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

INTERIM CONDENSED
FINANCIAL STATEMENTS

30 SEPTEMBER 2020 (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 financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") as at 30 September 2020, comprising the interim statement of financial position and the related interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed 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 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 financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by CBB.

Ernst + Young

29 October 2020
Manama, Kingdom of Bahrain

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

INTERIM STATEMENT OF FINANCIAL POSITION

At 30 September 2020

	Notes	*(Reviewed)* **30 September 2020 US$'000**	*(Audited) 31 December 2019 US$'000*
ASSETS			
Cash and balances with Central Banks and other banks		**440,303**	428,235
Deposits with banks and other financial institutions		**298,436**	378,891
Investments classified as fair value through profit or loss	3	**6,868**	3,028
Investment securities	4	**232,328**	234,930
Loans and advances	5	**83,553**	92,740
Property, equipment and software		**8,517**	8,987
Interest receivable		**4,067**	6,237
Other assets		**938**	949
TOTAL ASSETS		**1,075,010**	1,153,997
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		**605,143**	646,770
Due to banks and other financial institutions		**53,248**	89,196
Due to customers		**78,553**	75,504
Interest payable		**1,614**	2,188
Other liabilities		**9,574**	9,315
Total liabilities		**748,132**	822,973
Equity			
Share capital		**250,000**	250,000
Statutory reserve		**25,631**	25,631
Retained earnings		**55,245**	37,219
Fair value reserve		**(3,998)**	3,174
Proposed dividend		**-**	15,000
Total equity		**326,878**	331,024
TOTAL LIABILITIES AND EQUITY		**1,075,010**	1,153,997

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairman

The attached notes 1 to 13 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF PROFIT OR LOSS

Nine months ended 30 September 2020

		(Reviewed) Three months ended 30 September		*(Reviewed)* Nine months ended 30 September	
		2020	*2019*	**2020**	*2019*
	Note	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Interest and similar income		**7,413**	9,548	**24,021**	31,244
Interest expense		**(1,338)**	(4,222)	**(6,650)**	(13,273)
Net interest income		**6,075**	5,326	**17,371**	17,971
Fee and commission - net		**1,789**	760	**3,114**	1,968
Trading (loss) / income - net		**(106)**	63	**(160)**	506
Investment income (loss) - net		**59**	-	**(34)**	288
Foreign exchange (loss) gain - net		**(15)**	100	**125**	1,139
Other income		**1,031**	26	**4,547**	78
Operating income		**8,833**	6,275	**24,963**	21,950
Reversal of / (charge for) expected credit losses	6	**186**	(625)	**2,936**	(1,875)
Net operating income		**9,019**	5,650	**27,899**	20,075
Staff costs		**(2,172)**	(2,155)	**(6,204)**	(6,475)
Depreciation		**(220)**	(214)	**(651)**	(647)
Other operating expenses		**(843)**	(828)	**(3,018)**	(2,147)
Operating expenses		**(3,235)**	(3,197)	**(9,873)**	(9,269)
NET PROFIT FOR THE PERIOD		**5,784**	2,453	**18,026**	10,806

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairman

INTERIM STATEMENT OF COMPREHENSIVE INCOME

Nine months ended 30 September 2020

	(Reviewed) Three months ended 30 September		*(Reviewed) Nine months ended 30 September*	
	2020	*2019*	***2020***	*2019*
	US$'000	*US$'000*	***US$'000***	*US$'000*
NET PROFIT FOR THE PERIOD	**5,784**	2,453	**18,026**	10,806
Other comprehensive income:				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Fair value change in cash flow hedge	**-**	(173)	**442**	(440)
Unrealised fair value gain (loss) on investments classified as fair value through other comprehensive income (FVOCI)	**865**	2,060	**(7,462)**	5,733
ECL movement on FVOCI investments	**66**	(29)	**(152)**	131
Other comprehensive income (loss) for the period	**931**	1,858	**(7,172)**	5,424
Total comprehensive income for the period	**6,715**	4,311	**10,854**	16,230

