NATIONAL BANK OF BAHRAIN GROUP

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September 2021

National Bank of Bahrain Group

Condensed consolidated interim financial information
for the nine months ended 30 September 2021

CONTENTS Page

Commercial registration:	269 (Licensed by the Central Bank of Bahrain as a conventional retail bank)
Board of Directors:	Mr. Farouk Yousuf Khalil Almoayyed, *Chairman* Dr. Esam Abdulla Yousif Fakhro, *Deputy Chairman* Mr. Fawzi Ahmed Ali Kanoo, *Deputy Chairman* Mr. Zaid Khalid Abdulrahman, *Director* Mr. Vincent Van Den Boogert, *Director* Sh. Rashid Bin Salman Mohamed Al Khalifa, *Director* Ms. Hala Ali Hussain Yateem, *Director* Mr. Yusuf Abdulla Yusuf Akbar Alireza, *Director* Mr. Mohamed Tareq Mohamed Sadeq Akbar, *Director* Mr. Rishi Kapoor, *Director* Mr. Amin Ahmed Alarrayed, *Director*
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Independent auditors' report on review of condensed consolidated interim financial information

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

27 October 2021

Introduction

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

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated statement of profit or loss for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of changes in 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; 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 IAS 34, 'Interim Financial Reporting' as modified by the Central Bank of Bahrain. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing 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 IAS 34, 'Interim Financial Reporting' as modified by the Central Bank of Bahrain.

KPMG

National Bank of Bahrain Group

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2021

Bahraini Dinar Millions

	30 September 2021 (reviewed)	31 December 2020 (audited)	30 September 2020 (reviewed)
Assets			
Cash and balances at central banks	**114.7**	125.5	124.8
Treasury bills	**256.6**	236.7	214.1
Placements with banks and other financial institutions	**560.1**	335.4	278.8
Loans and advances (note 9)	**2,266.4**	2,173.1	2,127.9
Investment securities	**1,116.2**	1,231.4	1,221.3
Investment in associates	**26.9**	36.7	37.5
Interest receivable and other assets	**90.7**	112.5	107.1
Property and equipment	**62.7**	55.7	53.4
Goodwill and other intangible assets	**53.8**	54.4	54.5
Total assets	**4,548.1**	4,361.4	4,219.4
Liabilities			
Due to banks and other financial institutions	**469.3**	544.5	414.2
Borrowings under repurchase agreements	**146.6**	112.9	93.4
Customer deposits	**3,328.7**	3,084.3	3,114.6
Interest payable and other liabilities	**77.2**	93.4	99.5
Total liabilities	**4,021.8**	3,835.1	3,721.7
Equity			
Share capital	**187.3**	170.3	170.3
Shares unallocated under share incentive scheme	**(1.2)**	(1.3)	(1.3)
Share premium	**11.4**	10.5	10.5
Statutory reserve	**93.6**	85.1	85.1
General reserve	**32.4**	32.4	32.4
Other reserves and retained earnings	**195.7**	222.7	192.2
Equity attributable to the shareholders of the Bank	**519.2**	519.7	489.2
Non-controlling interest	**7.1**	6.6	8.5
Total equity	**526.3**	526.3	497.7
Total liabilities and equity	**4,548.1**	4,361.4	4,219.4

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Esam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 18 on 27 October 2021.

National Bank of Bahrain Group

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the nine months ended 30 September 2021

