# ALUBAF Arab International Bank B.S.C. (c)

## INTERIM CONDENSED
## CONSOLIDATED FINANCIAL STATEMENTS

**30 JUNE 2021 (Reviewed)**

Building a better
working world

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**REVIEW REPORT TO THE BOARD OF DIRECTORS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)**

*Introduction*
We have reviewed the accompanying interim condensed consolidated financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") and its subsidiary (together the "Group") as at 30 June 2021, comprising the interim consolidated statement of financial position as at 30 June 2021 and the related interim consolidated statements of profit or loss and comprehensive income for the three and six months period then ended and the related interim consolidated statements of cash flows and changes in equity for the six-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ('IAS 34') as modified by the Central Bank of Bahrain ("CBB"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by CBB.

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

Ernst + Young

1 August 2021
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

| | Notes | *(Reviewed)* ***30 June 2021 US$'000*** | *(Audited) 31 December 2020 US$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Banks and other banks | | **411,477** | 333,194 |
| Deposits with banks and other financial institutions | | **411,840** | 470,893 |
| Investments classified as fair value through profit or loss | 3 | **5,889** | - |
| Investment securities | 4 | **245,982** | 244,867 |
| Loans and advances | 5 | **114,001** | 81,798 |
| Interest receivable | | **4,987** | 5,354 |
| Other assets | | **1,896** | 810 |
| Property, equipment and software | | **7,956** | 8,326 |
| **TOTAL ASSETS** | | **1,204,028** | 1,145,242 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits from banks and other financial institutions | | **694,921** | 662,254 |
| Due to banks and other financial institutions | | **133,395** | 64,897 |
| Due to customers | | **38,140** | 72,752 |
| Interest payable | | **1,228** | 444 |
| Other liabilities | | **8,280** | 10,520 |
| **Total liabilities** | | **875,964** | 810,867 |
| **Equity** | | | |
| Share capital | | **250,000** | 250,000 |
| Statutory reserve | | **27,842** | 27,842 |
| Retained earnings | | **49,623** | 44,621 |
| Fair value reserve | | **599** | (588) |
| Proposed dividend | | **-** | 12,500 |
| **Total equity** | | **328,064** | 334,375 |
| **TOTAL LIABILITIES AND EQUITY** | | **1,204,028** | 1,145,242 |

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairmain

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

ALUBAF Arab International Bank B.S.C. (c)

# INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 June 2021

| | Note | *Three months ended 30 June* *(Reviewed)* **2021** **US$'000** | *Three months ended 30 June* *(Unreviewed)* 2020 US$'000 | *Six months ended 30 June (Reviewed)* **2021** **US$'000** | *Six months ended 30 June (Reviewed)* 2020 US$'000 |
|---|---|---|---|---|---|
| Interest and similar income | | **6,525** | 7,425 | **13,083** | 16,608 |
| Interest expense | | **(838)** | (2,080) | **(1,689)** | (5,312) |
| **Net interest income** | | **5,687** | 5,345 | **11,394** | 11,296 |
| Fee and commission income - net | | **846** | 648 | **1,394** | 1,325 |
| Trading income (loss) - net | | **278** | 11 | **(166)** | (54) |
| Investment income (loss) - net | | **189** | (175) | **204** | (93) |
| Foreign exchange gain - net | | **52** | 136 | **61** | 140 |
| Other income | | **30** | 3,487 | **62** | 3,516 |
| **Operating income** | | **7,082** | 9,452 | **12,949** | 16,130 |
| (Charge for) reversal of expected credit losses | 6 | **(821)** | (1,139) | **(996)** | 2,750 |
| **Net operating income** | | **6,261** | 8,313 | **11,953** | 18,880 |
| Staff costs | | **(2,231)** | (1,884) | **(4,709)** | (4,032) |
| Depreciation | | **(218)** | (218) | **(435)** | (431) |
| Other operating expenses | | **(785)** | (1,333) | **(1,807)** | (2,175) |
| **Operating expenses** | | **(3,234)** | (3,435) | **(6,951)** | (6,638) |
| **NET PROFIT FOR THE PERIOD** | | **3,027** | 4,878 | **5,002** | 12,242 |

