GFH FINANCIAL GROUP BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 JUNE 2020

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Jassim Al Seddiqi, *Chairman* H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Vice Chairman* Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed (till 30 March 2020) Mosabah Saif Al Mautairy Ghazi Faisal Ebrahim Alhajeri Bashar Mohamed Al Mutawa (till 1 April 2020) Rashid Nasser Al Kaabi Mustafa Kheriba Ali Murad (from 9 April 2020) Ahmed AlAhmadi (from 9 April 2020)
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GFH FINANCIAL GROUP 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

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

17 August 2020

Introduction

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

- the condensed consolidated statement of financial position as at 30 June 2020;
- the condensed consolidated income statement for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in owners' 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 consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 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 US$ 000's

	note	30 June 2020 (reviewed)	31 December 2019 (audited) (restated notes 3(a),14)	30 June 2019 (reviewed) (restated notes 3(a),14)
ASSETS				
Cash and bank balances		598,969	364,598	371,805
Treasury portfolio	9	1,594,462	1,588,661	1,682,405
Financing assets	10	1,275,622	1,272,777	1,300,231
Real estate Investments	11	1,808,534	1,806,009	1,821,444
Proprietary investments	12	251,328	268,175	279,048
Co-investments	13	98,558	96,507	77,048
Receivables and prepayments		399,555	444,689	502,877
Property and equipment		107,743	103,857	103,116
Total		**6,134,771**	5,945,273	6,137,974
LIABILITIES				
Clients' funds		104,383	70,858	61,097
Placements from financial, non-financial institutions and individuals		2,296,788	2,447,249	2,789,757
Customer current accounts		127,694	147,487	163,683
Term financing	15	929,532	301,411	221,953
Payables and accruals		396,175	466,852	525,876
Total		**3,854,572**	3,433,857	3,762,366
Equity of investment account holders		**1,098,723**	1,218,545	995,837
OWNERS' EQUITY				
Share capital		975,638	975,638	975,638
Treasury shares	8	(76,801)	(73,419)	(58,890)
Statutory reserve		125,312	125,312	117,301
Investment fair value reserve		(12,906)	7,737	(5,641)
Foreign currency translation reserve		(48,929)	(29,425)	(43,150)
Retained earnings		(110,273)	(2,498)	50,298
Share grant reserve		1,198	1,198	1,198
Total equity attributable to shareholders of Bank		**853,239**	1,004,543	1,036,754
Non-controlling interests		328,237	288,328	343,017
Total owners' equity		**1,181,476**	1,292,871	1,379,771
Total liabilities, equity of investment account holders and owners' equity		**6,134,771**	5,945,273	6,137,974

The Board of Directors approved the condensed consolidated interim financial information on 17 August 2020 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

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

	note	Six months ended	
		30 June 2020 (reviewed)	30 June 2019 (reviewed) (restated note 3 (a),14)
Continuing operations			
Investment banking income			
Asset management		2,727	1,358
Deal related income		38,237	42,089
		40,964	*43,447*
Commercial banking income			
Income from financing		41,268	38,762
Treasury and investment income		17,372	17,330
Fee and other income		3,206	10,745
Less: Return to investment account holders		(15,978)	(19,130)
Less: Finance expense		(13,494)	(9,788)
		32,374	*37,919*
Income from proprietary and co-investments			
Direct investment income, net		19,300	10,086
Restructuring related income		-	29,406
Dividend from co-investments		4,109	507
		23,409	*39,999*
Real estate income			
Development and sale		9,256	13,517
Rental and operating income		1,157	1,248
		10,413	*14,765*
Treasury and other income			
Finance income		35,240	25,459
Fair value loss on treasury investments, net		(10,933)	-
Other income, net	17	15,059	1,956
		39,366	*27,415*
Total income		**146,526**	163,545
Operating expenses		57,649	48,783
Finance expense		66,944	53,705
Impairment allowances	18	1,547	12,164
Total expenses		**126,140**	114,652
Profit from continuing operations		**20,386**	48,893
Loss from discontinued operations, net		**-**	(467)
Profit for the period		**20,386**	48,426
Attributable to:			
Shareholders of Bank		15,054	49,134
Non-controlling interests		5,332	(708)
		20,386	48,426
Earnings per share			
Basic and diluted earnings per share (US cents)		**0.45**	1.45
Earnings per share (continuing operations)			
Basic and diluted earnings per share (US cents)		**0.45**	1.47