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM STATEMENT OF CASH FLOWS

Nine months ended 30 September 2020

	Note	(Reviewed) Nine months ended 30 September	
		2020	*2019*
		US$'000	*US$'000*
OPERATING ACTIVITIES			
Net profit for the period		**18,026**	10,806
Adjustments for:			
(Reversal of) charge for expected credit losses	6	**(2,936)**	1,875
Depreciation		**651**	647
Amortisation of investments carried at amortised cost		**250**	252
Investment loss (income)		**34**	(288)
Unrealised loss (gain) on investments classified as FVTPL		**132**	(555)
Amortisation of assets classified as loans and advances		**(830)**	(693)
Operating profit before changes in operating assets and liabilities		**15,327**	12,044
Changes in operating assets and liabilities:			
Balances with Central Banks		**(45,845)**	(99,437)
Deposits with banks and other financial institutions		**103,172**	(123,332)
Investments classified as fair value through profit and loss		**(3,972)**	6,986
Investment securities		**490**	-
Loans and advances		**12,947**	75,726
Interest receivable and other assets		**2,181**	1,932
Deposits from banks and other financial institutions		**(41,627)**	(40,469)
Due to banks and other financial institutions		**(35,948)**	(9,656)
Due to customers		**3,049**	42,374
Interest payable and other liabilities		**(269)**	4,395
Net cash from (used in) operating activities		**9,505**	(129,437)
INVESTING ACTIVITIES			
Purchase of investment securities		**(54,541)**	(44,390)
Proceeds from disposal/redemption of investment securities		**49,436**	20,191
Purchase of property, equipment and software		**(181)**	(90)
Net cash used in investing activities		**(5,286)**	(24,289)
FINANCING ACTIVITY			
Dividend paid	9	**(15,000)**	(5,000)
Cash used in financing activity		**(15,000)**	(5,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(10,781)**	(158,726)
Cash and cash equivalents at beginning of the period		**538,756**	689,354
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**527,975**	530,628
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks with original maturity of ninety days or less		**267,460**	261,453
Deposits with banks and other financial institutions with original maturity of ninety days or less		**260,515**	269,175
		527,975	530,628

The attached notes 1 to 13 form part of these interim condensed financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 2020

	(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 2020	**250,000**	**25,631**	**37,219**	**3,174**	**15,000**	**331,024**
Net profit for the period	**-**	**-**	**18,026**	**-**	**-**	**18,026**
Other comprehensive loss for the period	**-**	**-**	**-**	**(7,172)**	**-**	**(7,172)**
Dividend paid (note 9)	**-**	**-**	**-**	**-**	**(15,000)**	**(15,000)**
At 30 September 2020	**250,000**	**25,631**	**55,245**	**(3,998)**	**-**	**326,878**
Balance as at At 1 January 2019	250,000	22,757	26,352	(6,042)	5,000	298,067
Net profit for the period	-	-	10,806	-	-	10,806
Other comprehensive income for the period	-	-	-	5,424	-	5,424
Dividend paid (note 9)	-	-	-	-	(5,000)	(5,000)
At 30 September 2019	250,000	22,757	37,158	(618)	-	309,297

The attached notes 1 to 13 form part of these interim condensed 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.

Impact of COVID-19
During the period ended 30 September 2020, there was an outbreak of coronavirus (COVID-19). 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 Bank's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Bank's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable.

The interim condensed financial statements of the Bank for the nine months period ended 30 September 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 29 October 2020.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation
The interim condensed financial statements of the Bank have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued 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. Refer note 8 for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity instead of 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 recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Refer note 8 for further details.

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 financial statements of the Bank 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 financial statements of the Bank is hereinafter referred to as 'IAS 34 as modified by CBB'.

