FIRST ENERGY BANK B.S.C. (c)

30 JUNE 2020
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Commercial registration	:	69089-1 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Bahrain Financial Harbour, West Tower, 20th Floor P.O. Box 209, Manama, Kingdom of Bahrain Telephone +973 17170000
Directors	:	Zayed A. R. Al-Amin, *Chairman* Salah Mohammed Amin Abdulla, *Vice-Chairman* Matar Mohamed Al Blooshi Dr. Ali Mahmoud Hassen Mohammed Adel A. Aziz Al Jabr Abdulla Ahmed Al Suwaidi Dr. Jacob Barend Kalkman Saif Abugulal Dr. Abdalnasr Mohamed Omar Abouzkeh
Chief Executive Officer	:	Mohamed Shukri Ghanem
Auditors	:	KPMG Fakhro, Bahrain

First Energy Bank B.S.C. (c)

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
First Energy Bank B.S.C. (c)
Manama, Kingdom of Bahrain

13 August 2020

Introduction

We have reviewed the accompanying 30 June 2020 condensed consolidated interim financial information of First Energy Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2020;
- the condensed consolidated income statement for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2020;
- the condensed consolidated statement of 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 this 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 the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 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 this condensed consolidated interim financial information.

KPMG

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020 USD 000's

	Note	**30 June 2020** (reviewed)	31 December 2019 (audited)
ASSETS			
Cash and bank balances		7,799	20,976
Placements with financial institutions	9	84,823	40,168
Financing assets	10	110,698	163,109
Ijarah assets	11	51,226	71,500
Investment securities	12	311,372	415,750
Equity-accounted investees	13	47,359	71,149
Other assets	14	36,793	55,349
Property and equipment		31,726	24,591
Total assets		**681,796**	862,592
Liabilities and equity			
LIABILITIES			
Placements from financial institutions		37,258	36,949
Bank financing	15	141,551	191,350
Other liabilities		25,950	37,118
Total liabilities		**204,759**	265,417
EQUITY			
Share capital		600,000	600,000
Treasury shares		(4,356)	(4,356)
Statutory reserve		14,678	14,678
Foreign exchange translation reserve		(12,476)	(6,843)
Accumulated losses		(160,385)	(50,232)
Total equity attributable to shareholders of the parent		**437,461**	553,247
Non-controlling interests		39,576	43,928
TOTAL EQUITY		**477,037**	597,175
Total liabilities and equity		**681,796**	862,592

The Board of Directors approved the condensed consolidated interim financial information on 13 August 2020 and signed on its behalf by.

Zayed A. R. Al-Amin Chairman	Abdulla Ahmed Al Suwaidi Board Member	Mohamed Ghanem Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2020 USD 000's

	Note	**Six months ended 30 June 2020** (reviewed)	Six months ended 30 June 2019 (reviewed)
INCOME			
Income from investment securities	16	6,457	8,112
Income from financing and placements with financial institutions		468	7,666
Fees and commission income		194	4,366
Share of results of equity accounted investees, net	13	1,242	1,730
Net income from Ijarah assets		1,626	1,457
Other income	3	492	2,502
Total income		**10,479**	25,833
Less: Finance cost		(2,920)	(2,993)
Total income after finance cost		**7,559**	22,840
EXPENSES			
Staff cost		4,852	5,788
Depreciation and amortization		463	417
Other operating expenses		3,538	3,166
Total expenses		**8,853**	9,371
(Loss) / profit before impairment allowance		**(1,294)**	13,469
Net impairment losses	17	(111,319)	(1,719)
(LOSS) / PROFIT FOR THE PERIOD		**(112,613)**	11,750
Attributable to:			
Shareholders of the parent		(109,903)	11,721
Non-controlling interests		(2,710)	29
		(112,613)	11,750