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2020 US$ 000's

	Attributable to shareholders of the Bank									
30 June 2020 (reviewed)	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non – controlling interests	Total owners' equity
Balance at 1 January 2020	975,638	(73,419)	125,312	7,737	(29,425)	(2,498)	1,198	1,004,543	288,328	1,292,871
Profit for the period (page 3)	-	-	-	-	-	15,054	-	15,054	5,332	20,386
Fair value changes during the period	-	-	-	(20,643)	-	-	-	(20,643)	(267)	(20,910)
Total recognised income and expense	**-**	**-**	**-**	**(20,643)**	**-**	**15,054**	**-**	**(5,589)**	**5,065**	**(524)**
Additional capital contribution to subsidiary (note 1)	-	-	-	-	-	(59,893)	-	(59,893)	(14,311)	(74,204)
Modification loss on financing assets (note 2a, 10)	-	-	-	-	-	(14,016)	-	(14,016)	(11,279)	(25,295)
Government grant (note 2b)	-	-	-	-	-	3,118	-	3,118	936	4,054
Dividends declared (note 8)	-	-	-	-	-	(30,000)	-	(30,000)	-	(30,000)
Transfer to zakah and charity fund (page 8)	-	-	-	-	-	(1,388)	-	(1,388)	(258)	(1,646)
Purchase of treasury shares	-	(48,237)	-	-	-	-	-	(48,237)	-	(48,237)
Sale of treasury shares	-	69,907	-	-	-	(20,650)	-	49,257	-	49,257
Treasury shares acquired for share incentive scheme	-	(25,052)	-	-	-	-	-	(25,052)	-	(25,052)
Foreign currency translation differences	-	-	-	-	(19,504)	-	-	(19,504)	(3,991)	(23,495)
NCI arising from acquisition of a subsidiary (note 16)	-	-	-	-	-	-	-	-	63,747	63,747
Balance at 30 June 2020	**975,638**	**(76,801)**	**125,312**	**(12,906)**	**(48,929)**	**(110,273)**	**1,198**	**853,239**	**328,237**	**1,181,476**

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2020 *(continued)* US$ 000's

30 June 2019 (reviewed)	Attributable to shareholders of the Bank										
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non – controlling interests	Non – controlling interests held-for-sale	Total owners' equity
Balance at 1 January 2019 * (as previously reported)	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
Reclassification of subsidiary held-for-sale to held-for-use (note 14)	-	-	-	-	-	-	-	-	25,396	(25,396)	-
Balance at 1 January 2019 * (restated)	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	348,804	15,160	1,422,778
Profit for the period (page 3)	-	-	-	-	-	49,134	-	49,134	(708)	-	48,426
Fair value changes during the period	-	-	-	(916)	-	-	-	(916)	-	-	(916)
Total recognised income and expense	-	-	-	(916)	-	49,134	-	48,218	(708)	-	47,510
Bonus shares issued	55,000	-	-	-	-	(55,000)	-	-	-	-	-
Extinguishment of treasury shares	(55,000)	50,549	-	-	-	4,451	-	-	-	-	-
Dividends declared (note 8)	-	-	-	-	-	(30,000)	-	(30,000)	-	-	(30,000)
Transfer to zakah and charity fund (page 8)	-	-	-	-	-	(2,219)	-	(2,219)	(223)	-	(2,442)
Issue of shares under incentive scheme	-	-	-	-	-	-	112	112	-	-	112
Purchase of treasury shares	-	(109,627)	-	-	-	-	-	(109,627)	-	-	(109,627)
Sale of treasury shares	-	85,612	-	-	-	(14,817)	-	70,795	-	-	70,795
Foreign currency translation differences	-	-	-	-	230	-	-	230	(4,856)	-	(4,626)
Acquisition of NCI without a change in control	-	-	-	-	-	431	-	431	-	(15,160)	(14,729)
Balance at 30 June 2019	975,638	(58,890)	117,301	(5,641)	(43,150)	50,298	1,198	1,036,754	343,017	-	1,379,771

* The Bank used to recognise gain / (loss) on sale of treasury shares in statutory reserve. The Bank has regrouped the losses on sale of treasury shares of US$ 24,818 thousand for the year ended 31 December 2018 to retained earnings.

