KHALEEJI COMMERCIAL BANK | المصرف الخليجي التجاري

Announcement of the Results of Board of Directors Meeting held on 9th August 2020

To: Bahrain Bourse
Dubai Financial Market

Khaleeji Commercial Bank ("KHCB") would like to announce that its Board of Directors has met today, Sunday 9th August 2020, and has discussed and approved the semi-annual financial results for the period ended 30th June 2020.

KHCB reported a net profit of BD 5.709 million attributable to the shareholders of the bank, compared to BD 199 thousand for the same period of the previous year, with an increase of 2769%. This had an impact on the earnings per share, which reached 6.521 Fils, compared to 0.211 Fils for the same period of the previous year, an increase of 2991%.

The financial results also showed an increase in the Total Owners' Equity by 64.81% reaching BD 141.252 million, compared to BD 85.707 million, as well as an increase in Total Assets by 2.24% reaching BD 960.813 million, compared to BD 939.752 million last year. Total investments showed an increase by 99.6% reaching BD 145 million, compared to BD 72.7 million last year. Total Financing and asset acquired for leasing decreased by 4% bringing it to BD 451.7 million compared to BD 470.6 million last year. Total customer Deposit decreased by 13.9% reaching BD 615.6 million compared to BD 714.9 million last year.

Furthermore, the Bank recorded an increase of 5.98% in Total Income reaching BD 11.369 million during the first six months of 2020, compared to BD 10.727 million for the same period in 2019. Despite the economic challenges created by the COVID-19 Pandemic on the local market, the Bank has maintained a strong Capital Adequacy Ratio of 21.41%.

Enclosed copy of the approved financial results for the period ended 30th June 2020.

Name	**Fajer Al Busmait**
Title	**Head of Compliance**
Company Seal	**Signature**
KHALEEJI COMMERCIAL BANK المصرف الخليجي التجاري	

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 JUNE 2020

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour Harbour Tower East PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Abdulla Abdulkarim Showaiter (resigned on 25 March 2020) Dr. Khalid Mohammed Al Khazraji (resigned on 25 March 2020) Mustafa Ghazi Kheriba Fawad Tariq Khan Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed
Chief Executive Officer	:	Sattam Sulaiman Algosaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Auditors	:	KPMG Fakhro, Bahrain

KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the six months ended 30 June 2020

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

9 August 2020

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

Introduction

We have reviewed the accompanying 30 June 2020 condensed consolidated interim financial information of Khaleeji Commercial Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2020;
- the condensed consolidated income statement for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in restricted investment accounts for the six-month period ended 30 June 2020;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the six-month period ended 30 June 2020; and
- notes to the condensed consolidated interim financial information.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2020 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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

BD 000's

	Note	30 June 2020 (Reviewed)	31 December 2019 (Audited)
ASSETS			
Cash and bank balances		96,327	104,376
Placements with financial institutions		10,036	65,508
Financing assets	8	309,081	324,355
Investment in sukuk	9	225,256	195,050
Assets acquired for leasing		121,265	129,097
Lease rentals receivables		21,390	17,102
Investment in equity securities at fair value through equity		40,766	43,989
Investment in associate		29,012	4,524
Investment in real estate		17,781	17,781
Development property		57,418	6,251
Other assets		24,936	23,969
Property and equipment		7,545	7,750
Total assets		**960,813**	939,752
LIABILITIES			
Placements from financial institutions		108,143	117,098
Placements from non-financial institutions and individuals		165,516	134,654
Term borrowing		79,636	-
Customers' current accounts		51,136	58,105
Other liabilities		14,028	19,798
Total liabilities		**418,459**	329,655
Equity of investment account holders	10		
From financial institutions		16,856	22,367
From non-financial institutions and individuals		382,070	499,823
		398,926	522,190
OWNERS' EQUITY			
Share capital	12	89,212	105,000
Subordinated mudaraba (AT 1)	11	47,060	-
Statutory reserve		8,225	8,225
Treasury shares		(11,765)	(11,730)
Employee share incentive scheme		-	-
Investment fair value reserve		(226)	-
Retained earnings		8,746	(15,788)
Total owners' equity		**141,252**	85,707
Non-controlling interest		**2,176**	2,200
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		**960,813**	939,752