The accounting policies used in the preparation of annual audited financial statements of the Bank for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively and the new standards, interpretations and amendments adopted by the Bank as mentioned below, all other accounting policies remain the same and have been consistently applied in these interim condensed financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

The interim condensed financial statements of the Bank does not contain all information and disclosures required for the annual audited financial statements, and should be read in conjunction with the Bank's annual audited financial statements for the year ended 31 December 2019. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New standards, interpretations and amendments adopted by the Bank

The following new amendments to the accounting standards became effective in 2020 and have been adopted by the Bank in preparation of these interim condensed financial statements as applicable. Further, the Bank has not adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

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

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed financial statements of the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the interim condensed financial statements of the Bank.

3 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS

	(Reviewed)	*(Audited)*
	30 September	*31 December*
	2020	*2019*
	US$'000	*US$'000*
Quoted debt security	**6,868**	3,028

4 INVESTMENT SECURITIES

	30 September 2020 (Reviewed)		
	FVOCI US$'000	***Amortised cost US$'000***	***Total US$'000***
Quoted investments			
- Sovereign debt securities	**113,488**	**61,397**	**174,885**
- Banks and Corporate debt securities	**36,984**	**23,196**	**60,180**
Total quoted investments	**150,472**	**84,593**	**235,065**
Provision for expected credit losses on investment securities (note 4.1)	**(1,677)**	**(2,737)**	**(4,414)**
Reclassifying provision relating to FVOCI to OCI	**1,677**	**-**	**1,677**
Total investment securities	**150,472**	**81,856**	**232,328**

	31 December 2019 (Audited)		
	FVOCI US$'000	*Amortised cost US$'000*	*Total US$'000*
Quoted investments			
- Sovereign debt securities	112,885	51,028	163,913
- Banks and Corporate debt securities	45,511	28,328	73,839
Total quoted investments	158,396	79,356	237,752
Provision for expected credit losses on investment securities (note 4.1)	(1,829)	(2,822)	(4,651)
Reclassifying provision relating to FVOCI to OCI	1,829	-	1,829
Total investment securities	158,396	76,534	234,930

As at 30 September 2020, investments classified in stage 2 amounted to US$ 24,221 thousand (31 December 2019: US$ 48,448 thousand) for FVOCI and US$ 27,185 thousand (31 December 2019: US$ 45,573 thousand) for amortised cost respectively. All the remaining investments are classified within Stage 1.

Note 4.1
Movements in provision for expected credit losses of 'FVOCI' investments were as follows:

	FVOCI 30 September 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	**469**	**522**	**991**
Recoveries / write-backs	**(82)**	**(1,061)**	**(1,143)**
At 30 September 2020	**678**	**999**	**1,677**

4 INVESTMENT SECURITIES (continued)

	FVOCI 30 September 2019 (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 2019	318	308	626
Transfer to lifetime ECL not credit- impaired	(54)	54	-
Provided during the period	136	239	375
Recoveries / write-backs	(170)	(74)	(244)
At 30 September 2019	230	527	757

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

	Amortised cost 30 September 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	**316**	**12**	**328**
Recoveries / write-backs	**(17)**	**(396)**	**(413)**
At 30 September 2020	**327**	**2,410**	**2,737**

	Amortised cost 30 September 2019 (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 2019	145	1,180	1,325
Provided during the period	1	1,736	1,737
Recoveries / write-backs	(96)	(152)	(248)
At 30 September 2019	50	2,764	2,814

5 LOANS AND ADVANCES

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

	30 September 2020 (Reviewed)			
	Stage 1: 12-month ECL US$ 000	***Stage 2: Lifetime ECL no credit-impaired US$ 000***	***Stage 3: Lifetime ECL credit-impaired US$ 000***	***Total US$ 000***
Sovereign loans	**44,562**	**-**	**-**	**44,562**
Commercial loans	**29,402**	**-**	**6,326**	**35,728**
Letters of credit - financing	**11,420**	**-**	**64,006**	**75,426**
Factoring	**-**	**-**	**20,418**	**20,418**
	85,384	**-**	**90,750**	**176,134**
Provision for expected credit losses (note 5.1)	**(1,831)**	**-**	**(90,750)**	**(92,581)**
	83,553	**-**	**-**	**83,553**