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2020 US$ 000's

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	20,386	48,426
Adjustments for:		
Income from commercial banking	(16,470)	(13,560)
Income from proprietary investments	(23,409)	(10,482)
Income from dividend and gain / (loss) on treasury investments	(8,623)	(16,530)
Foreign exchange (gain) / loss	(1,174)	623
Restructuring related income	-	(29,406)
Finance expense	80,408	63,493
Impairment allowances	1,547	12,164
Depreciation and amortisation	1,308	1,097
	53,973	**55,825**
Changes in:		
Placements with financial institutions (maturities of more than 3 months)	346,762	(280,537)
Financing assets	(2,845)	(91,284)
Other assets	31,581	(179,515)
CBB Reserve and restricted bank balance	44,145	(15,783)
Clients' funds	33,526	14,458
Placements from financial and non-financial institutions	(150,461)	1,161,368
Customer current accounts	(19,793)	(14,223)
Equity of investment account holders	(119,822)	98,927
Payables and accruals	(52,731)	(48,042)
Net cash generated from operating activities	**164,335**	**701,194**
INVESTING ACTIVITIES		
Payments for purchase of equipment	(233)	(273)
Proceeds from sale of proprietary investment securities, net	1,008	2,156
Purchase of treasury portfolio, net	(268,797)	(261,748)
Cash acquired on acquisition of a subsidiary	32,856	-
Proceeds from sale of investment in real estate	342	38,118
Dividends received from proprietary investments and co-investments	7,128	3,065
Advance paid for development of real estate	(12,197)	(11,734)
Net cash used in investing activities	**(239,893)**	**(230,416)**
FINANCING ACTIVITIES		
Financing liabilities, net	650,040	(59,028)
Finance expense paid	(82,595)	(25,794)
Dividends paid	(33,397)	(27,829)
Acquisition of NCI	-	(9,026)
Purchase of treasury shares, net	(24,124)	(39,182)
Net cash generated from / (used in) financing activities	**509,924**	**(160,859)**
Net increase in cash and cash equivalents during the period	**434,366**	**309,919**
Cash and cash equivalents at 1 January *	367,533	397,620
Cash and cash equivalents at 30 June	**801,899**	**707,539**
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	559,020	298,544
Placements with financial institutions (less than 3 months)	242,879	408,995
	801,899	**707,539**

** net of expected credit loss of US$ 612 thousand (31 December 2019: US$ 1,098 thousand).*

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the six months ended 30 June 2019

30 June 2020 (reviewed)	**Balance at 1 January 2020**			**Movements during the period**						**Balance at 30 June 2020**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.91	103	(10)	-	-	-	-	-	12	7.91	95
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,459	(10)	-	-	-	-	-			28,451

30 June 2019 (reviewed)	Balance at 1 January 2019			Movements during the period						Balance at 30 June 2019		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	12	-	-	-	-	13	7.91	103
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,447	-	12	-	-	-	-			28,459

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

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

for the six months ended 30 June 2020 US$ 000's

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	1,646	2,437
Non-Islamic income	103	256
Total sources	**1,749**	2,693
Uses of zakah and charity fund		
Contributions to charitable organisations	(185)	(1,368)
Total uses	**(185)**	(1,368)
Surplus of sources over uses	**1,564**	1,325
Undistributed zakah and charity fund at beginning of the period	5,407	4,636
Undistributed zakah and charity fund at end of the period	**6,971**	5,961
Represented by:		
Zakah payable	1,426	973
Charity fund	5,545	4,988
	6,971	5,961

The accompanying notes 1 to 24 form an integral part of the condensed consolidated interim financial information.

1 Reporting entity

The condensed consolidated interim financial information for the six months ended 30 June 2020 comprise the financial information of GFH Financial Group BSC (GFH or the "Bank") and its subsidiaries (together referred to as "the Group").

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

Investee name	Country of incorporation	Effective ownership interests 2020	Activities
GFH Capital Limited	United Arab Emirates	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain	55.41%	Islamic retail bank
Al Areen Project companies		100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')		51.72%	Cement manufacturing
Global Banking Corporation BSC (c) (GBCORP) (note 17)		50.41%	Islamic investment bank
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	89.26%	Real estate development
Tunis Bay Investment Company ('TBIC')		82.92%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")		80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	51.18%	Investment in real estate
Residential South Real Estate Development Company (RSRED)	Bahrain	100%	Real estate development

* During the period, KHCB issued Additional Tier 1 (AT1) securities of US$ 191 million which were fully subscribed by the Bank in the form of cash and transfer of certain assets. As KHCB is an existing subsidiary, the transaction is accounted for as transactions between equity holders while retaining control (i.e. non-controlling interests of KHCB and the Bank). Accordingly, the premium of US$ 59.8 million towards the subscription of the AT1 securities (representing the excess of the difference between contribution and parents share of net assets of the subsidiary) is considered as an adjustment to retained earnings and non-controlling interests of KHCB. The share of costs of the AT1 issuance attributable to the non-controlling interests of KHCB were charged to the non-controlling interests component in equity.