Bahraini Dinar Millions

	Nine months ended		Three months ended	
	30 September 2021 (reviewed)	30 September 2020 (reviewed)	**30 September 2021 (reviewed)**	30 September 2020 (reviewed)
Interest income	**114.3**	124.2	**38.0**	38.7
Interest expense	**(25.1)**	(37.8)	**(8.1)**	(11.2)
Net interest income	**89.2**	86.4	**29.9**	27.5
Other income	**26.3**	21.8	**8.8**	6.2
Total operating income	**115.5**	108.2	**38.7**	33.7
Staff expenses	**29.5**	29.9	**10.1**	9.8
Other operating expenses (note 13)	**26.9**	22.3	**9.3**	7.3
Total operating expenses	**56.4**	52.2	**19.4**	17.1
Operating profit before results of associates, impairment, and other provisions	**59.1**	56.0	**19.3**	16.6
Share of profits from associates, net	**0.7**	0.7	**0.5**	0.5
Net impairment and other provisions (note 10)	**(13.3)**	(14.2)	**(4.3)**	(4.0)
Profit for the period	**46.5**	42.5	**15.5**	13.1
Profit / (loss) attributable to non-controlling interests	**0.7**	(0.6)	**0.2**	(0.9)
Profit attributable to the shareholders of the Bank	**45.8**	43.1	**15.3**	14.0
Basic and diluted earnings per share	**25 fils**	23 fils	**8 fils**	7 fils

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Esam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the nine months ended 30 September 2021 Bahraini Dinar Millions

	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	**46.5**	42.5	**15.5**	13.1
Other comprehensive income:				
Items that are or may be reclassified to profit or loss:				
Fair value through other comprehensive income (debt instruments)				
- Net change in fair value	**(1.6)**	(19.0)	**(3.9)**	1.6
- Net amount transferred to profit or loss	**(3.2)**	(2.0)	**(0.2)**	(1.0)
Items that will not be reclassified to profit or loss:				
Fair value through other comprehensive income (equity instruments)	**(4.9)**	(4.0)	**(2.2)**	1.8
Total other comprehensive (loss) / income for the period	**(9.7)**	(25.0)	**(6.3)**	2.4
Total comprehensive income for the period	**36.8**	17.5	**9.2**	15.5
Total comprehensive income / (loss) attributable to non-controlling interests	**0.7**	(0.7)	**0.2**	(0.9)
Total comprehensive income attributable to the shareholders of the Bank	**36.1**	18.2	**9.0**	16.4

The condensed consolidated interim financial information consists of pages 2 to 18.

National Bank of Bahrain Group

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

Bahraini Dinar Millions

2021 (reviewed)						Other reserves and retained earnings					
	Share capital	Un-allocated shares	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation charity reserve	Retained earnings	Total owners' equity	Non-controlling interest	Total equity
Balance at 31 December 2020	**170.3**	**(1.3)**	**10.5**	**85.1**	**32.4**	**24.1**	**15.2**	**183.4**	**519.7**	**6.6**	**526.3**
2020 appropriations:											
Cash dividend at 20%	-	-	-	-	-	-	-	(34.1)	(34.1)	-	(34.1)
Bonus shares issued at 10%	17.0	(0.1)	-	-	-	-	-	(16.9)	-	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	2.7	(2.7)	-	-	-
Transfer to statutory reserve	-	-	-	8.5	-	-	-	(8.5)	-	-	-
Balance after 2020 appropriations	**187.3**	**(1.4)**	**10.5**	**93.6**	**32.4**	**24.1**	**17.9**	**121.2**	**485.6**	**6.6**	**492.2**
Employee shares allocated during the period (note 11)	-	0.2	0.9	-	-	-	-	-	1.1	-	1.1
Comprehensive income for the period:											
Profit for the period	-	-	-	-	-	-	-	45.8	45.8	0.7	46.5
Other comprehensive income	-	-	-	-	-	(9.7)	-	-	(9.7)	-	(9.7)
Total comprehensive income for the period	-	-	-	-	-	(9.7)	-	45.8	36.1	0.7	36.8
Utilisation of donation and charity reserve	-	-	-	-	-	-	(3.4)	-	(3.4)	-	(3.4)
Disposal of equity securities	-	-	-	-	-	2.7	-	(2.7)	-	-	-
Other movements	-	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.4)
Balance at 30 September 2021	**187.3**	**(1.2)**	**11.4**	**93.6**	**32.4**	**17.1**	**14.5**	**164.1**	**519.2**	**7.1**	**526.3**

The condensed consolidated interim financial information consists of pages 2 to 18.