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairmain

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2021

| | *Three months ended 30 June* | | *Six months ended 30 June* | |
|---|---|---|---|---|
| | *(Reviewed)* | *(Unreviewed)* | *(Reviewed)* | |
| | ***2021*** | *2020* | ***2021*** | *2020* |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| **NET PROFIT FOR THE PERIOD** | **3,027** | 4,878 | **5,002** | 12,242 |
| **Other comprehensive income (loss):** | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | |
| Fair value change in cash flow hedge | **-** | - | **-** | 442 |
| Unrealised fair value gain (loss) on investments classified as fair value through other comprehensive income (FVOCI) | **2,046** | (13,867) | **953** | (8,326) |
| ECL movement on FVOCI investments | **180** | (664) | **234** | (219) |
| **Other comprehensive income (loss) for the period** | **2,226** | (14,531) | **1,187** | (8,103) |
| **Total comprehensive income (loss) for the period** | **5,253** | (9,653) | **6,189** | 4,139 |

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2021

| | Note | *Six months ended 30 June (Reviewed)* **2021** **US$'000** | *2020* *US$'000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net profit for the period | | **5,002** | 12,242 |
| Adjustments for: | | | |
| Charge for (reversal of) expected credit losses | 6 | **996** | (2,750) |
| Depreciation | | **435** | 431 |
| Amortisation of investments carried at amortised cost | | **389** | 143 |
| Unrealised loss on investments classified as FVTPL | | **166** | 54 |
| Investment (income) loss - net | | **(204)** | 93 |
| Amortisation of assets classified as loans and advances | | **(647)** | (553) |
| Operating profit before changes in operating assets and liabilities | | **6,137** | 9,660 |
| Changes in operating assets and liabilities: | | | |
| Balances with Central Banks | | **(38,102)** | (42,647) |
| Deposits with banks and other financial institutions | | **28,029** | (14,526) |
| Investments classified as fair value through profit and loss | | **(6,055)** | - |
| Loans and advances | | **(31,690)** | (768) |
| Interest receivable and other assets | | **(719)** | 246 |
| Deposits from banks and other financial institutions | | **32,667** | 18,231 |
| Due to banks and other financial institutions | | **68,498** | (31,469) |
| Due to customers | | **(34,612)** | 5,674 |
| Interest payable and other liabilities | | **(1,520)** | (2,032) |
| Net cash from (used in) operating activities | | **22,633** | (57,631) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of investment securities | | **(81,984)** | (33,736) |
| Proceeds from disposal / redemption of investment securities | | **83,767** | 33,572 |
| Purchase of property, equipment and software | | **(65)** | (168) |
| Net cash from (used in) investing activities | | **1,718** | (332) |
| **FINANCING ACTIVITY** | | | |
| Dividend paid | 8 | **(12,500)** | (15,000) |
| Cash used in financing activity | | **(12,500)** | (15,000) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **11,851** | (72,963) |
| Cash and cash equivalents at beginning of the period | | **614,961** | 538,756 |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | | **626,812** | 465,793 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with Central Bank and other banks with original maturity of three months or less | | **246,620** | 293,206 |
| Deposits with banks and other financial institutions with original maturity of three months or less | | **380,192** | 172,587 |
| | | **626,812** | 465,793 |

