
		112,786	*62,879*	***36,638***	*23,513*
Total income		**270,607**	214,101	**89,597**	67,576
Operating expenses		86,638	80,483	26,877	22,835
Finance expense		98,252	101,190	34,856	34,246
Impairment allowances	15	17,441	2,120	3,733	573
Total expenses		**202,331**	183,793	**65,466**	57,654
Profit for the period		**68,276**	30,308	**24,131**	9,922
Attributable to:					
Shareholders of the Bank		60,340	23,167	23,296	8,113
Non-controlling interests		7,936	7,141	835	1,809
		68,276	30,308	**24,131**	9,922
Earnings per share					
Basic and diluted earnings per share (US cents)		**1.78**	0.69	**0.69**	0.24

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

Jassim Al Seddiqi
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2021

US$ 000's

	Attributable to shareholders of the Bank								Non – controlling interests	Total owners' equity
30 September 2021 (reviewed)	**Share capital**	**Treasury shares**	**Statutory reserve**	**Investment fair value reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Share grant reserve**	**Total**		
Balance at 1 January 2021 (as previously reported)	975,638	(63,979)	19,548	5,593	(46,947)	22,385	1,093	913,331	272,733	1,186,064
Effect of adoption of FAS 32 (note 3)	-	-	-	-	-	(2,096)	-	(2,096)	-	(2,096)
Balance at 1 January 2021 (restated)	975,638	(63,979)	19,548	5,593	(46,947)	20,289	1,093	911,235	272,733	1,183,968
Profit for the period	-	-	-	-	-	60,340	-	60,340	7,936	68,276
Fair value changes during the period	-	-	-	2,693	-	-	-	2,693	439	3,132
Transfer to income statement on disposal of sukuk	-	-	-	(22,003)	-	-	-	(22,003)	-	(22,003)
Total recognised income and expense	**-**	**-**	**-**	**(19,310)**	**-**	**60,340**	**-**	**41,030**	**8,375**	**49,405**
Bonus Shares issued for 2020	25,000	-	-	-	-	(25,000)	-	-	-	-
Dividends declared for 2020	-	-	-	-	-	(17,000)	-	(17,000)	-	(17,000)
Transfer to zakah and charity fund	-	-	-	-	-	(1,572)	-	(1,572)	(142)	(1,714)
Transfer to statutory reserve	-	-	4,510	-	-	(4,510)	-	-	-	-
Purchase of treasury shares	-	(26,777)	-	-	-	-	-	(26,777)	-	(26,777)
Sale of treasury shares	-	54,977	-	-	-	4,092	-	59,069	-	59,069
Foreign currency translation differences	-	-	-	-	(6,815)	-	-	(6,815)	(2,022)	(8,837)
Acquisition of NCI without a change in control (Note 20)	-	-	-	-	-	7,783	-	7,783	(38,253)	(30,470)
Balance at 30 September 2021	**1,000,638**	**(35,779)**	**24,058**	**(13,717)**	**(53,762)**	**44,422**	**1,093**	**966,953**	**240,691**	**1,207,644**

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2021 *(continued)* US$ 000's