2 Basis of preparation

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

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 profit or loss 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 10 for further details; and

2 Basis of preparation (continued)

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

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.

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" above and those arising from adoption of the following standards and amendments to standards effective from 1 January 2020. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

a. Early adoption of standards issued during the year

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

The Group has adopted FAS 31 as issued by AAOIFI in 2019 on its effective date of 1 January 2020.

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 mudarba arrangement.

3 Significant accounting policies (continued)

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. 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.

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.

3 *Significant accounting policies (continued)*

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 (FVTE) or (iii) fair value through income statement (FVTIS), on the basis of both:

- *the Group'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.*

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:

Investment securities	**Original classification under FAS 25**	**New classification under FAS 33**	**Original carrying amount under FAS 25 US$ 000's**	**New carrying amount under FAS 33 US$ 000's**
Investment in sukuk	FVTIS	FVTE	284,904	284,904
	Amortised cost	Amortised cost	517,375	517,375
Investment in shares	FVTIS	FVTIS	239,807	239,807
	FVTIS	FVTE	21,764	21,764
	FVTE	FVTE	219,425	219,425

The impact from the adoption of FAS 33 is given below:

	Retained earnings US$ 000's	**Investment fair value reserve** US$ 000's
Balance as of 1 January 2019 (previously reported)	123,136	(4,725)
Effect on reclassification of financial instruments	-	-
Balance as of 1 January 2019 (restated)	**123,136**	**(4,725)**

	Retained earnings US$ 000's	**Investment fair value reserve** US$ 000's
Balance as of 31 December 2019 (previously reported)	10,070	(4,831)
Effect on reclassification of financial instruments	(12,568)	12,568
Balance as of 31 December 2019 (restated)	**(2,498)**	**7,737**

3 Significant accounting policies (continued)

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 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.

4 Estimates and judgements (continued)

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.

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.

4 Estimates and judgements (continued)

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.

5 Financial risk management

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

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.

5 Financial risk management (continued)

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.

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:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

5 *Financial risk management (continued)*

US$ 000's

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	964,166	-	-	44,792	1,008,958
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	764,773	212,507	234,039	1,113,591
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	1,675,977	865,428	785,445	1,609,087
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	94,566	25,958	173,569	173,569
13	Total ASF					3,905,205
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	770,769	-	-	-	22,721
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:	-	621,817	-	926,477	880,778
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	-	-	108,536	92,256
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	131,091	100,544	-	115,817
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	8,968	5,829
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	205,573	123,600	674,257	838,844
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	2,499,017	-	-	-	2,499,017
30	OBS items	-	-	-	-	14,606
31	Total RSF	-	958,481	224,144	1,718,238	4,469,869
32	NSFR (%)					87.4 %

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

5 Financial risk management (continued)

US$ 000's

No.	Item	No Specified Maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	1,058,107	-	-	35,340	1,093,447
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	1,151,743	198,247	165,704	1,380,695
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other Wholesale funding	-	1,686,007	582,773	380,354	1,272,035
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	142,220	18,724	161,563	161,563
13	Total ASF					3,907,740
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)		-	-	-	64,391
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:	-	767,378	26,099	914,636	906,346
17	Performing financial to financial institutions by level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	1,095	-	140,212	119,728
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	176,780	54,449	-	115,615
20	With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
23	Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	172,216	10,000	106,945	198,053
24	Other assets:	-	-	-	-	-
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	2,450,439	-	-	-	2,450,439
30	OBS items	-	133,645	15,801	105,685	12,757
31	Total RSF	-	1,251,114	106,348	1,267,478	3,867,329
32	NSFR (%)					101 %

5 Financial risk management (continued)

b. Liquidity Coverage Ratio (LCR)

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

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

	Average balance	
	30 June 2020 US$ 000's	31 December 2019 US$ 000's
Stock of HQLA	112,355	205,525
Net cashflows	95,240	117,139
LCR %	118%	188%
Minimum required by CBB	80%	100%

c. Capital Adequacy Ratio

	30 June 2020 US$ 000's	31 December 2019 US$ 000's
CET 1 Capital before regulatory adjustments	989,275	1,078,079
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	989,275	1,078,079
T 2 Capital adjustments	44,792	44,792
Regulatory Capital	1,034,067	1,122,871
Risk weighted exposure:		
Credit Risk Weighted Assets	7,373,146	7,776,802
Market Risk Weighted Assets	76,250	79,231
Operational Risk Weighted Assets	474,052	474,052
Total Regulatory Risk Weighted Assets	7,923,448	8,330,085
Investment risk reserve (30% only)	2	2
Profit equalization reserve (30% only)	3	3
Total Adjusted Risk Weighted Exposures	7,923,443	8,330,080
Capital Adequacy Ratio	13.05%	13.48%
Tier 1 Capital Adequacy Ratio	12.60%	13.06%
Minimum required by CBB	12.50%	12.50%