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

Bahraini Dinar Millions

2020 (reviewed)

	Share capital	Un-allocated shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings: Fair value reserve	Donation charity reserve	Retained earnings	Total owners' equity	Non-controlling interest	Total equity
Balance at 31 December 2019	154.3	(1.4)	6.3	77.1	32.4	26.8	19.7	217.1	532.3	-	532.3
2019 appropriations:											
Cash dividend at 25%	-	-	-	-	-	-	-	(38.4)	(38.4)	-	(38.4)
Bonus shares issued at 10%	15.5	(0.1)	-	-	-	-	-	(15.4)	-	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.7	(3.7)	-	-	-
Transfer to statutory reserve	-	-	-	8.0	-	-	-	(8.0)	-	-	-
Balance after 2019 appropriations	169.8	(1.5)	6.3	85.1	32.4	26.8	23.4	151.6	493.9	-	493.9
Employee shares allocated during the period (note 11)	-	0.2	1.5	-	-	-	-	-	1.7	-	1.7
Acquisition of subsidiary	0.5	-	2.7	-	-	-	-	-	3.2	12.0	15.2
Comprehensive income for the period:											
Profit for the period	-	-	-	-	-	-	-	43.1	43.1	(0.6)	42.5
Other comprehensive income	-	-	-	-	-	(24.9)	-	-	(24.9)	(0.1)	(25.0)
Total comprehensive income for the period	-	-	-	-	-	(24.9)	-	43.1	18.2	(0.7)	17.5
Utilisation of donation and charity reserve	-	-	-	-	-	-	(6.9)	-	(6.9)	-	(6.9)
Transfer to retained earnings	-	-	-	-	-	0.5	-	(0.5)	-	-	-
Modification loss, net of government grant (note 4)	-	-	-	-	-	-	-	(20.5)	(20.5)	(2.7)	(23.2)
Other movements	-	-	-	-	-	-	-	(0.4)	(0.4)	(0.1)	(0.5)
Balance at 30 September 2020	170.3	(1.3)	10.5	85.1	32.4	2.4	16.5	173.3	489.2	8.5	497.7

Unallocated shares are shares that remain unallocated to employees under the employee share incentive scheme.

The condensed consolidated interim financial information consists of pages 2 to 18.

National Bank of Bahrain Group

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2021

Bahraini Dinar Millions

	Nine months ended	
	30 September 2021 (reviewed)	30 September 2020 (reviewed)
Cash flow from operating activities		
Profit for the period	**46.2**	42.5
Adjustments to reconcile profit for the period to net cash from operating activities:		
Depreciation and amortisation	**4.7**	3.6
Amortisation of right-of-use leased property	**1.6**	1.3
Net impairment and other provisions	**13.6**	14.2
Share of profits from associates, net	**(0.7)**	(0.7)
Profit for the period after adjustments	**65.4**	60.9
Change in operating assets and liabilities:		
Balances with central banks (mandatory cash reserve)	**(1.2)**	38.8
Treasury bills	**(48.0)**	153.6
Placements with banks and other financial institutions	**22.7**	(41.3)
Loans and advances	**(100.9)**	(231.3)
Investment securities	**96.0**	84.2
Interest receivable and other assets	**20.2**	(22.1)
Due to banks and other financial institutions	**(75.2)**	(200.5)
Borrowings under repurchase agreements	**33.7**	(15.0)
Customer deposits	**244.4**	157.6
Interest payable and other liabilities	**(7.3)**	(3.7)
Net cash from / (used in) operating activities	**249.8**	(18.8)
Cash flow from investing activities		
Dividend received from associates	**1.0**	0.8
Cash flow arising on acquisition of subsidiary	**-**	99.7
Redemption of associates	**9.5**	-
Purchase of property and equipment, net	**(9.5)**	(10.0)
Net cash from investing activities	**1.0**	90.5
Cash flow from financing activities		
Dividends paid	**(34.3)**	(38.5)
Purchase of subsidiary	**-**	(58.8)
Government grants received during the period	**-**	4.2
Donations and charities paid	**(3.8)**	(7.5)
Payment of lease liabilities	**(1.6)**	(2.5)
Net cash used in financing activities	**(39.7)**	(103.1)
Net increase / (decrease) in cash and cash equivalents during the period	**211.1**	(31.4)
Cash and cash equivalents at 1 January	**373.2**	335.6
Cash and cash equivalents at 30 September (note 16)	**584.3**	304.2

The condensed consolidated interim financial information consists of pages 2 to 18.