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020 USD 000's

	Equity attributable to shareholders of the parent								
30 June 2020 (reviewed)	**Share capital**	**Treasury shares**	**Statutory reserve**	**Investments fair value reserve**	**Foreign exchange translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2020	600,000	(4,356)	14,678	-	(6,843)	(50,232)	553,247	43,928	597,175
Changes in fair value of investments at fair value through equity	-	-	-	-	-	-	-	-	-
Effect of exchange rate difference on equity accounted investee	-	-	-	-	(5,633)	-	(5,633)	-	(5,633)
Profit for the period	-	-	-	-	-	(109,903)	(109,903)	(2,710)	(112,613)
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**(5,633)**	**(109,903)**	**(115,536)**	**(2,710)**	**(118,246)**
Transfer to zakah and charity fund	-	-	-	-	-	(250)	(250)	-	(250)
Distribution from subsidiary	-	-	-	-	-	-	-	(1,642)	(1,642)
Balance at 30 June 2020	**600,000**	**(4,356)**	**14,678**	**-**	**(12,476)**	**(160,385)**	**437,461**	**39,576**	**477,037**

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020 *(continued)* USD 000's

	Equity attributable to shareholders of the parent								
30 June 2019 (reviewed)	Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	600,000	(7,261)	13,034	(2,011)	(2,171)	(61,968)	539,623	47,197	586,820
Changes in fair value of investments at fair value through equity	-	-	-	(5,447)	-	-	(5,447)	-	(5,447)
Transfer to income statement on impairment	-	-	-	3,000	-	-	3,000	-	3,000
Effect of exchange rate difference on equity accounted investee	-	-	-	-	(3,390)	-	(3,390)	-	(3,390)
Profit for the period	-	-	-	-	-	11,721	11,721	29	11,750
Total recognised income and expense for the period	-	-	-	(2,447)	(3,390)	11,721	5,884	29	5,913
Transfer to zakah and charity fund	-	-	-	-	-	(150)	(150)	-	(150)
Dividends of subsidiary	-	-	-	-	-	-	-	(23)	(23)
Adjustment on capital reduction	-	2,905	-	-	-	(2,905)	-	-	-
Balance at 30 June 2019	600,000	(4,356)	13,034	(4,458)	(5,561)	(53,302)	545,357	47,203	592,560

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2020 USD 000's

	Note	**Six months ended 30 June 2020** (reviewed)	Six months ended 30 June 2019 (reviewed)
OPERATING ACTIVITIES			
Net (loss) / profit for the period		(112,613)	11,750
Adjustments for:			
Depreciation on Ijarah assets	11	1,800	1,800
Depreciation and amortization		463	417
Amortization of (discount) / premium on Sukuk and forex		(90)	366
Net impairment losses	17	111,319	1,719
Share of results of equity accounted investees, net	13	(1,242)	(1,730)
Fair value gain on investment in structured products	16	-	(810)
Loss on disposal of investment securities	16	480	171
Operating profit before changes in operating assets and liabilities		**117**	13,683
Net changes in operating assets and liabilities:			
Financing assets		728	(38,689)
Other assets		(2,635)	(3,052)
Placements from financial institutions		309	(34,377)
Other liabilities		(11,402)	13,783
Payment to charities		(16)	(122)
Net cash used in operating activities		**(12,899)**	(48,774)
INVESTING ACTIVITIES			
Purchase of investment securities		(47,797)	(63,001)
Proceeds from disposal / maturity of investment securities		124,172	53,477
Proceeds from disposal of equity accounted investee		26,805	-
Purchase of property and equipment and intangible assets		(7,360)	(2,062)
Net cash from / (used in) investing activities		**95,820**	(11,586)
FINANCING ACTIVITIES			
Return of capital to non-controlling interests		(1,642)	-
Dividend paid to non-controlling interests		-	(23)
Repayment of bank financing		(65,761)	(41,930)
Proceeds from bank financing		15,962	60,000
Net cash (used in) / from financing activities		**(51,441)**	18,047
Net increase / (decrease) in cash and cash equivalents		**31,480**	(42,313)
Cash and cash equivalents at beginning of the period		61,144	105,225
Effect of net impairment losses on placements with financial institutions		(2)	8
Cash and cash equivalents at end of the period		**92,622**	62,920
Cash and bank balances		7,799	15,231
Placements with financial institutions with original maturity of 90 days or less		84,823	47,689
		92,622	62,920