6 Seasonality of operations

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

7 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 Group's audited consolidated financial statements for the year ended 31 December 2019 and the reviewed condensed consolidated interim financial information for the six months ended 30 June 2019. The comparatives for the condensed consolidated statements of income, cash flows, changes in owners' equity, 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. The comparatives have been restated for the effect of adoption of FAS 33 (refer note 3 (a) (ii)) and reclassification of certain assets as held-for-use from held-for-sale (note 14)

8 Appropriations

Appropriations, if any, are made when approved by the shareholders.

In the shareholders meeting held on 6 April 2020, the following were approved and effected during the period:

a) Cash dividend of 3.34% of the paid-up share capital amounting to US$ 30 million;

b) Appropriation of US$ 500 thousand towards charity for the year 2019;

c) Appropriation of US$ 568 thousand towards zakah for the year 2019; and

d) Transfer of US$ 8 million to statutory reserve.

9 Treasury portfolio

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited) (restated)	30 June 2019 US$ 000's (reviewed) (restated)
Placements with financial institutions	353,409	546,575	866,120
Equity type investments			
At fair value through income statement			
- Structured notes	297,950	239,807	178,988
Debt type investments			
At fair value through equity			
- Quoted sukuk	345,610	284,904	155,326
At amortised cost			
- Quoted sukuk *	597,493	517,375	481,971
	1,594,462	1,588,661	1,682,405

* Includes sukuk of US$ 331,050 thousand pledged against medium-term borrowing of US$ (211,236) thousand.

10 Financing assets

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Murabaha	919,739	1,008,580	985,179
Musharaka	276	277	7,327
Wakala	13,280	13,280	13,280
Mudharaba	2,776	2,776	2,799
Istisnaa	6,533	4,597	6,900
Asset held-for-leasing	386,609	350,976	360,763
	1,329,213	1,380,486	1,376,248
Less: Impairment allowances	(53,591)	(107,709)	(76,017)
	1,275,622	1,272,777	1,300,231

Murabaha financing receivables are net of deferred profits of US$ 52,973 thousand (2019: US$ 68,233 thousand) and un-amortised modification loss of US$ 7,544 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 US$ 118,382 thousand as part of its support to impacted customers.

The movement on impairment allowances is as follows:

2020	**Stage 1** US$ 000's	**Stage 2** US$ 000's	**Stage 3** US$ 000's	**Total** US$ 000's
At 1 January 2020	12,149	7,241	88,319	107,709
Net movement between stages	3,591	(4,042)	451	-
Net charge for the period	2,168	1,698	(1,793)	2,073
Write off	-	-	(26,920)	(26,920)
Disposal	-	-	(29,271)	(29,271)
At 30 June 2020	**17,908**	**4,897**	**30,786**	**53,591**

11 Real estate investments

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Investment Property			
- Land	470,285	490,412	485,504
- Building	63,597	40,841	40,841
	533,882	531,253	526,345
Development Property			
- Land	782,056	797,535	806,827
- Building	492,596	477,221	488,272
	1,274,652	1,274,756	1,295,099
	1,808,534	1,806,009	1,821,444

12 Proprietary investments

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Equity type investments			
At fair value through income statement			
- Unquoted securities	21,764	29,640	34,875
At fair value through equity			
- Listed securities (at fair value)	17,492	27,324	26,511
- Unquoted securities	136,445	95,594	103,006
	153,937	122,918	129,517
Equity-accounted investees	75,627	115,617	114,656
	251,328	268,175	279,048

13 Co-investments

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
At fair value through equity			
- Unquoted securities	98,558	96,507	77,048
	98,558	96,507	77,048

14 Assets held-for-sale and associated liabilities

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Assets	-	101,213	101,213
Liabilities	-	39,936	39,936
Non-controlling interests	-	25,396	25,396

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), the Group's subsidiary acquired in 2018.

Restatement

During the period, the Group had re-classified its investment in a subsidiary, Falcon Cement Company BSC (c), from assets held-for-sale because the investments no longer meet the criteria to be classified as held-for-sale, to held-for-use.