	Attributable to shareholders of the Bank									
30 September 2020 (reviewed)	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non – controlling interests	Total owners' equity
Balance at 1 January 2020	975,638	(73,419)	125,312	7,737	(29,425)	(2,498)	1,198	1,004,543	288,328	1,292,871
Profit for the period	-	-	-	-	-	23,167	-	23,167	7,141	30,308
Fair value changes during the period	-	-	-	(16,326)	-	-	-	(16,326)	(64)	(16,390)
Transfer to income statement on disposal of sukuk	-	-	-	(13,196)	-	-	-	(13,196)	-	(13,196)
Total recognised income and expense	-	-	-	(29,522)	-	23,167	-	(6,355)	7,077	722
Additional capital contribution to subsidiary (note 1)	-	-	-	-	-	(59,893)	-	(59,893)	(14,311)	(74,204)
Modification loss on financing assets	-	-	-	-	-	(13,892)	-	(13,892)	(11,180)	(25,072)
Government grant	-	-	-	-	-	3,686	-	3,686	1,266	4,952
Dividends declared for 2019	-	-	-	-	-	(30,000)	-	(30,000)	-	(30,000)
Transfer to zakah and charity fund	-	-	-	-	-	(1,388)	-	(1,388)	(258)	(1,646)
Purchase of treasury shares	-	(84,849)	-	-	-	-	-	(84,849)	-	(84,849)
Sale of treasury shares	-	108,652	-	-	-	(22,000)	-	86,652	-	86,652
Treasury shares acquired for share incentive scheme	-	(16,526)	-	-	-	-	123	(16,403)	-	(16,403)
Foreign currency translation differences	-	-	-	-	(6,308)	-	-	(6,308)	(1,348)	(7,656)
NCI arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	63,747	63,747
Adjustment of accumulated losses	-	-	(110,273)	-	-	110,273	-	-	-	-
Balance at 30 September 2020	975,638	(66,142)	15,039	(21,785)	(35,733)	7,455	1,321	875,793	333,321	1,209,114

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2021 US$ 000's

	30 September 2021 (reviewed)	30 September 2020 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	68,276	30,308
Adjustments for:		
Income from commercial banking	(45,959)	(25,322)
Income from proprietary investments	(24,789)	(26,789)
Income from dividend and gain / (loss) on treasury investments	(129,189)	(44,550)
Foreign exchange (gain) / loss	(1,505)	(1,275)
Finance expense	124,967	124,031
Impairment allowances	17,441	2,120
Depreciation and amortisation	3,533	3,515
	12,775	62,038
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	(96,339)	344,392
Financing assets	(8,414)	37,826
Other assets	(53,684)	(13,593)
CBB Reserve and restricted bank balance	(13,342)	40,827
Clients' funds	1,675	23,462
Placements from financial and non-financial institutions	529,392	(168,449)
Customer current accounts	(9,779)	(23,486)
Equity of investment account holders	61,916	(96,311)
Payables and accruals	20,516	(33,610)
Net cash generated from operating activities	**444,716**	173,096
INVESTING ACTIVITIES		
Payments for purchase of equipment	(1,054)	(329)
Proceeds from sale of proprietary investment securities, net	32,020	(39,074)
Purchase of treasury portfolio, net	(730,773)	(560,013)
Cash acquired on acquisition of a subsidiary	-	32,856
Proceeds from sale of investment in real estate	1,061	944
Dividends received from proprietary investments and co-investments	14,154	8,377
Advance paid for development of real estate	(6,688)	(14,917)
Net cash used in investing activities	**(691,280)**	(572,156)
FINANCING ACTIVITIES		
Financing liabilities, net	222,800	653,857
Finance expense paid	(116,618)	(136,913)
Dividends paid	(17,485)	(34,927)
Purchase of treasury shares, net	28,200	(14,764)
Net cash generated from financing activities	**116,897**	467,253
Net increase/(decrease) in cash and cash equivalents during the period	**(129,667)**	68,193
Cash and cash equivalents at 1 January	655,455	367,533
Cash and cash equivalents at 30 September	**525,788**	435,726
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	421,631	294,099
Placements with financial institutions (original maturities of 3 months or less)	104,157	141,627
	525,788	435,726

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2021

30 September 2021 (reviewed)	**Balance at 1 January 2021**			**Movements during the period**						**Balance at 30 September 2021**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	12	7.91	95	(2)	-	-	-	-	-	12	7.91	95
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	(45)	5	119	-	-	-	2,633	1.03	2,712
			28,451	**(47)**	**5**	**119**	**-**	**-**	**-**			**28,530**

30 September 2020 (reviewed)	Balance at 1 January 2020			Movements during the period						Balance at 30 September 2020		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.91	103	(8)	-	-	-	-	-	12	7.91	95
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,459	(8)	-	-	-	-	-			28,451

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the nine months ended 30 September 2021 US$ 000's