The Board of Directors approved the condensed consolidated interim financial information on 9 August 2020 and signed on its behalf by:

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algosaibi
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2020 BD 000's

	Note	30 June 2020 (reviewed)	30 June 2019 (reviewed)
Income from financing assets and assets acquired for leasing		15,558	14,613
Income from placements with financial institutions		352	1,421
Income from sukuks		6,035	4,814
Income from equity securities		174	299
Other income	15	1,197	4,051
Total income before return to investment account holders		**23,316**	25,198
Less: return to investment account holders before Bank's share as Mudarib		(11,477)	(13,542)
Bank's share as a Mudarib		5,453	4,050
Net return to investment account holders		**(6,024)**	(9,492)
Expense on placements from financial institutions, non-financial institutions and individuals		(5,767)	(3,928)
Finance expense on term borrowing		(156)	(1,051)
Total income		**11,369**	10,727
Staff cost		3,472	3,944
Other expenses		2,093	2,351
Total expenses		**5,565**	6,295
Profit before impairment allowances		**5,804**	4,432
Impairment allowances	16	(119)	(4,265)
PROFIT FOR THE PERIOD		**5,685**	167
Attributable to:			
Shareholders of the Bank		5,709	199
Non-controlling interest		(24)	(32)
		5,685	167
Earnings per share			
Basic and diluted earnings per share (fills)		**6.521**	0.211

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algosaibi
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2020

BD 000's

30 June 2020 (reviewed)	Equity attributable to shareholders of the Bank									
	Share Capital	**Statutory reserve**	**Treasury shares**	**Employee share incentive scheme**	**Investment fair value reserve**	**Subordinated mudaraba (AT1)**	**Retained earnings**	**Total**	**Non-Controllin g interest**	**Total Equity**
Balance at 1 January 2020	**105,000**	**8,225**	**(11,730)**	**-**	**-**	**-**	**(15,788)**	**85,707**	**2,200**	**87,907**
Profit for the period	-	-	-	-	-	-	5,709	5,709	(24)	5,685
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**-**	**-**	**5,709**	**5,709**	**(24)**	**5,685**
Issuance of AT1(Note 11)	-	-	-	-	-	60,000	12,000	72,000	-	72,000
Issuance costs of AT1 (Note 11)	-	-	-	-	-	(12,940)	-	(12,940)	-	(12,940)
Modification loss (Note 2a & 8)	-	-	-	-	-	-	(9,536)	(9,536)	-	(9,536)
Government grant (Note 2b)	-	-	-	-	-	-	791	791	-	791
Capital reduction (Note 12)	(15,788)	-	-	-	-	-	15,788	-	-	-
Purchase of Treasury shares	-	-	(35)	-	-	-	-	(35)	-	(35)
Issue of shares under incentive scheme	-	-	-	-	-	-	-	-	-	-
Fair value revaluation movement	-	-	-	-	(226)	-	-	(226)	-	(226)
Transfer to Zakah fund	-	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 30 June 2020	**89,212**	**8,225**	**(11,765)**	**-**	**(226)**	**47,060**	**8,746**	**141,252**	**2,176**	**143,428**

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2020 *(Continued)*

BD 000's

30 June 2019 (reviewed)	Equity attributable to shareholders of the Bank							
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Accumulated losses	Total	Non-Controlling interest	Total Equity
Balance at 1 January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Profit for the period	-	-	-	-	199	199	(32)	167
Total recognised income and expense for the period	-	-	-	-	199	199	(32)	167
Purchase of Treasury shares	-	-	(420)	-	-	(420)	-	(420)
Issue of shares under incentive scheme	-	-	-	76	20	96	-	96
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 30 June 2019	105,000	8,225	(11,715)	47	(697)	100,860	2,258	103,118