1. Reporting entity

The parent company of the Group, National Bank of Bahrain B.S.C. (the “Bank”), is a public shareholding company incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by the Central Bank of Bahrain (“CBB”) as a conventional retail bank.

The condensed consolidated interim financial statements include the results of the Bank and its subsidiary (together the "Group"). The Bank holds 78.8% of the share capital of Bahrain Islamic Bank B.S.C. (“BISB”) which operates under an Islamic retail banking license issued by the CBB.

2. Basis of preparation and significant accounting policies

The condensed consolidated interim financial information of the Group has been prepared in accordance IAS 34 ‘Interim Financial Reporting’, along with applicable rules and regulations issued by the CBB, including the recent circulars on regulatory concessionary measures in response to the coronavirus disease (“COVID-19”). The basis of preparation is hereinafter referred to as ‘IFRS as modified by the CBB’. The CBB rules and regulations require the adoption of all International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), except for:

- The retrospective recognition of modification losses arising from the deferral of loans, without additional interest charges, to qualifying Bahraini individuals and companies. The losses are recognised directly in equity, instead of the statement of profit or loss as required by IFRS. Any other modification gains or losses on financial assets are recognised in accordance with the applicable IFRS requirements.

- The retrospective recognition of financial assistance received from the government and regulator in response to COVID-19. The grants are recognised in equity against the modification loss discussed above, instead of the statement of profit or loss as required by IAS 20. Any other financial assistance is recognised in accordance with the requirements of IAS 20.

The condensed consolidated interim financial information is reviewed by the external auditors, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2020 and the reviewed condensed interim financial information for the nine months ended 30 September 2020. The comparatives for the condensed statements of profit or loss, comprehensive income, changes in equity and cash flows have been extracted from the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2020.

In accordance with IAS 34, the condensed consolidated interim financial information does not contain all the information and disclosures required for the full annual consolidated financial statements and should be read in conjunction with the Group’s 2020 annual audited consolidated financial statements, except for the effects of new standard adoptions and standard amendments described in note 3. In addition, results for the nine months period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

The condensed consolidated interim financial information is influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the condensed consolidated interim financial information. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standards. Actual results may differ from these estimates. The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation are in accordance with the application of standards and are the same as those applied to the audited consolidated financial statements for the year ended 31 December 2020.

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.

3. Adoption of new accounting standards and amendments to standards

(a) Adoption of new accounting standards

No new issued standards have been adopted by the Group with effect from 1 January 2021.

(b) Amendments to standards

Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of the existing interest rate benchmark.

The amendments provide practical relief from certain requirements of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is effective for annual reporting periods beginning on or after 1 January 2021.

The changes did not result in any material impact on the Group's condensed consolidated financial information.

4. COVID-19 impact

The outbreak of the coronavirus disease ("COVID-19") in 2020 has had multiple implications on the Group, from stressed market conditions to relief measures provided by the regulator and government.

The Central Bank of Bahrain ("CBB"), along with the Government of Bahrain, have provided numerous reliefs to Bahraini individuals, companies and banks. In March 2020, the CBB announced a six-month loan deferral to all qualifying Bahraini individuals and companies. Subsequently, the CBB instructed banks to take the present value of the shortfall in interest income (termed the "modification loss" under IFRS) arising from this deferral directly to equity, net of any government grants received. The modification loss recorded by the Group as at 30 September 2020 amounted to BHD 27.8 million. The CBB subsequently announced three additional loan deferral programmes effective September 2020 for a period of four months, January 2021 for a period of six months, and June 2021 for a period of six months. The latter three programmes permitted banks to charge interest, and as such, did not result in any additional modification losses to the Group.

To partially counteract the impact of the delayed loan settlements, the CBB provided banks with additional reliefs by reducing the minimum LCR and NSFR requirements from 100% to 80%, and by reducing the regulatory reserve requirements from 5% to 3%. NBB Group continued to meet the original minimum liquidity ratio requirements.