	30 September 2021 (reviewed)	30 September 2020 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	1,714	1,646
Non-Islamic income	30	103
Total sources	**1,744**	1,749
Uses of zakah and charity fund		
Contributions to charitable organisations	(1,911)	(222)
Total uses	**(1,911)**	(222)
Surplus of sources over uses	**(167)**	1,527
Undistributed zakah and charity fund at beginning of the period	5,346	5,407
Undistributed zakah and charity fund at end of the period	**5,179**	6,934
Represented by:		
Zakah payable	1,013	1,493
Charity fund	4,166	5,441
	5,179	6,934

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

for the nine months ended 30 September 2021 US$ 000's

1 Reporting entity

The condensed consolidated interim financial information for the nine months ended 30 September 2021 comprise the financial information of GFH Financial Group BSC (GFH or the "Bank") and its subsidiaries (together referred to as "the Group").

The following are the principal subsidiaries consolidated in the condensed consolidated interim financial information.

Investee name	Country of incorporation	Effective ownership interests as at 30 September 2021	Activities
GFH Capital Limited	United Arab Emirates	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')*	Kingdom of Bahrain	69.01%	Islamic retail bank
Al Areen Project companies		100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')		51.72%	Cement manufacturing
GBCORP BSC (c) ('GBCORP')		62.91%	Islamic investment firm
Residential South Real Estate Development Company (RSRED)		100%	Real estate development
Athena Private School for Special Education WLL		100%	Educational institution
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	90.27%	Real estate development
Tunis Bay Investment Company ('TBIC')		82.97%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")		80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	51.18%	Investment in real estate
Roebuck A M LLP	United Kingdom	60%	Property asset management Company

*During the period, the Group has made a voluntary pre-conditional offer to acquire up to 100% of the issued and paid-up ordinary shares of Khaleeji Commercial Bank BSC ("KHCB"), representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by the Group reprensting up to 21.03% stake of KHCB's issued and paid-up share capital, by way of shares exchange of 0.914 GFH shares per KHCB Share at the discretion of each shareholder of Khaleeji Commercial Bank BSC.

The Bank has other investment holding companies, SPV's and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

2 Basis of preparation

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:

2 Basis of preparation (continued)

i. 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 profit or loss as required by FAS. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS.;

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

iii. 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 period ended 30 June 2020, 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 US$ 25,295 thousand arising from the six month payment holiday provided to financing customers without charging additional profits was recognised directly in equity.

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'.

These condensed consolidated interim financial information are reviewed and not audited. The condensed consolidated interim financial information does not include all 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.

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed cfaonsolidated 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 those arising from adoption of the following standards and amendments to standards effective from 1 January 2021. The impact of adoption of these standards and amendments is set out below.

a. Adoption of new standards during the period

i. FAS 32 - Ijarah

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

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

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

(a) Change in accounting policy

Identifying an Ijarah

At inception of a contract, the Bank assesses whether the contract is Ijarah, or contains an Ijarah. A contract is Ijarah, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration.

Measurement

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

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

i) Right-of-use (usufruct) asset

On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- The prime cost of the right-of-use asset;
- Initial direct costs incurred by the lessee; and
- Dismantling or decommissioning costs.

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

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.

3 Significant accounting policies (continued)

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

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

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 shall be 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).

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

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

After the commencement date, the Bank measures the net Ijarah liability by:
- Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost);
- Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals paid; and
- Re-measuring the carrying amount in the event of reassessment or modifications to Ijarah contract, or to reflect revised Ijarah rentals.
- The deferred Ijarah cost is amortised to income over the Ijarah terms on a time proportionate basis, using the effective rate of return method. After the commencement date, the Bank 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 Bank accounts for Ijarah contract modifications as follows:
- Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
- Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of- use asset.

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3 Significant accounting policies (continued)

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset. For modifications not meeting any of the conditions stated above, the Bank considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Bank recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognise the existing Ijarah transaction and balances.

Expenses relating to underlying asset
Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Bank, are 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
A lessee may elect 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 was no change in the accounting policies for Ijarah Muntahia Bittamleek portfolio upon adoption of this standard.