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2020

BD 000's

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
OPERATING ACTIVITIES		
Disbursements to financing assets, net	(127)	(10,937)
Receipts from/(disbursements for) assets acquired for leasing, net	4,932	(13,348)
Income from short-term placements received	352	1,421
Returns paid to investment account holders	(9,502)	(5,616)
(Withdrawals) / proceeds from investment account holders, net	(123,265)	110,656
Payment for expenses	(8,510)	(6,644)
Other receipts	1,209	2,329
Contributions paid to charitable organisations	(46)	(18)
Withdrawals from customers' current accounts, net	(6,969)	(5,074)
Withdrawals from financial institutions, net	(8,955)	(6,315)
Placements from non-financial institutions, net	30,861	8,264
Net receipts from/(payment) to CBB reserve account	12,696	(5,950)
Finance expense on placements paid	(5,767)	(6,208)
Income from sukuk received	6,084	4,701
Net cash (used in) / from operating activities	**(107,007)**	67,261
INVESTING ACTIVITIES		
Purchase of sukuk	(45,971)	(23,831)
Proceed from redemption / sale of sukuk	10,431	3,269
Dividend from equity securities received	202	9
Purchase of equity securities	(18)	-
Proceeds from disposal of development property	728	-
Purchase of property and equipment, net	(83)	(103)
Net cash used in investing activities	**(34,711)**	(20,656)
FINANCING ACTIVITIES		
Treasury shares, net	(35)	(420)
Drawdown / (repayment) of term borrowing	79,480	(7,837)
Cash from injection of AT1 Capital	11,447	-
Net cash from / (used in) financing activities	**90,892**	(8,257)
Net (decrease) / increase in cash and cash equivalents	**(50,826)**	38,348
Cash and cash equivalents at beginning of the period	144,454	121,171
Cash and cash equivalents at end of the period	**93,628**	159,519
Cash and cash equivalents comprise:		
Cash and bank balances (excluding CBB reserve)	83,592	49,501
Placement with financial institutions	10,036	110,018
	93,628	159,519

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the six months ended 30 June 2020

BD 000's

30 June 2020 (reviewed)	Balance at 1 January 2020			Movements during the period						Balance at 30 June 2020		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			**10,681**

30 June 2019 (reviewed)	Balance at 1 January 2019			Movements during the period						Balance at 30 June 2019		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information .

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

for the six months ended 30 June 2020

BD 000's

	Six months ended 30 June 2020 (reviewed)	Six months ended 30 June 2019 (reviewed)
Sources of zakah and charity fund		
At 1 January	714	708
Contributions by the bank	218	187
Non-Islamic income	36	8
Total sources	**968**	903
Uses of zakah and charity fund		
Contributions to charitable organisations	(46)	(18)
Total uses	**(46)**	(18)
Undistributed zakah and charity fund at end of the period	**922**	885

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

1 **Reporting entity**

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

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

The condensed consolidated interim financial information comprises financial information of the Bank and its subsidiaries (together "the Group").

Subsidiaries and associates

i. During the period, the Group acquired the 86% stake in a property held by HH Hospitality SPC, a Bahraini incorporated company operating in the hospitality business, through an asset swap transaction with the parent. The transaction did not result in any gain or loss for the Bank. Note 18.

ii. During the period, the Bank also acquired 50% stake in Al Areen Hotel SPC, a Bahraini incorporated company operating in the hospitality business from the parent as part of the parent's subscription in a subordinated Modaraba (additional Tier One Capital securities) issued by the Bank (Note 11). The investment is regarded as joint venture based on a shareholders' agreement and accordingly accounted for under the equity method.

2 **Basis of preparation and presentation**

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

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

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

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 and did not result in any change to the financial information reported for the comparative period.

2 *Basis of preparation and presentation (continued)*

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

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the Group's last audited consolidated financial statements for the year ended 31 December 2019. 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 2019.

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's last audited consolidated financial statements as at and for the year ended 31 December 2019, except as described in Note 2 'basis of preparation and presentation" above and those arising from adoption of the following standards and amendments to standards not yet effective but early adopted by the Group.

a. Early adoption of standards issued but not yet effective

i) FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)

The Group has early adopted FAS 31 as issued by AAOIFI in 2019 effective 1 January 2021.

The objective of this standard is to establish the principles of accounting and financial reporting for investment agency (Al- Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

The Group uses Wakala structure to raises funds from interbank market and from customers, and these were reported as liabilities under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019. All funds raised using Wakala structure, together called "Wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent Mudaraba arrangement. This comingled pool of funds is invested in a common pool of assets of in the manner which the Group deems appropriate without any restrictions as to where, how and for what purpose the funds should be invested. After adopting FAS 31 on 1 January 2020, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment account holders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However, the Bank decided to apply the standard retrospectively, thereby reclassifying all transactions outstanding as of the period end and the corresponding previous period end. The adoption of this standard has resulted in a change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 10).