Further analysis of the COVID-19 impact on the Group results is provided in the supplementary disclosures section.

5. Estimates and management judgement

The Group's condensed consolidated interim financial information and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation are in accordance with the application of standards and are the same as those applied to the audited financial statements for the year ended 31 December 2020.

6. Seasonality

For the nine months ended 30 September 2021, other income includes BHD 2.0 million (30 September 2020: BHD 3.2 million) of dividends received from the Group's investments in equity securities. This income is of a seasonal nature.

7. Related parties

Certain related parties (major shareholders, directors of the Bank and their families and companies of which they are principal owners, and key management personnel) were customers and/or suppliers of the Group in the ordinary course of business. The transactions with these parties were made on an arm's length basis.

8. Appropriations

At the annual ordinary general meeting and the extraordinary general meeting for the year 2020, which were held on 24 March 2021, certain appropriations and amendments were approved and effected during the period. These appropriations include BHD 34.1 million for cash dividend at 20%, BHD 2.7 million for donations and contributions, a transfer of BHD 8.5 million from retained earnings to the statutory reserve and an increase in paid up capital due to a one-for-ten bonus issue through the utilisation of BHD 17.0 million from the retained earnings.

9. Loans and advances

(a) Exposure by staging

30 September 2021

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances	**2,049.5**	**149.8**	**115.6**	**39.2**	**2,354.1**
Less: impairment provisions	**(11.0)**	**(12.8)**	**(63.3)**	**(0.6)**	**(87.7)**
Net loans and advances	**2,038.5**	**137.0**	**52.3**	**38.6**	**2,266.4**

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances	1,984.5	115.9	116.0	38.7	2,255.1
Less: impairment provisions	(10.0)	(9.9)	(61.9)	(0.2)	(82.0)
Net loans and advances	1,974.5	106.0	54.1	38.5	2,173.1

Purchased or originated credit impaired (“POCI”) financial assets were acquired as part of the business combination at fair value and reflect the credit losses on which a lifetime ECL is already recognised.

9. Loans and advances (continued)

(b) Impairment provisions on loans and advances

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment at 31 December 2020	10.0	9.9	61.9	0.2	**82.0**
Net transfer between stages	2.0	(1.6)	(0.4)	-	**-**
Write off during the period	-	-	(1.1)	-	**(1.1)**
Net charge for the period (note 10)	(1.0)	4.3	2.3	0.4	**6.0**
Other movements	-	0.2	0.6	-	**0.8**
Impairment at 30 September 2021	**11.0**	**12.8**	**63.3**	**0.6**	**87.7**

Other movements relate to the recognition of provisions that have been initially netted off against gross volumes at the subsidiary acquisition date.

Stages 1 and 2 include an allowance of BHD 6.6 million for future credit losses relating to COVID-19.

(c) Aging schedule of non-performing loans and advances

	30 September 2021	31 December 2020
Up to 1 year	**60.4**	70.3
1 to 3 years	**42.1**	35.4
Over 3 years	**13.1**	10.3
	115.6	116.0
Fair market value of collateral	**118.9**	114.2
Stage 3 impairment provision	**63.3**	61.9

The non-performing loan ratio at 30 September 2021 is 4.9% (31 December 2020: 5.1%).

The analysis above excludes POCI.

10. Net impairment and other provisions

	30 September 2021	30 September 2020
Loans and advances (note 9b)	**6.0**	14.0
Placements with banks and other financial institutions	**3.7**	0.1
Loan commitments and guarantees	**0.4**	0.1
Associates	**0.2**	-
Investment securities – debts	**(0.2)**	-
	10.1	14.2
Contingent liabilities – litigation claims	**3.2**	-
	13.3	14.2

The Group's subsidiary is defending a claim from the Official Committee of Unsecured Creditors of Arcapita Bank B.S.C. (c) against it based on a preliminary judgement. While the subsidiary has a right to appeal against this judgement, a provision of BHD 6.9 million has been made, which consists of BHD 3.7 million for the principal amount and BHD 3.2 million towards the estimated profit that may be imposed by the court.