	31 December 2019 (Audited)			
	Stage 1: 12-month ECL US$ 000	*Stage 2: Lifetime ECL no credit-impaired US$ 000*	*Stage 3: Lifetime ECL credit-impaired US$ 000*	*Total US$ 000*
Sovereign loans	47,166	-	2,804	49,970
Commercial loans	41,670	-	6,326	47,996
Letters of credit - financing	5,839	-	63,459	69,298
Factoring	-	-	20,418	20,418
	94,675	-	93,007	187,682
Provision for expected credit losses	(1,935)	-	(93,007)	(94,942)
	92,740	-	-	92,740

Note 5.1
Movements in provision for expected credit losses were as follows:

	30 September 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	**85**	**-**	**42**	**127**
Recoveries / write-backs	**(189)**	**-**	**(2,870)**	**(3,059)**
Exchange differences	**-**	**-**	**571**	**571**
At 30 September 2020	**1,831**	**-**	**90,750**	**92,581**

5 LOANS AND ADVANCES (continued)

Note 5.1 (continued)

	30 September 2019 (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 2019	3,651	2,636	99,471	105,758
Transfer to 12 month ECL	1	(1)	-	-
Transfer to lifetime ECL credit- impaired	-	(2,635)	2,635	-
Provided during the period	46	-	2,470	2,516
Recoveries / write-backs	(1,716)	-	-	(1,716)
Exchange differences	-	-	(234)	(234)
At 30 September 2019	1,982	-	104,342	106,324

At 30 September 2020, interest in suspense on past due loans that are impaired amounts to US$ 36,495 thousand (30 September 2019: US$ 33,173 thousand).

6 (CHARGE) REVERSAL OF PROVISION FOR EXPECTED CREDIT LOSSES

	(Reviewed) 30 September 2020 US$'000	*(Reviewed) 30 September 2019 US$'000*
Provision for expected credit losses against money market, nostros and others	**(279)**	(14)
Reversal (provision) for expected credit losses on investment securities - net (note 4.1)	**237**	(1,620)
Reversal (provision) for expected credit losses on loans - net (note 5.1)	**2,932**	(800)
Reversal for expected credit losses against off off balance sheet exposures - net	**46**	559
	2,936	(1,875)

7 COMMITMENTS AND CONTINGENT LIABILITIES

Credit and derivative related commitments

	(Reviewed) 30 September 2020 US$'000	*(Audited) 31 December 2019 US$'000*
Letters of credit	**87,608**	78,694
Letters of guarantee	**118**	177
Provision for expected credit loss (Stage 1)*	**(65)**	(111)
	87,661	78,760
Notional amount		
Interest rate swap (cash flow hedge)	**-**	125,000
Forward foreign exchange contracts - net	**-**	362
	87,661	204,122

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

8 GOVERNMENT GRANT

Government assistance amounting to USD 468 thousand is recorded in profit or loss during the current period as the Bank had no modification losses to be recorded in equity (in line with note 2a and 2b). The amount was recorded as a deduction from related expenses in the interim statement of profit or loss.

9 DIVIDEND PAID

The dividend for the year ended 31 December 2019 amounting to US$ 15 million i.e. US$ 3 per share (31 December 2018: US$ 5 million i.e. US$ 1 per share) was paid during the nine month period ended 30 September 2020 after due approval from the shareholders at the annual general meeting held on 15 March 2020.