3 *Significant accounting policies (continued)*
a. Early adoption of standards issued but not yet effective (continued)

ii) FAS 33 Investment in sukuks, shares and similar instruments

The Group has adopted FAS 33 as issued by AAOIFI effective 1 January 2021.
The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institution's investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments.

The standard classifies investments into equity type, debt-type and other investment instruments. Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

Investments in equity instruments must be at fair value and those classified as fair value through equity will be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The standard is effective 1 January 2021 with an option to early adopt and is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the condensed consolidated interim financial information for the period ended 30 June 2019 and the consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the current period.

Changes in accounting policies

Categorization and classification
FAS 33 sets out classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as either investment in:

i) equity-type instruments;
ii) debt-type instruments, including:
  - monetary debt-type instruments; and
  - non-monetary debt-type instruments; and
iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:
- the Bank's business model for managing the investments; and
- the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

for the six months ended 30 June 2020 BD 000's

3 *Significant accounting policies (continued)*

Reclassification of assets and liabilities

The adoption of FAS 33 has resulted in the following change in the classification of investments based on the reassessment of business model classification of the assets at 1 January 2020:

	Original classification under FAS 25	New classification under FAS 33	Original carrying amount under FAS 25	New carrying amount under FAS 33
Investment securities				
Investment in Sukuk	Amortised cost	Amortised cost	225,256	225,256
Investment in shares	FVTPL	FVTE	8,205	8,205
Investment in shares	FVTE	FVTE	32,561	32,561

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

FAS 32 - Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices.

This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of this standard.

4 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the last audited consolidated financial statements for the year ended 31 December 2019 except as described below:

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also, the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

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

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in of other revenue.

The Group has updated its inputs and assumptions for computation of ECL (refer note 5).

4 Financial risk management (continued)

Liquidity risk and capital management

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

- payment holiday for 6 months to eligible customers;
- for stage 1 ECL, increase in the number of days from 30 days to 74 days;
- concessionary repo to eligible banks at zero percent;
- reduction of cash reserve ratio from 5% to 3%;
- reduction in LCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

In response to COVID-19 outbreak, the Group invoked its liquidity contingency plan and continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 30 June 2020 have been disclosed below.

Operational risk management

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

As of 30 June 2020, the Group did not have any significant issues relating to operational risks.

IBOR reforms

IBOR reforms are heading to second phase, which relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services is one of the critical drivers of this project. With an aim to achieve an orderly transition and to mitigate the risks resulting from the transition, the Group's management is in the process of planning for the Group's transition project and continues to engage with various stakeholders.

This project is expected to have a pervasive impact on the entity, in terms of scale and complexity and will impact products, internal systems and processes.

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4 *Financial risk management (continued)*

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".

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 30 June 2020 is as follows:

	Total weighted value	
	30 June 2020	31 December 2019
Available stable funding (ASF)	632,245	585,803
Required stable funding (RSF)	681,738	540,123
NSFR %	92.7%	108.5%
Minimum required by CBB	80%	100%

b. *Capital Adequacy Ratio*

	30 June 2020	31 December 2019
CET 1 Capital before regulatory adjustments	105,878	97,215
Less: regulatory adjustments	(11,765)	(14,356)
CET 1 Capital after regulatory adjustments	94,113	82,859
T1 Capital	47,060	-
T 2 Capital adjustments	7,783	5,726
Regulatory Capital	**148,956**	88,585
Risk weighted exposure:		
Credit Risk Weighted Assets	622,632	458,075
Market Risk Weighted Assets	65,315	65,315
Operational Risk Weighted Assets	7,679	9,403
Total Regulatory Risk Weighted Assets	**695,626**	532,793
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	**695,626**	532,793
Capital Adequacy Ratio	21.41%	16.63%
Tier 1 Capital Adequacy Ratio	20.29%	16.63%
Minimum required by CBB	12.5%	12.5%

5 Estimates and judgements

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2019. 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.

Expected credit Losses

The economic uncertainties caused by COVID-19, and the volatility in oil prices impacting the Middle East economic forecasts have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 30 June 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, an assessment has been conducted on the corporate portfolio based on various factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc.

Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn, and the qualitative adjustments have considered these variables accordingly. Given the fact that the client base is primarily based in Bahrain and the region, all Government relief efforts to mitigate the impact of COVID-19 is also expected to have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts in the likely severity of its ongoing ECL assessment.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

5 *Estimates and judgements (continued)*

Significant increase in credit risk (SICR) (continued)

During the period, in accordance with CBB instructions the Group has granted payment holidays to its eligible/impacted customers by deferring up to six months instalments. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Reasonableness of forward-looking information
Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking "base case" economic scenario which reflects the Group's view of the most likely future macro-economic conditions.
Any changes made to ECL to estimate the overall impact of COVID-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis.

The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to COVID-19.

Probability weights
Management Judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 30 June 2020. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, based case and downside scenarios) and changed the downside weightings through to 100%.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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6 Comparatives

The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2019 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the six-months ended 30 June 2019.

7 Seasonality of operations

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

8 Financing Assets

	30 June 2020 (reviewed)	31 December 2019 (audited)
Murabaha	317,498	354,510
Musharaka	104	104
Wakala	5,007	5,007
Mudaraba	1,047	1,047
Istisna	2,463	1,733
	326,119	362,401
Less: Impairment allowances	(17,038)	(38,046)
	309,081	324,355

Murabaha financing receivables are net of deferred profits of BD 19,971 thousand (2019: BD 25,724 thousand) and un-amortised day one loss of BD 1,968 thousand (page 4).

The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD 44,630 thousand as part of its support to impacted customers.

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8 *Financing Assets(continued)*

The movement on impairment allowances is as follows:

2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2020	4,581	2,730	30,735	38,046
Net movement between stages	1,354	(1,524)	170	-
Charge for the period	212	640	1,165	2,017
Write back for the period	-	-	(1,841)	(1,841)
Net charge for the period	212	640	(676)	176
Write off	-	-	(10,149)	(10,149)
Disposal	-	-	(11,035)	(11,035)
At 30 June 2020	**6,147**	**1,846**	**9,045**	**17,038**

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(763)	(492)	1,255	-
Charge for the period	54	226	3,090	3,370
Write back for the period	-	-	(3)	(3)
Net charge for the period	54	226	3,087	3,367
At 30 June 2019	4,053	3,429	17,908	25,390

9 Investment in Sukuk

	30 June 2020 (Reviewed)	31 December 2019 (Audited)
Debt type instruments - at amortised cost		
- Quoted sukuk*	225,323	195,061
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,384)	(1,328)
	225,256	195,050

* As of 30 June 2020, Sukuk of BD 124,806 thousand (31 December 2019: NIL) pledged against term borrowings of BD 79,636 thousand (31 December 2019: NIL).

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10 Equity of investment account holders

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

	30 June 2020 (Reviewed)	30 June 2019 (Reviewed)
Placements and borrowings from financial institutions – Wakala	-	10,355
Placements from non-financial institutions and individuals – Wakala	-	-
Mudaraba	398,926	511,835
	398,926	522,190

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

	30 June 2020	31 December 2019
Balances with banks	38,078	42,601
CBB reserve account	12,734	25,430
Placements with financial institutions	10,036	65,508
Debt type instruments – sukuk	225,322	195,050
Financing assets	112,756	193,601
	398,926	522,190

11 Subordinated mudaraba

In order to meet minimum regulatory requirements relating to total equity, during the period, the Bank issued a Subordinated Mudaraba (Basel III compliant Additional Tier 1 capital securities) of US$ 159 million (BD 60 million) at a premium of BD 12 million. The issue was fully subscribed for by the Parent through a combination of cash of BD 23.6 million and in-kind of BD 48.4 million comprising of a stake in a joint venture of BD 24.5 million (Note 1), properties of BD 5.5 million, and financing assets of BD 18.4 million. The in-kind contribution was recognised at the fair value of the consideration received on the date of transfer. The premium received has been added to retained earnings and recognized as part of the total equity attributable to AT1.

Issuance costs of BD 12.9 million representing BD 12.1 million underwriting fee to the Parent and BD 0.8 million other transaction costs have been adjusted against the AT1 issued capital.

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

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12 Paid up share capital

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

13 Commitments and contingencies:

	30 June 2020 (Reviewed)	31 December 2019 (Audited)
Undrawn commitments to extend finance	45,539	68,876
Financial guarantees	10,320	11,836

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

15 Other income

Includes recovery during the period of BD 17 thousand (2019: BD 2,738 thousand) from financing assets written-off in prior years.