11. Employee share incentive scheme

During the period, as part of the employee share incentive scheme, the Group has allocated ordinary shares with a nominal value of BHD 0.2 million (2020: BHD 0.2 million) to the employees under this scheme, which has resulted in share premium of BHD 0.9 million (2020: BHD 1.5 million). Unallocated shares under the scheme are deducted from equity. The allocated shares under the scheme are entitled to cash dividends and bonus shares.

12. Contingent liabilities and banking commitments

	30 September 2021	31 December 2020
Contingent liabilities		
Letters of credit	**95.0**	53.6
Guarantees	**196.2**	224.7
	291.2	278.3
Banking commitments		
Undrawn loan commitments	**273.6**	207.6
Forward commitments	**75.8**	15.0
Interest rate contracts	**1,712.0**	1,517.9
Foreign exchange contracts	**1,349.0**	1,850.2
	3,410.4	3,590.7
	3,701.6	3,869.0

13. Other operating expenses

	30 September 2021	30 September 2020
Depreciation and amortisation	**4.7**	3.6
Equipment expenses	**3.9**	2.8
Premises expenses	**3.3**	3.4
Professional fees	**3.2**	1.9
Communication expenses	**3.1**	2.4
Deposit protection scheme expenses	**1.3**	1.3
Advertising and public relation expenses	**1.3**	1.4
Other, including acquisition related expenses	**6.1**	5.5
	26.9	22.3

14. Operating segment information

	Retail, Commercial & SMEs		Corporate, Institutional & Investment Banking		Overseas Branches		Treasury, Capital Markets & Wealth Management		Total	
	30 September 2021	30 September 2020	**30 September 2021**	30 September 2020	**30 September 2021**	30 September 2020	**30 September 2021**	30 September 2020	**30 September 2021**	30 September 2020
Interest and other income	**66.7**	62.1	**20.3**	21.5	**2.5**	2.3	**51.1**	60.1	**140.6**	146.0
Interest expense	**(19.2)**	(27.4)	**(2.6)**	(4.1)	**(0.3)**	(0.3)	**(3.0)**	(6.0)	**(25.1)**	(37.8)
Inter-segment interest income / (expense)	**18.0**	21.3	**1.6**	0.2	**0.1**	0.1	**(19.7)**	(21.6)	**-**	-
Operating income	**65.5**	56.0	**19.3**	17.6	**2.3**	2.1	**28.4**	32.5	**115.5**	108.2
Result	**29.5**	23.9	**13.5**	8.0	**(3.3)**	(7.9)	**15.9**	26.8	**55.6**	50.8
Unallocated corporate expenses									**(9.1)**	(8.3)
Profit for the period									**46.5**	42.5

Result above is after direct and indirect cost allocations and the application of impairment provisions to each applicable segment.

15. Fair Value Hierarchy

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs which are not based on observable data and for which the unobservable inputs have a significant effect on the instrument's valuation.

15. Fair value hierarchy (continued)

The fair value of financial assets and liabilities other than those disclosed below approximate their carrying value.

The following analyses financial assets and liabilities carried at fair value, by valuation method.

	30 September 2021				31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:								
Debt securities	**-**	**10.0**	**-**	**10.0**	-	-	-	-
Equity securities	**-**	**2.8**	**-**	**2.8**	-	1.7	-	1.7
Fair value through other comprehensive income:								
Debt securities	**232.4**	**53.8**	**-**	**286.2**	245.7	-	-	245.7
Equity securities	**57.7**	**-**	**30.9**	**88.6**	56.3	-	34.5	90.8
Derivative financial assets	**-**	**34.0**	**-**	**34.0**	-	41.8	-	41.8
Other assets – investment properties	**-**	**15.7**	**-**	**15.7**	-	16.2	-	16.2
	290.1	**116.3**	**30.9**	**437.3**	302.0	59.7	34.5	396.2
Derivative financial liabilities	**-**	**0.8**	**-**	**0.8**	-	1.4	-	1.4

15. Fair value hierarchy (continued)

The following analyses the movement in level 3 financial assets during the period. There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy:

	Fair value through other comprehensive income	
	2021	2020
At 1 January	**34.5**	11.1
Acquisition of assets within the subsidiary	**-**	22.8
Sale / write-off of asset	**-**	(2.1)
Total (losses) / gains in other comprehensive income	**(3.6)**	1.6
At 30 September	**30.9**	33.4

Level 3 comprises unquoted equity investments classified as fair value through other comprehensive income which are measured at their estimated fair values based on the latest financial information available. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category is assessed as not significant to the other comprehensive income and total equity.