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLDIATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2021 *(Reviewed)*

| | *Share capital US$'000* | *Statutory reserve US$'000* | *Retained earnings US$'000* | *Fair value reserve US$'000* | *Proposed dividend US$'000* | *Total US$'000* |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **250,000** | **27,842** | **44,621** | **(588)** | **12,500** | **334,375** |
| Net profit for the period | **-** | **-** | **5,002** | **-** | **-** | **5,002** |
| Other comprehensive income for the period | **-** | **-** | **-** | **1,187** | **-** | **1,187** |
| Total comprehensive income for the period | **-** | **-** | **5,002** | **1,187** | **-** | **6,189** |
| Dividend paid (note 8) | **-** | **-** | **-** | **-** | **(12,500)** | **(12,500)** |
| **At 30 June 2021** | **250,000** | **27,842** | **49,623** | **599** | **-** | **328,064** |
| | | | | | | |
| Balance as at At 1 January 2020 | 250,000 | 25,631 | 37,219 | 3,174 | 15,000 | 331,024 |
| Net profit for the period | - | - | 12,242 | - | - | 12,242 |
| Other comprehensive loss for the period | - | - | - | (8,103) | - | (8,103) |
| Total comprehensive income for the period | - | - | 12,242 | (8,103) | - | 4,139 |
| Dividend paid (note 8) | - | - | - | - | (15,000) | (15,000) |
| At 30 June 2020 | 250,000 | 25,631 | 49,461 | (4,929) | - | 320,163 |

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

## 1 CORPORATE INFORMATION

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The Bank has incorporated a special purpose vehicle (the "SPV") namely 'Bahrain Real Estate Development Company' in Jordan on 11 August 2020 for the purpose of registration of land on behalf of the Bank. These interim condensed consolidated financial statements include the operating results of the Bank and its wholly owned SPV (together "the Group").

*Impact of COVID-19*
With the continuity of outbreak of coronavirus (COVID-19) during the six months period ended 30 June 2021 from previous year, the existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Group's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Group's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable.

The interim condensed consolidated financial statements of the Group for the six months period ended 30 June 2021 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 1 August 2021.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of preparation**
The consolidated financial statements of the Bank are prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (IFRS), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gains or losses on financial assets are recognised in accordance with the requirements of IFRS 9; 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 profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance of the amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20.

The above framework for basis of preparation of the annual financial statements is hereinafter referred to as 'IFRS as modified by CBB'.

The interim condensed consolidated financial statements of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of the interim condensed consolidated financial statements of the Group is hereinafter referred to as 'IAS 34 as modified by CBB'.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020 except for the adoption of new and amended standards and interpretations effective as of 1 January 2021 as set out below.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

**(a) Basis of preparation (continued)**

The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020. In addition, results for the six months period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

During 2020 as a result of COVID-19, the CBB issued various circulars on regulatory concessionary measures including circular OG/124/2020 dated 31 March 2020, in which the CBB exempted all public shareholding companies and locally incorporated banks from preparation and publication of interim condensed financial statements for the three-month period ended 31 March 2020. Accordingly, the Group did not publish reviewed interim condensed financial statements for the period ended 31 March 2020 and therefore the comparative information for the three-month period ended 30 June 2020 included in these interim condensed consolidated financial statements have been extracted from management accounts on which neither an audit opinion nor a review conclusion was issued.

**(b) Basis of consolidation**

The interim condensed consolidated financial statements include the financial statements of the Bank and its SPV as at 30 June 2021. The reporting dates of the SPV and the Bank are identical and the SPV’s accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

**(b) Basis of consolidation (continued)**

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interest;
c) Derecognises the cumulative transaction differences, recorded in equity;
d) Recognises the fair value of consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in the consolidated statement of income; and
g) Reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

**(c) New standards, interpretations and amendments adopted by the Group**

The following new amendments to the accounting standards became effective in 2021 and have been adopted by the Group in preparation of these interim condensed consolidated financial statements as applicable. Further, the Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

**Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. This had no material impact on the interim condensed consolidated financial statements of the Group.