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16 Impairment allowances

	30 June 2020 (Reviewed)	30 June 2019 (Reviewed)
Balances and placements with banks and financial institutions	1	(48)
Financing Assets (note 8)	176	3,367
Investments in sukuk	59	12
Assets acquired for leasing (including lease rentals receivables)	(124)	812
Commitments and financial guarantees	7	(82)
Investments in equity securities at fair value through equity	-	204
	119	4,265

Movement on ECL in various stages during the period:

30 June 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount	***720,766***	***24,291***	***57,427***	***802,484***
Opening ECL balance at 1 January	4,909	3,123	34,833	42,865
Transfer to Stage 1	1,704	(1,160)	(544)	-
Transfer to Stage 2	(44)	772	(728)	-
Transfer to Stage 3	(20)	(1,384)	1,404	-
Net movement	1,640	(1,772)	132	-
Charge for the period (net)	170	599	(650)	119
Write off	-	-	(10,154)	(10,154)
Disposal	-	-	(11,035)	(11,035)
Closing ECL balance as at 30 June	**6,719**	**1,950**	**13,126**	**21,795**
Net carrying amount	***714,047***	***22,341***	***44,301***	***780,689***

30 June 2019	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	*720,835*	*58,780*	*99,453*	*879,068*
Opening ECL balance at 1 January	5,099	3,918	17,214	26,231
Transfer to Stage 1	401	(293)	(108)	-
Transfer to Stage 2	(302)	426	(124)	-
Transfer to Stage 3	(867)	(700)	1,567	-
Net movement	(768)	(567)	1,335	-
Charge for the period (net)	(54)	773	3,342	4,061
Closing ECL balance as at 30 June	4,277	4,124	21,891	30,292
Net carrying amount	*716,558*	*54,656*	*77,562*	*848,776*

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17 Assets under management

The Bank provides corporate administration, investment management and advisory services to its investment entities, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 262.4 million (31 December 2019: BD 263.25 million). During the year, the Bank has not charged any management fees (2019: BD NIL for the management of these assets).

18 Significant related party transactions

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

During the period, the Group has entered into a swap transaction with its Parent at agreed terms by transferring financing assets of BD 27.7 million, Sukuk of BD 7.5 million and equity investment of BD 11.2 million of a total of BD 46.4 million in exchange of a controlling stake in HH Hospitality SPC, refer to note 1(i). The financing assets were recognised at the fair value of the asset received on the date of transfer.

30 June 2020 (Reviewed)	**Associates**	**Significant shareholders / entities in which directors are interested**	**Total**
Transactions with related parties			
Underwriting fee on Subordinated Mudaraba	-	12,100	12,100
Sub-ordinated Mudaraba		60,000	60,000
Investment in associates	24,500	-	24,500
Acquisition of development property	-	51,896	51,896
Sale of financial assets	-	46,376	46,376
Transfer of financial assets		18,433	18,433

30 June 2020 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	-	3,096	6,670	-	**9,766**
Investment in equity securities	-	-	2,284	17,996	**20,280**
Investment in associate	29,012	-	-	-	**29,012**
Other assets	117	-	-	784	**901**
Liabilities					
Placement with financial institutions, non-FIs and individuals	-	2,616	19,569	-	**22,185**
Customers' current accounts	171	146	4,537	1,217	**6,071**
Equity of investment account holders	409	251	88,519	344	**89,523**
Other Liabilities	-	-	1,277	-	**1,277**

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18 Significant related party transactions (continued)

Six months ended 30 June 2020 (Reviewed)	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Income					
Income from financing assets and assets acquired for leasing	-	80	417	-	**497**
Other losses	(12)	-	2	-	**(10)**
Expenses					
Expense on placements from financial institutions, non-financial institutions and individuals	-	46	291	-	**337**
Return to investment account holders	7	-	965	4	**976**
Investment related expenses	-	-	-	21	**21**
Staff cost	-	1,143	-	-	**1,143**

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18 Significant related party transactions (continued)