(b) Impact on adoption of FAS 32
The impact of adoption of FAS 32 as at 1 January 2021 has resulted in an increase in right-of-use asset and an increase in lease liability as stated below. The lease contracts comprise office premises, school premises, leasehold lands, ATM sites, branches etc.

	Total Assets	**Total Liabilities and EIAH**	**Total Equity**
Closing balance (31 December 2020)	6,586,863	5,400,799	1,186,064
Impact on adoption:			
Right-of-use asset	58,949	-	-
Lease liability	-	61,045	-
Opening impact of FAS 32	-	-	(2,096)
Balance on date of initial application of 1 January 2021	**6,645,812**	**5,461,844**	**1,183,968**

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

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

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

3 Significant accounting policies (continued)

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

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

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

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

4 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.

5 Financial risk management

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

Regulatory ratios

a. 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".

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5 *Financial risk management (continued)*

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

As at 30 September 2021

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,046,974	-	-	58,792	1,105,766
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	1,409,607	278,177	49,769	1,568,775
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	2,501,267	687,676	807,447	1,781,039
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	158,683	228	137,520	137,520
13	Total ASF	-	-	-	-	4,593,100
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	1,392,111	-	-	-	74,645
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:	-	684,093	-	888,384	857,740
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	19,000	-	79,709	77,253
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	249,545	74,233	13,958	170,961
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	457,055	406,651	305,938	737,791
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	2,556,518	-	-	-	2,556,518
30	OBS items	-	-	-	-	28,508
31	Total RSF	-	1,409,693	480,884	1,287,989	4,503,416
32	NSFR (%)	-	-	-	-	102%

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5 Financial risk management (continued)

As at 31 December 2020

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,009,571	-	-	85,635	1,095,206
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	793,480	306,688	231,458	1,221,609
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	2,042,390	485,665	1,016,610	1,845,431
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	81,718	29,287	182,725	182,725
13	Total ASF	-	-	-	-	4,344,971
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	50,531
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:	-	453,447	20,628	906,357	838,420

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5 Financial risk management (continued)

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	127,045	-	214,171	245,568
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	147,516	101,279	-	124,398
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	22,064	14,342
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	260,664	19,500	395,881	535,963
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	2,652,216	-	-	-	2,652,216
30	OBS items	-	-	-	-	13,743
31	Total RSF	-	988,673	141,407	1,538,473	4,475,181
32	NSFR (%)	-	-	-	-	97%

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5 *Financial risk management (continued)*

b. Liquidity Coverage Ratio (LCR)

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high-quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30-calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days.

	Average balance	
	30 September 2021	31 December 2020
Stock of HQLA	257,276	244,049
Net cashflows	122,583	103,188
LCR %	214%	240%
Minimum required by CBB	80%	80%

c. Capital Adequacy Ratio

	30 September 2021	31 December 2020
CET 1 Capital before regulatory adjustments	1,046,974	1,025,835
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	1,046,974	1,025,835
T 2 Capital adjustments	58,792	76,062
Regulatory Capital	1,105,766	1,101,897
Risk weighted exposure:		
Credit Risk Weighted Assets	7,812,539	7,647,064
Market Risk Weighted Assets	38,325	72,038
Operational Risk Weighted Assets	552,821	552,821
Total Regulatory Risk Weighted Assets	8,403,685	8,271,923
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	8,403,681	8,271,918
Capital Adequacy Ratio (CAR)	13.16%	13.49%
Tier 1 Capital Adequacy Ratio	12.46%	12.57%
Minimum CAR required by CBB	12.50%	12.50%

6 Seasonality

Due to the inherent nature of the Group's business (investment banking, commercial banking and leisure and hospitality management business), the nine-month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

7 Comparatives

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.

8 Appropriations

In the shareholders meeting held on 6 April 2021, the following were approved:

a) Cash dividend of 1.86% of the paid-up share capital amounting to US$ 17 million;
b) Stock dividend of 2.56% of the paid-up share capital amounting to US$ 25 million;
c) Appropriation of US$ 1,104,000 towards charity, civil society institutions and Zakat for the year 2020; and
d) Transfer of US$ 4,509,500 to statutory reserve.