**d) New and amended standards and interpretations issued but not yet effective**

New and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s interim condensed consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) New and amended standards and interpretations issued but not yet effective (continued)

***Reference to the Conceptual Framework – Amendments to IFRS 3***

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group's management is currently assessing the impact of these amendments on the consolidated financial statements of the Group.

***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16***

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Group's management is currently assessing the impact of these amendments on the consolidated financial statements of the Group.

***Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37***

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the amendment is applied.

The Group's management is currently assessing the impact of these amendments on the consolidated financial statements of the Group.

## 3 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS

| | ***(Reviewed)* 30 June 2021 US$'000** | *(Audited) 31 December 2020 US$'000* |
|---|---|---|
| Quoted debt securities | **5,889** | - |

## 4 INVESTMENT SECURITIES

| | ***30 June 2021 (Reviewed)*** | | |
|---|---|---|---|
| | ***FVOCI US$'000*** | ***Amortised cost US$'000*** | ***Total US$'000*** |
| **Quoted investments** | | | |
| - Sovereign debt securities | **102,283** | **92,927** | **195,210** |
| - Banks and Corporate debt securities | **37,361** | **15,090** | **52,451** |
| Total quoted investments | **139,644** | **108,017** | **247,661** |
| Provision for expected credit losses on investment securities at amortised cost | **-** | **(1,679)** | **(1,679)** |
| **Total investment securities** | **139,644** | **106,338** | **245,982** |
| Provision for expected credit losses on investment securities at FVOCI | **(1,687)** | **-** | **(1,687)** |

| | *31 December 2020 (Audited)* | | |
|---|---|---|---|
| | *FVOCI US$'000* | *Amortised cost US$'000* | *Total US$'000* |
| Quoted investments | | | |
| - Sovereign debt securities | 116,388 | 71,418 | 187,806 |
| - Banks and Corporate debt securities | 37,717 | 23,153 | 60,870 |
| Total quoted investments | 154,105 | 94,571 | 248,676 |
| Provision for expected credit losses on investment securities at amortised cost | - | (3,809) | (3,809) |
| Total investment securities | 154,105 | 90,762 | 244,867 |
| Provision for expected credit losses on investment securities at FVOCI | (1,453) | - | (1,453) |

As at 30 June 2021, gross investments classified in stage 2 amounted to US$ 24,096 thousand (31 December 2020: US$ 25,199 thousand) for FVOCI and US$ 24,369 thousand (31 December 2020: US$ 27,154 thousand) for amortised cost respectively. All the remaining investments are classified within Stage 1.

**4 INVESTMENT SECURITIES (continued)**

Movements in provision for expected credit losses of 'FVOCI' investments were as follows:

| | ***FVOCI 30 June 2021 (Reviewed)*** | | |
|---|---|---|---|
| | ***Stage 1: 12-month ECL US$ '000*** | ***Stage 2: Lifetime ECL not credit-impaired US$ '000*** | ***Total ECL US$ '000*** |
| **Balance at 1 January 2021** | **568** | **885** | **1,453** |
| Provided during the period | **385** | **28** | **413** |
| Reversals during the period | **(118)** | **(61)** | **(179)** |
| | **267** | **(33)** | **234** |
| **At 30 June 2021** | **835** | **852** | **1,687** |

| | *FVOCI 30 June 2020 (Reviewed)* | | |
|---|---|---|---|
| | *Stage 1: 12-month ECL US$ '000* | *Stage 2: Lifetime ECL not credit-impaired US$ '000* | *Total ECL US$ '000* |
| Balance at 1 January 2020 | 291 | 1,538 | 1,829 |
| Provided during the period | 387 | 537 | 924 |
| Reversals during the period | (82) | (1,061) | (1,143) |
| | 305 | (524) | (219) |
| At 30 June 2020 | 596 | 1,014 | 1,610 |