16. Cash and cash equivalents

	30 September 2021	30 September 2020
Cash and balances with central banks	**114.7**	124.8
Less: cash reserve with central banks	**(74.9)**	(72.3)
	39.8	52.5
Treasury bills	**256.6**	214.1
Less: treasury bills with an original maturity over 3 months	**(244.3)**	(196.7)
	12.3	17.4
Placement with banks and other financial institutions	**560.1**	278.8
Less: placements with an original maturity over 3 months	**(27.9)**	(44.5)
	532.2	234.3
	584.3	304.2

The Group's consolidated net stable funding ratio (NSFR) as of 30 September 2021 is 147%, while the average LCR for the third quarter of the year stood at 344%. The Group continues to meet minimum required regulatory liquidity ratios and is also in compliance with the minimum required capital adequacy ratio (“CAR”). Further details on NSFR are presented in note 18.

17. Shariah-compliant assets and liabilities

The Group's interests in Shariah-compliant financial instruments are aggregated and included in the consolidated balance sheet of the Group:

	30 September 2021	31 December 2020
Assets		
Placement with banks and other financial institutions	**147.8**	85.2
Loans and advances, net	**1,079.4**	958.9
Investment securities – sukuk	**289.5**	355.1
Liabilities		
Due to banks and other financial institutions	**253.7**	207.3
Customer deposits	**1,001.3**	894.9

Liabilities are inclusive of equity of investment accountholders.

18. Net stable funding ratio

The main objective of the NSFR is to promote resilience in the banking system by improving the funding profile of banks by ensuring sufficient level of stable funding in relation to assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position.

Banks are required to meet a minimum NSFR of 100% on a continuous basis. This ratio was relaxed to 80% due to the pressures within the banking sector following the COVID pandemic, However, NBB Group still seeks to maintain the original higher 100% requirement.

The main drivers behind the Group's strong available stable funding (ASF) are the healthy capital base (18% of the Group's ASF), large deposits portfolio with strong contributions from the retail and small business sectors (66% of the Group's ASF) and the sizable corporate and sovereign deposits (16% of the Group's ASF).

The majority of the Group's investment security portfolio is classified as high-quality liquid assets (HQLA). The Group's HQLA securities accounted for 30% of the Group's required stable funding (RSF) before applying the relevant weights. Lending provided to financial institutions in the form of loans or placements was predominantly short-term in nature, which required a lower level of required funding, with 90% of total lending provided to financial institutions being in the 0-6 months maturity bucket.

The NSFR ratio of 147% at 30 September 2021 is 2% higher than the 31 December 2020 ratio. A 4% increase in ASF resulting from a 2% increase in retail and small business customer deposits and a 17% increase in wholesale funding, was partially offset by a 3% increase in RSF following a 45% increase in loans and placements with financial institutions and a 4% increase in lending to corporates, SMEs, retails, and sovereigns.

Further details on the calculation of the NSFR is presented in the following tables.

18. Net stable funding ratio (continued)

30 September 2021	Unweighted values (before applying factors)				
	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):					
Capital:					
Regulatory capital	555.0	-	-	24.6	579.6
Retail deposits and deposits from small business customers:					
Stable deposits	-	593.5	8.4	2.3	574.2
Less stable deposits	-	1,528.3	209.5	27.7	1,591.8
Wholesale funding:					
Wholesale funding	-	1,382.1	161.9	7.4	505.5
Other liabilities:					
All other liabilities not included in above categories	-	99.8	-	7.0	7.0
Total ASF					3,258.1
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	76.7
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	432.0	5.6	39.9	107.5
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs	-	345.5	83.0	1,491.4	1,481.9
-With a risk weight of less than or equal to 35% under the CBB capital adequacy ratio guidelines	-	-	-	153.0	99.5
Performing residential mortgages, of which:					
-With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio guidelines	-	-	-	43.6	28.4
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	1.9	37.6	36.8	52.6
Other assets:					
NSFR derivative assets	1.6	-	-	-	1.6
All other assets not included in the above categories	316.9	-	-	-	316.9
Off-balance sheet items	-	-	-	-	54.2
Total RSF					2,219.3
NSFR %					147%