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
For the six months ended 30 June 2020 USD 000's

	Six months ended 30 June 2020 (reviewed)	Six months ended 30 June 2019 (reviewed)
Sources of zakah and charity funds		
Undistributed charity and zakah funds at the beginning of the period	44	38
Contributions by the Bank	250	150
Total sources of zakah and charity funds during the period	**294**	188
Uses of zakah and charity fund		
Contributions for charitable purposes	(16)	(122)
Total uses of funds during the period	**(16)**	(122)
Undistributed zakah and charity fund at end of the period	**278**	66

The accompanying notes 1 to 22 form an integral part of this condensed consolidated interim financial information.

1 REPORTING ENTITY

First Energy Bank BSC (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089-1. The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") are mainly Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

2 BASIS OF PREPARATION AND PRESENTATION

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to Coronavirus (COVID-19). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note (3) for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS. Please refer to note (3) for further details.

The above framework for basis of preparation of the interim financial statements is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards the group uses 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 accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2019 were in accordance with FAS as issued by AAOIFI. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively, and changes due to adoption of new accounting standards as explained in note 4 below, all other accounting policies remain same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's annual 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 consolidated financial statements as at and for the year ended 31 December 2019.

3 COVID-19 IMPACT

On 11 March 2020, the COVID-19 outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets, and in particular oil prices, have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The management and the Board of Directors (BOD) has been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the condensed consolidated interim financial information, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 30 June 2020, the Bank is compliant with the required Capital Adequacy Ratio (CAR), Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As at 30 June 2020, the Group's CAR stood at 63.87% and its NSFR and LCR was 110.7% and 810.8% respectively. Refer to note 22 for the NSFR disclosure.

Modification of financial assets
The Group had no impacted customers to whom it was required to provide payment holidays on financing exposures (refer note 2 (b)).

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.

Financial assistance amounting to USD 520 thousand representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized under 'other income' in the income statement, refer note 2 (b).

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with FAS as issued by AAOIFI. However, except for the modifications to accounting policies referred to in Note 2 that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies on adoption of FAS as modified by CBB did not result in any change to the financial information reported for the comparative period.

A) Early adoption of standards

(i) FAS 30 Impairment, Credit Losses and Onerous Commitments

AAOIFI issued FAS 30 Impairment, Credit losses and Onerous Commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 replaces FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deal with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets:

1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

In 2018, the Group early adopted FAS 30 effective 1 January 2018 based on instructions of the CBB. The respective adjustments to the opening retained earnings and non-controlling interests as of 1 January 2018 were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2018.

(ii) FAS 35 Risk Reserves

AAOIFI also issued FAS 35 "Risk Reserves" in 2019. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Group early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

In 2018, the Group early adopted FAS 35 effective 1 January 2018 along with FAS 30.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

B) New standards, amendments and interpretations issued but not yet effective

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

FAS 31 as issued by AAOIFI is effective 1 January 2021.

The Group uses wakala structure to raises funds from interbank market and from customers, these were reported under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019 (together called "wakala pool"). The wakala pool funds are comingled with the Bank's own funds based on an underlying mudaraba agreement. This comingled pool of funds is invested in a common pool of assets in the manner which the Group deems appropriate without laying down restrictions as to where, how and what purpose the funds should be invested. As per FAS 31, Wakala pool is reported as part of equity of investment account holders (not liabilities) and the profit paid on these contracts is reported in return on 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 2021 and have an original contractual maturity before 31 December 2021.

(ii) FAS 33 Investment in Sukuks, shares and similar instruments

FAS 33 as issued by AAOIFI is effective 1 January 2021. The standard 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 will result in changes in accounting policies for recognition, classification and measurement of investment in Sukuks, shares and other similar instruments Set out below are the details of the specific FAS 33 accounting policies applied in the current period.