10 TRANSACTIONS 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 Bank's management.

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

	(Reviewed) 30 September 2020 US$'000	*(Audited) 31 December 2019 US$'000*
Interim statement of financial position		
Assets		
Cash and balances with banks	**4,204**	7,391
Loans and advances	**4,723**	4,561
Interest receivable	**39**	38
Other assets	**21**	45
Liabilities		
Deposits from banks and other financial institutions	**475,890**	519,918
Due to banks and other financial institutions	**4,863**	20,635
Interest payable	**1,513**	1,692
Other liabilities	**430**	336
Assets under management	**18,139**	21,535
Contingent liabilities		
Letters of credit and guarantee	**8,651**	23,403

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

	Nine months ended (Reviewed)	
	30 September 2020 US$ '000	*30 September 2019 US$ '000*
Interim statement of profit or loss		
Interest and similar income	**132**	129
Interest expense	**6,237**	12,260
Fee and commission - net	**223**	170

10 TRANSACTIONS WITH RELATED PARTIES (continued)

	Nine months ended (Reviewed)	
	30 September 2020	*30 September 2019*
	US$ '000	*US$ '000*
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	**1,996**	1,934
End of service benefits	**163**	153
	2,159	2,087

*Include sitting fees of US$ 173 thousand (30 September 2019: US$ 135 thousand) and reimbursement of travel, accommodation and other expenses paid to the Board of Directors amounting to US$ 42 thousand (30 September 2019: US$ 83 thousand).

11 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 Bank 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.

Fair value hierarchy - financial instruments measured at fair value

The following table provides the fair value measurement hierarchy of the Bank’s financial instruments measured at fair value:

At 30 September 2020 (Reviewed)

	Level 1 US$ '000	***Level 2 US$ '000***	***Total US$ '000***
Investments classified as fair value through			
- profit or loss	**6,868**	**-**	**6,868**
- other comprehensive income	**150,472**	**-**	**150,472**
	157,340	**-**	**157,340**

11 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

At 31 December 2019 (Audited)

	Level 1 *US$ '000*	*Level 2* *US$ '000*	*Total* *US$ '000*
Investments classified as fair value through			
- profit or loss	3,028	-	3,028
- other comprehensive income	158,396	-	158,396
Derivative financial instruments (liability)	-	(442)	(442)
	161,424	(442)	160,982

The Bank has no financial instruments measured at fair value qualifying for level 3 of the fair value hierarchy as at 30 September 2020 or as at 31 December 2019.

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 2020 and 30 September 2019 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 measurement.

Financial instruments not measured at fair value - comparison of fair value to carrying value

The following table provides details of the Bank's financial instruments not measured at fair value (gross of expected credit loss):

At 30 September 2020 (Reviewed)

	Level 1 ***US$ '000***	***Total fair value*** ***US$ '000***	***Carrying value*** ***US$ '000***
Investments at amortised cost	**86,915**	**86,915**	**84,593**
Loans and advances - sovereign loans	**45,914**	**45,914**	**44,562**
	132,829	**132,829**	**129,155**

At 31 December 2019 (Audited)

	Level 1 *US$ '000*	*Total fair value* *US$ '000*	*Carrying value* *US$ '000*
Investments at amortised cost	81,772	81,772	79,356
Loans and advances - sovereign loans	53,991	53,991	47,166
	135,763	135,763	126,522

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 short term in nature. Management has assessed that the fair values of these including loans and advances other than sovereign loans approximate their carrying values as of 30 September 2020 and 31 December 2019.

12 LIQUIDITY RATIOS

Liquidity Coverage Ratio

The Bank is subject to the Basel III liquidity ratios requirement, as stipulated by the regulator Central Bank of Bahrain, whereby the Bank 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 September 2020, the Bank's Liquidity coverage ratio (LCR) was 1016% (31 December 2019: 572%), 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 Bank's NSFR was well above the regulatory requirement and stood at 144% as at 30 September 2020 (31 December 2019 : 196%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 89.4% of total ASF and the remaining 10.6% 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 46.5% of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 12.9% of the total RSF, while non-HQLA securities accounted for 33.6% of the total RSF.