Movements in provision for expected credit losses of 'amortised cost' investments were as follows:

| | ***Amortised cost 30 June 2021 (Reviewed)*** | | |
|---|---|---|---|
| | ***Stage 1: 12-month ECL US$ '000*** | ***Stage 2: Lifetime ECL not credit-impaired US$ '000*** | ***Total ECL US$ '000*** |
| **Balance at 1 January 2021** | **406** | **3,403** | **3,809** |
| Provided during the period | **226** | **-** | **226** |
| Reversals during the period | **-** | **(2,356)** | **(2,356)** |
| | **226** | **(2,356)** | **(2,130)** |
| **At 30 June 2021** | **632** | **1,047** | **1,679** |

## 4 INVESTMENT SECURITIES (continued)

| | *Amortised cost 30 June 2020 (Reviewed)* | | |
|---|---|---|---|
| | *Stage 1: 12-month ECL US$ '000* | *Stage 2: Lifetime ECL not credit-impaired US$ '000* | *Total ECL US$ '000* |
| Balance at 1 January 2020 | 28 | 2,794 | 2,822 |
| Provided during the period | 7 | 29 | 36 |
| Reversals during the period | (15) | (227) | (242) |
| | (8) | (198) | (206) |
| At 30 June 2020 | 20 | 2,596 | 2,616 |

## 5 LOANS AND ADVANCES

Loans and advances are stated net of provision for loan losses.

| | ***30 June 2021 (Reviewed)*** | | |
|---|---|---|---|
| | ***Stage 1: 12-month ECL US$ 000*** | ***Stage 3: Lifetime ECL credit-impaired US$ 000*** | ***Total US$ 000*** |
| Sovereign loans | **42,054** | **-** | **42,054** |
| Commercial loans | **47,490** | **6,326** | **53,816** |
| Letters of credit - financing | **26,695** | **53,037** | **79,732** |
| Factoring | **-** | **20,418** | **20,418** |
| | **116,239** | **79,781** | **196,020** |
| Provision for expected credit losses | **(2,238)** | **(79,781)** | **(82,019)** |
| | **114,001** | **-** | **114,001** |

| | *31 December 2020 (Audited)* | | |
|---|---|---|---|
| | *Stage 1: 12-month ECL US$ 000* | *Stage 3: Lifetime ECL credit-impaired US$ 000* | *Total US$ 000* |
| Sovereign loans | 44,838 | - | 44,838 |
| Commercial loans | 25,384 | 6,326 | 31,710 |
| Letters of credit - financing | 13,700 | 53,017 | 66,717 |
| Factoring | - | 20,418 | 20,418 |
| | 83,922 | 79,761 | 163,683 |
| Provision for expected credit losses | (2,124) | (79,761) | (81,885) |
| | 81,798 | - | 81,798 |

## 5 LOANS AND ADVANCES (continued)

**Note 5.1**

Movements in provision for expected credit losses were as follows:

| | ***30 June 2021 (Reviewed)*** | | | |
|---|---|---|---|---|
| | ***Stage 1: 12-month ECL US$ '000*** | ***Stage 2: Lifetime ECL not credit-impaired US$ '000*** | ***Stage 3: Lifetime ECL credit-impaired US$ '000*** | ***Total ECL US$ '000*** |
| **Balance at 1 January 2021** | **2,124** | **-** | **79,761** | **81,885** |
| Provided during the period | **473** | **-** | **20** | **493** |
| Reversals during the period | **(359)** | **-** | **-** | **(359)** |
| **At 30 June 2021** | **2,238** | **-** | **79,781** | **82,019** |

| | *30 June 2020 (Reviewed)* | | | |
|---|---|---|---|---|
| | *Stage 1: 12-month ECL US$ '000* | *Stage 2: Lifetime ECL not credit-impaired US$ '000* | *Stage 3: Lifetime ECL credit-impaired US$ '000* | *Total ECL US$ '000* |
| Balance at 1 January 2020 | 1,935 | - | 93,007 | 94,942 |
| Provided during the period | 214 | 4 | - | 218 |
| Reversals during the period | (161) | - | (2,869) | (3,030) |
| Exchange differences | - | - | 105 | 105 |
| At 30 June 2020 | 1,988 | 4 | 90,243 | 92,235 |

At 30 June 2021, interest in suspense on past due loans that are impaired amounts to US$ 31,867 thousand (31 December 2020: US$ 32,775 thousand).