In accordance with IFRS 5 *Non-current assets held-for-sale and discontinued operations*, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated and reclassifying 'non-controlling interest held-for-sale' to 'non-controlling interests'. The reclassification did not had any impact on the previously reported profits or owners' equity.

14 Assets held-for-sale and associated liabilities

The effect of restatement on the previously reported assets and liabilities are given below:

	31 December 2019		30 June 2019	
	restated US$ 000's	previously reported US$ 000's	restated US$ 000's	previously reported US$ 000's
ASSETS				
Cash and bank balances	364,598	362,345	371,805	369,552
Treasury portfolio	1,588,661	1,588,661	1,682,405	1,682,405
Financing assets	1,272,777	1,272,777	1,300,231	1,300,231
Real estate Investments	1,806,009	1,806,009	1,821,444	1,821,444
Proprietary investments	268,175	268,175	279,048	279,048
Co-investments	96,507	96,507	77,048	77,048
Assets held-for-sale	-	101,213	-	101,213
Receivables and prepayments	444,689	424,146	502,877	482,334
Property and equipment	103,857	25,440	103,116	24,699
Total	**5,945,273**	5,945,273	**6,137,974**	6,137,974
LIABILITIES				
Clients' funds	70,858	70,858	61,097	61,097
Placements from financial, non-financial institutions and individuals	2,447,249	2,447,249	2,789,757	2,789,757
Customer current accounts	147,487	147,487	163,683	163,683
Term financing	301,411	279,418	221,953	199,960
Liabilities directly associated with assets held-for-sale	-	39,936	-	39,936
Payables and accruals	466,852	448,909	525,876	507,933
Total	**3,433,857**	3,433,857	**3,762,366**	3,762,366

15 Term financing

	30 June 2019 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Murabaha financing	463,628	249,435	119,461
Sukuk liability *	285,484	-	-
Ijarah financing	23,421	24,653	25,724
Other borrowings	156,999	27,323	76,768
	929,532	301,411	221,953

* During the period, the Group obtained an unsecured financing of US$ 300 million through issuance of sukuk certificates with a profit rate of 7.5% repayable by 2025.

16 Acquisition of additional interests in an equity accounted investee

During the period, the Group acquired additional stake in Global Banking Corporation BSC (c) (GBCORP), an equity-accounted investee resulting in the Group obtaining control as at 30 June 2020.

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

	Current Stake	Additional stake acquired	Total stake
GBCORP	28.69%	21.72%	50.41%

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of investments held by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 June 2020, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

	30 June 2020 US$ 000's
Cash and bank balances, placements with financial institutions	32,856
Investment securities	50,167
Investment property	42,477
Property and equipment	2,709
Receivables and prepayments	1,440
Total assets	**129,649**
Accruals and other liabilities	1,101
Total liabilities	**1,101**
Total net identifiable assets and liabilities (A)	**128,548**

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16 Acquisition of additional interests in an equity accounted investee (continued)

	30 June 2020 US$ 000's
Fair value of Group's previously held equity interest	34,812
Value of consideration transferred	21,571
Non-controlling interests recognised	63,747
Total consideration (B)	**120,130**
Negative goodwill (B-A) (provisional)	**8,418**

The acquisition of additional stake in GBCORP resulted in a bargain purchase and the Group has recognised negative goodwill of US$ 8,418 thousand which is included in the income statement under 'Income from proprietary and co-investments, Direct investment income'. The bargain purchase was due to pressure on the sellers to exit their holdings due to change in their business plans. The acquisition resulted in net cash inflow of US$ 32,856 thousand.

17 Other income

Other income mainly comprise of recoveries from project companies amounting to US$ 8.4 million, write back of liabilities no longer required of US$ 3.2 million, income of non-financial subsidiaries of US$ 2 million

18 Impairment allowances

	Six months ended	
	30 June 2020 US$ 000's (reviewed)	30 June 2019 US$ 000's (reviewed)
Expected credit loss on:		
- Bank balances	67	7
- Placement with financial institutions	545	10,751
- Financing assets	165	694
- Other receivables	770	712
	1,547	12,164

19 Government assistance and subsidies

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times.

During the period the Group received financial assistance amounting to US$ 4,054 thousands representing reimbursement of staff costs and waiver of fees, levies, utility charges and cost of Repo funding received from the government and/ or regulators that has been recognized directly in equity.