12 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	330,549	-	-	-	330,549
Wholesale funding:					
Other wholesale funding	-	736,943	-	-	39,276
Other liabilities:					
All other liabilities not included in the above categories	-	11,124	-	-	-
Total ASF					**369,825**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)					33,288
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	361,125	3,734	10,000	66,036
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities	-	6,256	884	59,241	53,925
Performing residential mortgages, of which: Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	4,901	98,865	86,486
Other assets:					
All other assets not included in the above categories	13,523	-	-	-	13,523
Off balance sheet items	-	87,726	-	-	4,386
Total RSF					**257,644**
NSFR (%)					**144%**

13 COMPARATIVES

Certain figures from prior year has been reclassified in the current period but such reclassification has no impact on equity.

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

FINANCIAL IMPACT OF COVID-19

Amidst COVID-19 pandemic, which affected economies globally and spiked uncertainty across businesses, the Bank emerged resilient and recorded a net profit of US$ 18 million for the nine month period ended 30 September 2020, as compared to US$ 10.8 million last year same period, which signifies a growth of 67%.

This outcome is attributed mainly to Bank’s efforts exercised prior to the outbreak of COVID-19 to recover in full a non performing facility, which enabled the Bank to write back a significant amount of (US$ 2.9 million) ECL provision. Additionally, the Bank was also able to recover a written off facility amounting to US$ 4.5 million, which constitutes part of other income.

Although, there was exceptional income, the performance of the Bank was affected by volatile markets and uncertainties that challenged the banking industry, which affected interest margins due to a fall in interest rates since the beginning of 2020 and fair valuation of securities.

Interest income recorded for the nine months period ended 30 September 2020 was US$ 24 million, as compared to US$ 31.2 million for the last year same period, reflecting a decrease of 23%, however, the net interest income, after interest expenses, resulted in a decrease of 3%, as interest expense decreased correspondingly, with a fall in LIBOR and interest rates.

The Bank incurred a net trading loss of US$ 160 thousand for the current period ended 30 September 2020, as compared to a net trading income of US$ 506 thousand for the last year same period, mainly due to an unrealized loss on Investment held under fair value through profit or loss.

During the period, the Bank earned a foreign exchange gain of US$ 125 thousand as compared to gain of US$ 1.1 million in previous period, resulting in a decrease of 89%.

On the expenses front, Staff costs decreased compared to the last year same period by US$ 271 thousand, a decrease of 4%, primarily due to government grant received due to COVID -19. On the other hand, other operating expenses, increased by US$ 871 thousand, an increase of 41% compared to the last year same period, which is mainly attributed to expenses incurred related to enhanced technology support and professional fee. The total receipt of government grant on account of subsidising Bahraini employee salaries, electricity and utility expenses and other fees for the months of April, May and June 2020, amounted to US$ 468 thousand. Therefore, the total operating expenses amounted to US$ 9.9 million for the period ended 30 September 2020, which was an increase of US$ 604 thousand over the last year same period US$ 9.3 million, an increase of 7% year on year.

The Bank's Capital adequacy ratio (CAR), continues to be strong at 60.2% at 30 September 2020 and well above the regulatory requirement of 12.5%. The Bank's Liquidity coverage ratio (LCR) and Net Stable fund ratio (NSFR), continues to be well above the regulatory norms and stood at 1016% and 144% at 30 September 2020, respectively. The minimum required by regulator is 100% for LCR and NSFR, which is currently revised to 80%, due to COVID-19 measures.

Further, the Bank enhanced its information technology facilities and is adequately equipped to meet the challenges faced by banking industry and it had a smooth transition to working extensively from remote locations, thus ensuring business continuity.

Overall the Bank has continued to be resilient in the current COVID-19 pandemic, and its effect on the banking industry, which has challenged the business model and created a new competitive landscape.

The above supplementary information on the Financial impact of COVID-19, is provided to comply with the Central Bank of Bahrain circular reference OG/259/2020 dated 14 July 2020, due to the current COVID-19 pandemic.

This information has not been subject to any review by external auditors.