## 6 (CHARGE FOR) REVERSAL OF EXPECTED CREDIT LOSSES

| | ***(Reviewed) 30 June 2021 US$'000*** | *(Reviewed) 30 June 2020 US$'000* |
|---|---|---|
| (Charge for) reversal of expected credit losses on: | | |
| Money market, nostros and others | **(2,694)** | (409) |
| Investment securities - net | **1,896** | 425 |
| Loans - net (note 5.1) | **(134)** | 2,812 |
| Off balance sheet exposures - net | **(64)** | (78) |
| | **(996)** | 2,750 |

## 7 COMMITMENTS AND CONTINGENT LIABILITIES

**Credit and derivative related commitments**

| | ***(Reviewed)*** ***30 June 2021*** ***US$'000*** | *(Audited)* *31 December 2020* *US$'000* |
|---|---|---|
| Letters of credit | **104,657** | 51,065 |
| Letters of guarantee | **-** | 118 |
| Provision for expected credit loss* | **(83)** | (19) |
| | **104,574** | 51,164 |

* Provision against off balance sheet exposures is classified under other liabilities.

* All the above are classified within Stage 1.

## 8 DIVIDEND

Dividend for the year ended 31 December 2020 amounting to US$ 12.5 million i.e. US$ 2.5 per share was paid during the six month period ended 30 June 2021 after due approval from the shareholders at the Annual General Assembly Meeting held on 29 March 2021. Dividend for the year ended 31 December 2019 amounting to US$ 15 million i.e. US $3 per share was paid during the six month period ended 30 June 2020 after due approval from the shareholders at the Annual General Assembly Meeting held on 15 March 2020.

## 9 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Gross exposures and transactions with related parties included in the interim statement of financial position and interim statement of profit or loss are as follows:

| | ***(Reviewed)*** ***30 June 2021*** ***US$'000*** | *(Audited)* *31 December 2020* *US$'000* |
|---|---|---|
| **Interim statement of financial position** | | |
| **Assets** | | |
| Cash and balances with banks | **1,490** | 1,247 |
| Loans and advances | **4,770** | - |
| Interest receivable | **21** | - |
| Other assets | **50** | 65 |
| **Liabilities** | | |
| Deposits from banks and other financial institutions | **509,536** | 526,766 |
| Due to banks and other financial institutions | **77,671** | 20,928 |
| Interest payable | **1,154** | 429 |
| Other liabilities | **207** | 493 |
| **Contingent liabilities** | | |
| Letters of credit and guarantee | **6,110** | 3,953 |

## 9 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

A major shareholder of the Group has pledged cash collateral deposits amounting to USD 150 million for foreign trade business that the Group will receive from certain banking entities.

| | *Six months ended (Reviewed)* | |
|---|---|---|
| | ***30 June 2021 US$ '000*** | *30 June 2020 US$ '000* |
| **Interim statement of profit or loss** | | |
| Interest and similar income | **58** | 85 |
| Fee and commission income - net | **213** | 170 |
| Interest expense | **1,581** | 4,972 |

| | *Six months ended (Reviewed)* | |
|---|---|---|
| | ***30 June 2021 US$ '000*** | *30 June 2020 US$ '000* |
| **Compensation paid to the Board of Directors and key management personnel** | | |
| Short term benefits* | **1,458** | 1,325 |
| End of service benefits | **112** | 107 |
| | **1,570** | 1,432 |

*Includes sitting fees of US$ 98 thousand (30 June 2020: US$ 120 thousand) and reimbursement of travel, accommodation and other expenses paid to the Board of Directors amounting to US$ 20 thousand (30 June 2020: US$ 39 thousand).