Treasury shares

As at 30 September 2021, the Bank holds 39,000,000 (31 December 2020 - 94,300,000) shares as part of its treasury shares which were previously held under a market making arrangement with an approved securities broker. During the shareholders meeting held on 6 April 2021 the shareholders have approved the cancellation of up to a maximum of 141,335,000 numbers of treasury shares as a result of cancellation of the market making agreement which were subject to the approval of the Central Bank of Bahrain. However, the Central Bank of Bahrain did not accede to the share cancellation and instead has instructed the Market Maker to liquidate the shares, as a result of cancellation of the market making agreement, without hampering the normal market operations nor misleading other market participants. The Market Maker is currently in the process of liquidating the treasury share portfolio in a phased manner.

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9 Treasury portfolio

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Placements with financial institutions	207,223	169,998	254,528
Equity type investments			
At fair value through income statement			
- Structured notes	443,956	368,431	296,120
Debt type investments			
At fair value through equity			
- Quoted sukuk	1,330,074	648,991	541,572
At amortised cost			
- Quoted sukuk *	751,771	693,737	675,874
- Unquoted sukuk	3,493	3,493	-
Less: Impairment allowances	(9,635)	(6,104)	(119)
	2,726,882	1,878,546	1,767,975

Out of the Group's debt type investments, US $ 14,113 is classified as stage 2 (31 December 2020: Nil) and remaining is in stage 1.

* Includes quoted sukuk of US$ 290,642 thousand (31 December 2020: US$ 302,260 thousand) pledged against term-financing of US$ 215,077 thousand (31 December 2020: US$ 200,204 thousand).

10 Financing assets

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Murabaha	968,412	971,164	901,488
Musharaka	-	276	276
Wakala	239	239	13,281
Mudharaba	2,599	2,690	2,804
Istisnaa	-	3,565	2,427
Assets held-for-leasing	372,769	345,342	398,329
	1,344,019	1,323,276	1,318,605
Less: Impairment allowances	(68,339)	(56,010)	(83,654)
	1,275,680	1,267,266	1,234,951

Murabaha financing receivables are net of deferred profits of US$ 44,576 thousand (31 December 2020: US$ 50,032 thousand).

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10 Financing assets (continued)

The movement on financing assets and impairment allowances is as follows:

Financing assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financing assets (gross)	1,027,826	185,082	131,111	1,344,019
Expected credit loss	19,286	7,958	41,095	68,339
Financing assets (net)	**1,008,540**	**177,124**	**90,016**	**1,275,680**

Impairment allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2021	20,841	6,255	28,914	56,010
Net movement between stages	1,231	398	(1,629)	-
Net charge for the period	(2,786)	1,305	14,463	12,982
Write-offs	-	-	(11)	(11)
Transfer to Off-BS ECL	-	-	(642)	(642)
At 30 September 2021	**19,286**	**7,958**	**41,095**	**68,339**

Financing assets 31 December 2020 (audited)	Stage 1	Stage 2	Stage 3	Total
Financing assets (gross)	1,024,986	150,475	147,815	1,323,276
Expected credit loss	20,841	6,255	28,914	56,010
Financing assets (net)	1,004,145	144,220	118,901	1,267,266

Impairment allowances	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	11,601	8,366	89,754	109,721
Net movement between stages	228	(4,512)	4,285	1
Net charge for the year	9,298	2,401	(2,542)	9,157
Write-offs	-	-	(29,204)	(29,204)
Disposal	(286)	-	(33,379)	(33,665)
At 31 December 2020	20,841	6,255	28,914	56,010

11 Investment in real estate

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Investment Property			
- Land	481,370	481,315	469,286
- Building	64,098	63,757	64,424
	545,468	545,072	533,710
Development Property			
- Land	788,217	761,032	796,857
- Building	517,722	506,211	510,019
	1,305,939	1,267,243	1,306,876
	1,851,407	1,812,315	1,840,586