31 December 2019 (Audited)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	2,017	5,710	-	7,727
Investment securities	-	-	2,284	18,051	20,335
Other assets	4,645	-	-	865	5,510
Liabilities					
Placement with financial institutions	-	1,784	-	-	1,784
Customers' current accounts	194	61	5,634	1,207	7,096
Equity of investment account holders	404	598	122,880	380	124,262

Six months ended 30 June 2019 (Reviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	64	185	-	249
Other losses	(42)	-	-	-	(42)
Expenses					
Expense on placements from financial institutions, non-financial institutions and individuals	-	43	2,074	-	2,117
Return to investment account holders	8	12	1,633	5	1,658
Investment related expenses	-	-	-	17	17
Staff cost	-	614	-	-	614

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19 Segment information

30 June 2020 (Reviewed)	**Investment Banking**	**Corporate and Retail Banking**	**Unallocated**	**Total**
Segment revenue	31	23,285	-	**23,316**
Segment results	(346)	9,502	(3,471)	**5,685**
Segment assets	158,450	788,259	14,104	**960,813**

30 June 2019 (Reviewed)	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Segment revenue	254	24,944	-	25,198
Segment results	(394)	4,437	(3,876)	167
Segment assets	93,836	849,826	13,416	957,078

20 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.

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.

(i) Financial instruments at fair value:

The table below analyses the financial instruments carried at fair value, by valuation method.

30 June 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity type securities carried at fair value through equity	-	-	40,766	40,766
	-	**-**	**40,766**	**40,766**

31 December 2019	Level 1	Level 2	Level 3	Total
Unquoted equity type securities carried at fair value through equity	-	-	43,989	43,989
	-	-	43,989	43,989

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20 *Financial instruments (continued)*

The following table analyses the movement in Level 3 financial assets during the six month period ended 30 June 2020:

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
At 1 January	43,989	13,148
Total losses in income statement	(254)	-
Purchases	8,205	-
Disposals	(11,174)	-
Transfers into (out) of Level 3	-	-
	40,766	13,148

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2 fair value measurements. Upon early adoption of FAS 33, all investments in equity shares which were classified at cost less impairment were reclassified into fair value through equity and measured as level 3 financial assets.

(ii) Fair value of financial instruments not measured at fair value

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

30 June 2020	Carrying amount	Fair value
Financial assets		
Financing assets	309,787	309,787
Investment in sukuk	225,256	225,256
Investment in equity securities	40,766	40,766
Assets acquired for leasing	121,265	121,265
Lease rentals receivables	21,445	21,445
	718,519	**718,519**
Financial liabilities		
Customers' current accounts	51,136	51,136
	51,136	**51,136**

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20 Financial instruments (continued)

31 December 2019	Carrying amount	Fair value
Financial assets		
Financing assets	324,355	324,355
Investment in sukuk	195,050	195,050
Investment in equity securities	43,989	43,989
Assets acquired for leasing	129,097	129,097
Lease rentals receivables	17,102	17,102
	709,593	709,593
Financial liabilities		
Customers' current accounts	58,105	58,105
	58,105	58,105

Valuation techniques

Investment securities
The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

For certain unquoted investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease / increase in the market multiple would increase / decrease the reported fair value by BD 410 thousand (2019: BD 657 thousand). The corresponding impact would be on the profit or loss reported by the Group.

Financing assets
In case of financing assets and assets acquired for leasing, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges, it is expected that the current value would not be materially different from fair value of these assets.

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

21 Comparative Figures
The comparative figures have been regrouped in order to conform with the presentation for current year. Such regrouping did not affect previously reported profit for the period or total equity.

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

UNREVIEWED SUPPLEMENTARY DISCLOURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

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

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero Percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.

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

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

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

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

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

- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the 6 months ended 30 June 2020, financing assets bookings were 26.3% lower than the same period of the previous year.

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

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

A summary of the financial impact of the impact of the above effects is as follows:

	Net Impact on the Group's consolidated income statement	Net Impact on the Group's consolidated financial position	Net Impact on the Group's consolidated owners' equity
	BD '000	BD '000	BD '000
Average reduction of cash reserve	-	8,606	-
Concessionary repo at 0%	-	48,888	-
Modification loss	-	(9,536)	(9,536)
Government grants	-	-	791
Credit card income	(313)	-	-
ECL attributable to COVID-19	(1,275)	(1,275)	-
	(1,588)	46,683	(8,745)

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