18. Net stable funding ratio (continued)

31 December 2020	Unweighted values (before applying factors)				
	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):					
Capital:					
Regulatory capital	555.3	-	-	21.0	576.3
Retail deposits and deposits from small business customers:					
Stable deposits	-	595.4	7.1	4.4	576.8
Less stable deposits	-	1,562.7	109.7	40.7	1,545.9
Wholesale funding:					
Wholesale funding	-	1,276.3	116.0	3.4	431.8
Other liabilities:					
NSFR derivative liabilities	3.6	-	-	-	-
All other liabilities not included in above categories	-	119.3	-	6.5	6.5
Total ASF					3,137.3
Required stable funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	81.5
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	223.5	2.3	39.7	74.4
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs	-	348.4	120.4	1,396.8	1,421.6
-With a risk weight of less than or equal to 35% under the CBB capital adequacy ratio guidelines	-	-	-	180.9	117.6
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	3.8	47.9	41.1	63.3
Other assets:					
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	0.7
All other assets not included in the above categories	360.4	-	-	-	360.4
Off-balance sheet items	-	-	-	-	45.0
Total RSF					2,164.5
NSFR %					145%

Impact of COVID-19

The outbreak of the coronavirus disease ("COVID-19") in early 2020 has had multiple implications on the Group, from stressed market conditions to relief measures provided by the regulator and government.

The Central Bank of Bahrain ("CBB"), along with the Government of Bahrain, provided numerous reliefs to Bahraini individuals, companies and banks. In March 2020, the CBB announced a six-month loan deferral to all qualifying Bahraini individuals and companies. Subsequently, the CBB instructed banks to take the present value of the shortfall in interest income (termed the "modification loss" under IFRS) arising from this deferral directly to equity, net of any government grants received. The Group had received grants during 2020 in the form of salary subsidy, electricity and water bill reductions and repo facilities at preferential rates. The Bank immediately redirected the cash grants to COVID-19 related charitable causes within the Kingdom of Bahrain and took no profit benefit from the grants. The CBB subsequently announced three additional loan deferral programmes effective September 2020 for a period of four months, January 2021 for a period of six months, and June 2021 for a period of six months. The latter three programmes permitted banks to charge interest, and as such, did not result in any additional modification losses to the Group.

To partially counteract the impact of the delayed loan settlements, the CBB provided banks with additional reliefs by reducing the minimum LCR and NSFR requirements from 100% to 80%, and by reducing the regulatory reserve requirements. NBB Group continued to meet the original minimum liquidity ratio requirements, as shown in notes 16 and 18 of the condensed consolidated interim financial statements.

The table below summarises the impact of the various measures and market conditions on the Group as at 30 September 2021 and is inclusive of a BHD 6.6 million provision in excess of the base ECL model as a precaution toward future currently unidentified risks that the Group may face:

	Net profit	**Total equity**	**Total assets**
Closing balances as per the financial statements	**46.5**	**526.3**	**4,548.1**
CBB and Government measures			
Loan deferral modification loss	-	27.9	-
Preferential rate repo	-	(0.6)	-
Other government grants	-	(4.0)	-
	-	**23.3**	**-**
Market conditions			
Future expected credit losses attributable to COVID-19	(0.4)	6.6	6.6
Lower dividend income as payouts reduced	1.9	1.9	-
Additional cost of funding due to scarcity of USD	0.3	0.3	-
Reduction in market interest rates	6.1	6.1	-
Lower credit card income	0.4	0.4	-
	8.3	**15.3**	**6.6**
	54.8	**564.9**	**4,554.7**