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12 Proprietary investments

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Equity type investments			
At fair value through income statement			
- Unlisted fund	10,000	10,000	40,000
	10,000	10,000	40,000
At fair value through equity			
- Listed securities	13	19,060	19,404
- Unquoted securities	84,409	108,998	152,904
	84,422	128,058	172,308
Equity-accounted investees	77,726	78,050	75,590
	172,148	216,108	287,898

13 Co-investments

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
At fair value through equity			
- Unquoted securities	128,229	126,319	103,774
At fair value through income statement			
- Unquoted securities	7,584	-	-
	135,813	126,319	103,774

14 Term financing

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Murabaha financing	896,150	748,265	596,938
Sukuk	276,271	289,818	284,481
Ijarah financing	109,964	22,303	22,863
Other borrowings	29,492	28,691	28,993
	1,311,877	1,089,077	933,275

15 Impairment allowances

	Nine months ended	
	30 September 2021 (reviewed)	30 September 2020 (reviewed)
Expected credit loss on:		
Bank balances	(2)	27
Treasury portfolio	3,531	(503)
Financing assets, net (note 10)	13,078	703
Other receivables	(248)	1,719
Commitments and financial guarantees	393	174
	16,752	2,120
Impairment on investment in equity securities	689	-
	17,441	2,120

16 EARNING PER SHARE

The calculation of basic earning per share has been based on the following profit attributable to the ordinary shareholders and weighted-average number of ordinary shares outstanding. The Group does not have any diluted potentially ordinary shares as of the reporting dates. Hence, the basic and diluted earning per share is similar.

	Nine months ended		Three months ended	
	30 September 2021 (reviewed)	30 September 2020 (reviewed)	**30 September 2021** (reviewed)	30 September 2020 (reviewed)
Profit for the period attributable to shareholders of the Bank	60,340	23,167	23,296	8,113
Weighted average number of shares outstanding during the period (in thousands)	3,393,154	3,368,791	3,387,663	3,374,481
Basic and diluted earning per share (US Cents)	**1.78**	0.69	**0.69**	0.24

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17 Related party transactions

The significant related party balances and transactions as at 30 September 2021 are given below:

30 September 2021 (reviewed)	**Related parties as per FAS 1**			**Assets under management (including special purpose and other entities)**	**Total**
	Associates and joint venture	**Key management personnel**	**Significant shareholders / entities in which directors are interested**		
Assets					
Treasury portfolio	-	-	37,148	-	**37,148**
Financing assets	-	7,817	32,407	16,754	**56,978**
Proprietary investments	114,322	-	23,104	48,011	**185,437**
Co-investments	-	-	-	74,778	**74,778**
Receivables and prepayments	9,756	623	4,000	166,406	**180,785**
Liabilities					
Placements from financial, non-financial institutions and individuals	-	4,430	-	-	**4,430**
Customer accounts	1,488	366	10,517	64	**12,435**
Payables and accruals	-	57	1,528	138,643	**140,228**
Equity of investment account holders	1,088	355	54,276	772	**56,491**
Income					
Income from Investment banking	-	-	-	53,040	**53,040**
Income from commercial banking					
- *Income from financing*	-	310	2,332	-	**2,642**
- *Treasury and investment income*	(1,915)	-	-	698	**(1,217)**
- *Less: Return to investment account holders*	24	3	5,111	13	**5,151**
- *Less: Finance expense*	-	50	-	-	**50**
Income from proprietary and co-investments	(61)	-	8,017	15,891	**23,847**
Income from real estate	-	120	-	-	**120**
Treasury and other income	-	-	(819)	957	**138**
Expenses					
Operating expenses	-	6,202	743	117	**7,062**

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17 Related party transactions (continued)