20 Related party transactions

The significant related party balances and transactions as at 30 June 2020 are given below:

	Related parties as per FAS 1				
30 June 2020 (reviewed)	**Associates and joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose and other entities)**	**Total**
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Assets					
Financing assets	-	8,212	17,692	31,723	57,628
Proprietary investments	29,442	-	6,058	47,735	83,236
Co-investments	76,955	-	-	42,955	119,910
Receivables and prepayments	3,228	-	-	8,833	12,060
Liabilities					
Clients' funds Placements from financial, non-financial institutions and individuals	-	6,939	51,907	-	58,846
Customer accounts	454	387	12,034	3,228	16,103
Payables and accruals	-	-	3,387	4,086	7,473
Equity of investment account holders	1,085	666	234,798	912	237,462
Income					
Income from Investment banking	-	-	-	40,963	40,963
Income from commercial banking	(32)	212	1,111	-	1,292
Income from proprietary and co-investments	(950)	-	-	4,109	3,159
Real estate income	-	-	-	-	-
Treasury and other income	-	-	-	4,000	4,000
Expenses					
Operating expenses	-	5,252	-	-	5,252
Finance expense	19	122	3,332	66	3,538

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20 Related party transactions (continued)

30 June 2019 (reviewed)	Related parties as per FAS 1				
	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose and other entities)	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Transactions					
Sale of real estate investment	-	-	40,000	-	40,000
Assets					
Financing assets	-	5,621	15,146	29,552	50,319
Proprietary investments	102,632	-	6,058	54,416	163,106
Co-investments	-	-	-	23,638	23,638
Receivables and prepayments	3,236	-	13,257	193,905	210,398
Liabilities					
Clients' funds	3,445	-	-	15,161	18,606
Placements from financial, non-financial institutions and individuals	-	4,817	2,873	-	7,690
Customer accounts	199	151	16,300	3,912	20,562
Payables and accruals	1,398	-	9,519	19,731	30,648
Equity of investment account holders	1,101	2,804	38,152	1,101	43,158
Income					
Income from Investment banking	-	-	-	43,344	43,344
Income from commercial banking	(133)	24	124	(13)	2
Income from proprietary and co-investments	1,651	-	-	508	2,159
Real estate income	-	50	9,248	-	9,298
Treasury and other income	120	-	-	827	947
Expenses					
Operating expenses	-	10,252	-	45	10,297
Finance expense	-	-	623	-	623

21 Segment reporting

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

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
	US$ '000s	US$ '000s	US$ '000s	US$ '000s	US$ '000s
30 June 2020 (reviewed)					
Segment revenue	13,630	66,429	30,156	36,311	146,526
Segment expenses	(14,872)	(49,305)	(15,076)	(46,887)	(126,140)
Segment result *	(1,241)	17,124	15,080	(10,576)	20,386
Segment assets	1,732,160	473,439	2,524,152	1,405,019	6,134,771
Segment liabilities	252,703	226,987	1,088,179	2,536,703	4,104,572
Other segment information					
Proprietary investments *(Equity-accounted investees)*	11,132	18,310	76,955	-	106,397
Equity of investment account holders	-	-	848,126	597	848,723
Commitments	28,564		148,167		176,731

21 Segment reporting (continued)

	Real estate development US$ '000s	Investment banking US$ '000s	Commercial banking US$ '000s	Corporate and treasury US$ '000s	Total US$ '000s
30 June 2019 (reviewed)					
Segment revenue	44,048	64,178	37,920	17,399	163,545
Segment expenses	(13,057)	(53,613)	(28,010)	(19,972)	(114,652)
Segment result *	30,991	10,565	9,910	(2,573)	48,893
Segment assets	2,011,374	1,126,011	2,538,667	461,921	6,137,973
Segment liabilities	379,961	1,078,917	1,047,090	1,256,398	3,762,366
Other segment information					
Proprietary investments *(Equity-accounted investees)*	46,214	56,418	12,024	-	114,656
Equity of investment account holders	-	-	995,250	587	995,837
Commitments	114,314	-	122,167	18,000	254,481

** Includes segment result of discontinued operations, net.*

22 Commitments and contingencies

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

	30 June 2019 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited)	30 June 2019 US$ 000's (reviewed)
Undrawn commitments to extend finance	120,793	182,695	179,196
Financial guarantees	27,374	31,395	28,061
Capital commitment for infrastructure development projects	14,064	17,541	35,518
Commitment to lend	14,500	23,500	16,500
Other commitments	-	-	7,000
	176,731	255,131	266,275

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 30 June 2020 due to the performance of any of its projects.