## 10 FINANCIAL INSTRUMENTS

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

***Fair value hierarchy***

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**10 FINANCIAL INSTRUMENTS (continued)**

***Fair value hierarchy (continued)***

*Fair value hierarchy - financial instruments measured at fair value*
The following table provides the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

***At 30 June 2021 (Reviewed)***

| | ***Level 1 US$ '000*** | ***Total US$ '000*** |
|---|---|---|
| Investments classified as fair value through | | |
| - profit or loss | **5,889** | **5,889** |
| - other comprehensive income | **139,644** | **139,644** |
| | **145,533** | **145,533** |

*At 31 December 2020 (Audited)*

| | *Level 1 US$ '000* | *Total US$ '000* |
|---|---|---|
| Investments classified as fair value through | | |
| - other comprehensive income | 154,105 | 154,105 |
| | 154,105 | 154,105 |

The Group has no financial instruments measured at fair value qualifying for level 3 of the fair value hierarchy as at 30 June 2021 or as at 31 December 2020.

**Transfers between level 1, level 2 and level 3**
During the six-months period ended 30 June 2021 and 30 June 2020 there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of the level 3 fair value

***Financial instruments not measured at fair value - comparison of fair value to carrying value***
The following table provides details of the Group's financial instruments carried at amortised cost where the fair value is different from its carrying value.

***At 30 June 2021 (Reviewed)***

| | ***Total fair value US$ '000*** | ***Carrying value US$ '000*** |
|---|---|---|
| Investments at amortised cost | **112,847** | **106,338** |
| Loans and advances - sovereign loans | **46,664** | **42,054** |
| | **159,511** | **148,392** |

*At 31 December 2020 (Audited)*

| | *Total fair value US$ '000* | *Carrying value US$ '000* |
|---|---|---|
| Investments at amortised cost | 99,171 | 90,762 |
| Loans and advances - sovereign loans | 48,275 | 44,838 |
| | 147,446 | 135,600 |

## 10 FINANCIAL INSTRUMENTS (continued)

***Financial instruments not measured at fair value - comparison of fair value to carrying value (continued)***

Cash and balances with Central Banks and other banks, deposits with banks and other financial institutions, interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally liquid and / or short term in nature and therefore their carrying values approximate fair value. Management has also assessed that the fair values of loans and advances other than sovereign loans approximate their carrying values as of 30 June 2021 and 31 December 2020.

## 11 LIQUIDITY RATIOS

***Liquidity Coverage Ratio***

The Group is subject to the Basel III liquidity ratios requirement, as stipulated by the regulator Central Bank of Bahrain, whereby the Group is required to maintain a minimum of 100% (currently revised to 80%, due to COVID-19 measures) Liquidity Coverage ratio (LCR) and Net Stable Funding ratio (NSFR).

The main objective of the Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of up to 30 days.

At 30 June 2021, the Group's simple average of daily LCR was 353% (31 March 2021: 451%), which is well above the required level.

***Net Stable Funding Ratio***

The objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have a sufficient level of stable funding from stable sources and long term borrowing in relation to their assets and commitments, in order to reduce the risks of disruptions which might impact the bank’s liquidity position.

The Groups NSFR was well above the regulatory requirement and stood at 120% as at 30 June 2021 (31 December 2020: 177%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 89% (31 December 2020: 69%) of total ASF and the remaining 11% (31 December 2020: 31%) of ASF constituted funding from non-financial corporate customers and deposits from financial institutions. Required Stable Funding (RSF), primarily comprised of short term deposit placements with Banks and other performing loans, which constituted about 48% (31 December 2020: 50%) of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 10% (31 December 2020: 11%) of the total RSF, while non-HQLA securities accounted for 36% (31 December 2020: 33%) of the total RSF.