	Related parties as per FAS 1				
31 December 2020 (audited)	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose and other entities)	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Assets					
Treasury portfolio	-	-	35,000	-	35,000
Financing assets	-	9,485	17,695	29,848	57,028
Proprietary investments	114,250	-	16,058	49,170	179,478
Co-investments	-	-	-	70,715	70,715
Receivables and prepayments	4,622	-	-	132,616	137,238
Liabilities					
Customer accounts	358	225	17,995	3,212	21,790
Placements from financial, non-financial institutions and individuals	-	5,584	112,568	-	118,152
Payables and accruals	-	500	2,732	74,242	77,474
Equity of investment account holders	1,095	639	99,579	865	102,178
30 September 2020 (reviewed)					
Income					
Income from Investment banking	-	-	-	49,899	49,899
Income from commercial banking	(50)	212	(2,220)	(11)	(2,069)
Income from proprietary and co-investments	(950)	-	-	6,415	5,465
Treasury and other income	-	-	-	4,837	4,837
Expenses					
Operating expenses	-	6,664	385	56	7,105
Finance expense	-	122	-	-	122
Transactions during the period					
Sale of proprietary investment	-	-	-	27,000	27,000

for the nine months ended 30 September 2021 ` US$ 000's

18 Segment reporting

The Group is organised into business units based on their nature of operations and independent reporting entities and has four reportable operating segments namely real estate development, investment banking, commercial banking and corporate and treasury.

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
30 September 2021 (reviewed)					
Segment assets	1,749,611	1,067,151	2,780,492	1,837,709	**7,434,963**
Segment liabilities	178,636	716,567	1,148,308	2,964,899	**5,008,410**
Other segment information					
Proprietary investments	5,764	18,274	53,688	-	**77,726**
Equity of investment account holders	-	-	1,078,062	140,847	**1,218,909**
Commitments	21,888	-	146,279	-	**168,167**
Segment revenue	16,403	58,140	58,489	137,575	**270,607**
Segment expenses	(11,582)	(40,568)	(35,126)	(115,055)	**(202,331)**
Segment result	4,822	17,572	23,363	22,519	**68,276**

for the nine months ended 30 September 2021 ` US$ 000's

18 Segment reporting (continued)

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
31 December 2020 (audited)					
Segment assets	1,746,751	929,392	2,693,884	1,216,836	6,586,863
Segment liabilities	256,879	615,022	1,159,795	2,212,110	4,243,806
Other segment information					
Proprietary investments	5,702	18,335	54,013	-	78,050
Equity of investment account holders	-	-	858,057	298,936	1,156,993
Commitments	35,449	-	110,263	-	145,712
30 September 2020 (reviewed)					
Segment revenue	13,826	92,569	42,049	65,657	214,101
Segment expenses	(16,756)	(61,488)	(21,567)	(83,982)	(183,793)
Segment result	(2,930)	31,082	20,482	(18,326)	30,308

19 Commitments and contingencies

The commitments contracted in the normal course of business of the Group:

	30 September 2021 US$ 000's (reviewed)	31 December 2020 US$ 000's (audited)	30 September 2020 US$ 000's (reviewed)
Undrawn commitments to extend finance	104,459	83,260	115,552
Financial guarantees	41,820	27,003	27,499
Capital commitment for infrastructure Development projects	16,974	22,449	10,734
Commitment to lend	4,914	13,000	14,000
	168,167	145,712	167,785

Performance obligations

During the ordinary course of business, the Group may enter performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 30 September 2021 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group has several claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Group entities also have been filed by former employees and customers. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Where applicable, appropriate provision has been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

20 ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired additional stake in the following key subsidiaries:

The Group's existing stake and additional stake acquired are given below.

	Current Stake	**Additional stake acquired**	**Total Stake**
Khaleeji Commercial Bank BSC ('KHCB')	55.41%	13.6%	69.01%
GBCORP BSC (c) ('GBCORP')	50.41%	12.5%	62.91%

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

	US$ 000's
Carrying amount of NCI acquired (based on historical cost)	34,846
Consideration to NCI (based on transaction price)	27,063
Increase in equity attributable to shareholders of the Bank	**7,783**

for the nine months ended 30 September 2021 US$ 000's

21 Financial instruments

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. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

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).