Litigations, claims and contingencies

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

23 Financial instruments

Fair values

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

23 *Financial instruments (continued)*

Fair value hierarchy

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

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

30 June 2020 (reviewed)	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
i) *Proprietary investments*				
Investment securities carried at fair value through:				
- income statement	-	-	21,764	21,764
- equity	17,492	-	-	17,492
	17,492	-	21,764	39,256
ii) *Treasury portfolio*				
Investment securities carried at fair value through:				
- income statement	297,950	-	-	297,950
- equity	357,185	-	-	357,185
	655,135	-	-	655,135
iii) *Co-investments*				
Investment securities carried at fair value through equity	-	-	98,558	98,558
	672,627	**-**	**120,322**	**792,949**

30 June 2019 (reviewed)	Level 1	Level 2	Level 3	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	26,511	-	-	26,511
	26,511	-	34,875	61,386
ii) Treasury portfolio				
Investment securities carried at fair value through:				
- income statement	178,988	-	-	178,988
- equity	155,326	-	-	155,326
	334,314	-	-	334,314
iii) Co-investments				
Investment securities carried at fair value through equity	-	-	77,048	77,048
	360,825	-	111,923	472,748

23 Financial instruments (continued)

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

	30 June 2020 US$ 000's (reviewed)	31 December 2019 US$ 000's (audited) (restated)
At beginning of the period	128,198	133,433
Gains (losses) in income statement	-	(5,235)
Disposals at carrying value	(29,640)	-
Purchases	21,764	-
At end of the period	**120,322**	128,198

24 ASSETS UNDER MANAGEMENT AND CUSTODIAL ASSETS

i.) The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,040 million (31 December 2019: US$ 1,975 million). During the period, the Group had charged management fees amounting to US$ 2,726 thousand (30 June 2019: US$ 1,358 thousand) to its assets under management.

ii.) Custodial assets comprise of discretionary portfolio management ('DPM') accepted from investors amounting to US$ 380,194 thousand out of which US$ 141,566 thousand has been invested to the Bank's own investment products. Further, the Bank is also holding Sukuk of US$ 39,111 thousand on behalf of the investors.

(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 have had a significant knock-on impact on the Bank and its principal subsidiaries and its associates (collectively the "Group"). The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

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

- Payment holiday for 6 months to eligible customers without any additional profits;
- Concessionary repo to eligible retail banks at zero Percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.

The onset of COVID-19 and the aforementioned measures resulted in the following significant effects to the financial position and operations of the Group:

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

- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received various forms of financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures.

- The mandated 6 months payments holiday also included the requirement to suspend minimum payments and service fees on credit card balances and reduction in transaction related charges, this resulted in a significant decline in the Group's fees income from its retail banking operations.

- The strain caused by COVID-19 on the local economy resulted in a slow-down in the sale of new asset management products and booking of new corporate financing assets by the Group. During the six months ended 30 June 2020, placements of AuM were lower by 53.5% and financing assets bookings were lower by 26.3% than the same period of the previous year.

Supplementary disclosures

UNREVIEWED SUPPLEMENTARY DISCLOURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

- Decreased consumer spending caused by the economic slow-down in the booking of new consumer financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday. The Group's liquidity ratios and regulatory CAR were impacted but it continues to meet the revised regulatory requirement. The consolidated CAR, LCR and NSFR as of 30 June 2020 was 13%, 118% and 88% respectively.

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

- The overall economic effect of the pandemic was also reflected in the displacement and volatility in global debt and capital markets in H1 2020 due to which the group had to recognize valuation losses on its Sukuk and investment portfolios.

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the period, the Bank achieved a net profit of USD 15.10 million, which is lower than USD 49.1 million in the same period of the previous year, registering a drop of 69.4%.

A summary of the significant areas of financial impact described above is as follows:

	Net Impact recognized in the Group's consolidated income statement	Net Impact on the Group's consolidated financial position	Net Impact recognized in the Group's consolidated owners' equity
	USD' 000	USD' 000	USD' 000
Average reduction of cash reserve	-	22,828	-
Concessionary repo at 0%	-	129,676	-
Modification loss	-	(25,292)	(25,292)
Investment portfolio decline	(10,933)	(31,576)	(20,643)
Modification loss amortization	17,475	17,475	-
Incremental ECL provisions	(1,547)	(1,547)	-
Government grants	-	-	4,054
Lower fee income (retail banking)	(830)	-	-

Information reported in the table above only include components or line items in the financial statements where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or incremental costs and hence may not necessarily reconcile with amounts reported in the interim financial information for 30 June 2020.

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.