## 11 LIQUIDITY RATIOS (continued)

### *Net Stable Funding Ratio (continued)*

The NSFR (as a percentage) is calculated as follows:

| | *Unweighted Values (i.e. before applying relevant factors)* | | | | *USD 000s* |
|---|---|---|---|---|---|
| *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):** | | | | | |
| **Capital:** | | | | | |
| Regulatory Capital | 333,655 | - | - | - | 333,655 |
| **Wholesale funding:** | | | | | |
| Other wholesale funding | - | 826,456 | 40,000 | - | 39,070 |
| **Other liabilities:** | | | | | |
| All other liabilities not included in the above categories | - | 9,426 | - | - | - |
| **Total ASF** | | | | | **372,725** |
| **Required Stable Funding (RSF):** | | | | | |
| Total NSFR high-quality liquid assets (HQLA) | | | | | 30,629 |
| **Performing loans and securities:** | | | | | |
| Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions | - | 489,882 | 19,464 | - | 83,214 |
| Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities | - | 931 | 17,324 | 64,671 | 64,098 |
| Performing residential mortgages, of which: | | | | | |
| Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities | - | | 10,206 | 125,716 | 111,962 |
| **Other assets:** | | | | | |
| All other assets not included in the above categories | 14,839 | - | - | - | 14,839 |
| Off balance sheet items | | 104,657 | - | - | 5,233 |
| **Total RSF** | | | | | **309,975** |
| **NSFR (%)** | | | | | **120%** |

**(The attached schedules do not form part of the reviewed interim condensed consolidated financial statements)**

**FINANCIAL IMPACT OF COVID-19**

The coronavirus (COVID-19) outbreak was declared as a pandemic in mid March 2020 by World Health Organization (WHO), which affected countries globally with first wave, followed by second wave and variants although vaccination efforts commenced by end of 2020.The former has resulted in continued uncertainties in economic conditions across businesses globally.

The Group had taken required precautionary measures recommended by authorities and introduced extensive remote working, at the same time not disrupting its smooth operations, by providing uninterrupted services.

The Group achieved a net profit of US$ 5 million for the six months period ended 30 June 2021, as compared to US$ 12.2 million for the same period last year, which represented a decrease of 59%. The decline was mainly attributable due to the recovery of certain non-performing facilities in 2020. Moreover, the interest rates evidenced steep fall since the end of the first quarter of 2020, which narrowed interest margins, further contributing to the decline in the Group's net profit.

The Group was able to slightly improve their business related to trade finance activities during the second quarter of 2021, minimising the effect of slow-down in international trade experienced earlier. For the six months period ended 30 June 2021, the Group recorded an income of US$ 1.4 million as compared to US$ 1.3 million for the same period last year.

Investments held under fair value through profit or loss, resulted in recording unrealised losses of US$ 166 thousand in current period, as against net unrealized loss of US$ 54 thousand recorded in the same period last year.

On the expenses front, staff cost also increased compared to last year same period by US$ 677 thousand, an increase of 17%, due to receipt of government grant on account of subsidising Bahraini employee salaries in second quarter of 2020. Other operating expenses decreased by US$ 368 thousand, a decrease of 17% compared to same period last year. Overall, net operating expenses increased over the same period last year by US$ 313 thousand representng a 5% increase.

Group’s capital adequacy ratio was strong at 54.5% and continued well above regulatory norms. Further, the Group managed its liquidity effectively, during the period, which is reflected through its liquidity ratio (liquid assets to liabilities), which remained strong at 95.2% as at 30 June 2021.

The Bank has continued to enhance its information technology facilities and adequately equipped itself to meet the challenges faced by banking industry and had a smooth transition to work extensively from remote location, thus ensuring business continuity.

Overall the group proved resilience in current COVID-19 pandemic and its effect on banking industry, which continued to challenge the business model in a new competitive landscape.