30 September 2021 (reviewed)	**Level 1**	**Level 2**	**Level 3**	**Total**
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	10,000	-	10,000
- equity	13	-	84,409	84,422
	13	**10,000**	**84,409**	**94,422**
ii) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	-	256,525	187,431	443,956
- equity	1,330,074	-	-	1,330,074
	1,330,074	**256,525**	**187,431**	**1,774,030**
iii) Co-investments				
Investment securities carried at fair value through				
- equity	-	-	128,229	128,229
- income statement	-	-	7,584	7,584
	-	**-**	**135,813**	**135,813**
	1,330,087	**266,525**	**407,653**	**2,004,265**

21 *Financial instruments (continued)*

30 September 2020 (reviewed)	Level 1	Level 2	Level 3	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
iii) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	40,000	40,000
- equity	19,404	-	152,904	172,308
	19,404	-	192,904	212,308
iv) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	-	-	296,120	296,120
- equity	541,572	-	-	541,572
	541,572	-	296,120	837,692
iii) Co-investments				
Investment securities carried at fair value through equity	-	-	103,774	103,774
	560,976	-	592,798	1,153,774

The following table analyses the movement in Level 3 financial assets during the period:

	30 September 2021 (reviewed)	31 December 2020 (audited)
At beginning of the period	390,567	221,741
Gains (losses) in income statement	(6,898)	(1,326)
Transfer (to) / from Level 2	32,181	155,250
Disposals at carrying value	(25,522)	(41,685)
Purchases	13,714	63,623
Fair value changes during the period	3,611	(7,036)
At end of the period	**407,653**	**390,567**

22 ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

1. The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 5,263 million (31 December 2020: US$ 4,360 million). During the period, the Group had charged management fees amounting to US$ 2,354 thousand (30 September 2020: US$ 3,765 thousand) to its assets under management.

2. Custodial assets comprise of discretionary portfolio management ('DPM') accepted from investors amounting to US$ 539,878 thousand out of which US$ 369,635 thousand has been invested in the Bank's own investment products. Further, the Bank is also holding Sukuk of US$ 17,367 thousand on behalf of the investors.

(The attached information do not form part of 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 have had a significant knock-on impact on the Bank and its principal subsidiaries and its associates (collectively 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 without any additional profits;
- Concessionary repo to eligible retail 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 onset of COVID-19 and the aforementioned measures resulted in the following significant effects to the financial position and operations of the Group:

- The CBB mandated 6-month payment holiday required the retail banking subsidiary of the Group 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 announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received various forms of 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 also included the requirement to suspend minimum payments and service fees on credit card balances and reduction in transaction related charges, this resulted in a significant decline in the Group's fees income from its retail banking operations.

- The strain caused by COVID-19 on the local economy resulted in a slow-down in the sale of new asset management products and booking of new corporate financing assets by the Group. During the nine months ended 30 September 2021, financing assets bookings were lower by 24.9% than the same period of the previous year.

- Decreased consumer spending caused by the economic slow-down in the booking of new consumer 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 Group's liquidity ratios and regulatory CAR were impacted but it continues to meet the revised regulatory requirement. The consolidated CAR, LCR and NSFR as of 30 September 2021 was 13.16%, 241% and 102% respectively.

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

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the nine-month period ended 30 September 2021, the Bank achieved a net profit of USD 60.3 million, which is higher than USD 23.2 million in the same period of the previous year, registering a increase of 160.5%.

A summary of the significant areas of cumulative financial impact on the Bahrain banking operations described above since March 2020 is as follows:

	Net Impact recognized in the Group's consolidated income statement USD' 000	Net Impact on the Group's consolidated financial position USD' 000	Net Impact recognized in the Group's consolidated owners' equity USD' 000
Average reduction of cash reserve	-	26,188	-
Concessionary repo at 0% #	(737)	129,676	(737)
Modification loss	-	(25,072)	(25,072)
Modification loss amortization	25,072	25,072	-
ECL attributable to COVID-19	(5,835)	(5,835)	-
Government grants	-	-	4,953
Lower fee income (retail banking)	(830)	-	-

 # Concessionary repo was only provided in the prior year and no such facilities continue in the current period.

Information reported in the table above only include components or line items in the financial statements where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or incremental costs and hence may not necessarily reconcile with amounts reported in the interim financial information for 30 September 2021.

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 and only covers impact on Bahrain banking operations of the Group. 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.