Categorization and classification
FAS 33 contains 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 investment in:

(a) equity-type instruments;
(b) debt-type instruments, including:
  (i) monetary debt-type instruments; and
  (ii) non-monetary debt-type instruments; and
(c) other investment instruments

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

I. the Bank's business model for managing the investments; and
II. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

For the six months ended 30 June 2020 USD 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) 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.

4.1 Basis of consolidation

The condensed consolidated interim financial information includes the results of the Bank and its subsidiaries after elimination of inter group transactions and balances.

The following are the Group's significant subsidiaries as at 30 June 2020:

Name of subsidiary	*Equity interest*		*Nature of business*
	2020	2019	
North Africa Investment Company, Kingdom of Bahrain	100%	100%	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy Oman, Cayman Islands	100%	100%	To hold 15% stake in Al Izz Islamic Bank in Oman.*
FEB-Novus Aircraft Holding Company, Bahamas	98.50%	98.50%	To purchase and lease one A330-300 aircraft to Malaysia Airlines.
Al Dur Energy Investment Company, Cayman Islands	59%	59%	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.
FEB Aqar S.P.C., Kingdom of Bahrain	100%	100%	Real estate activities to own or lease property.
FEB Capital Limited, United Arab Emirates	100%	100%	Financial institution

* As at 30 June 2020, the Group has exited its stake from Al Izz Islamic Bank, refer note 13 (ii).

5 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2019 except for the changes mentioned 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.

5 FINANCIAL RISK MANAGEMENT (continued)

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. No new disbursement of financing facilities have been made during the period. Remedial management has also become challenging in current times with expected delays in legal execution of recovery measures

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR) on a qualitative basis.

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) which has resulted in significant additional provisions for credit risk (refer to note 19).

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 the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

- Reduction of LCR and NSFR ratio from 100% to 80%;
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 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. ALCO meetings are convened in order to carryout granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding. Further information on the regulatory liquidity and capital ratios as at 30 June 2020 have been disclosed in Note 3 to the condensed consolidated interim financial statements.

Operational risk management

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, 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 comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes and the use of internal audit to prevent and detect risks. While these risks cannot be completely eliminated, the operational risk department 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.

6 JUDGMENT AND ESTIMATES

Preparation of the 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 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 have required the Group to update the inputs and assumptions used for the determination of ECL as at 30 June 2020. ECL 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, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Assessment of clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered in the ECL assessment process. Given the fact that the client base is primarily based in the GCC, all Government relief efforts to mitigate the impact of COVID-19 has been factored into its ongoing ECL assessment.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect management 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.

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 high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. 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 projections.

6 JUDGMENT AND ESTIMATES (continued)

Impairment of investments

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.

Compared to carrying value of the investment portfolio as at 31 December 2019, the overall portfolio has reported a fair value loss 31% as at 30 June 2020 due to the ongoing volatility in the global markets.

The Group's exposure to fair value measurements based in full or in part on unobservable inputs (i.e. Level 3) is restricted to a small number of financial instruments, which comprise a significant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 30 June 2020 attributable to reasonably possible alternatives would have a material effect.

Impairment of lease assets

The Group's leased assets comprise of commercial aircrafts leased to reputed airlines. The COVID-19 pandemic has resulted significant impact on the travel and airline industry. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. The determination of the value in use requires the exercise of management judgement and assumptions about future cash flows and discount rates. The Group's Ijarah assets are impacted by the risks associated with the COVID-19 pandemic. The Group has utilized estimates, assumptions and judgements that reflect this uncertainty.

Impairment during the period was based on assessment of recoverable amount of the leased asset (aircraft residual values and lease cashflows), which has been significantly impacted due to the onset of COVID-19. Management has considered prior quotations for similar aircrafts and made adjustments for likelihood of extension of lease and expected terms in its scenarios while assessing the impact of COVID-19 on the recoverable amounts (refer note 11).

7 COMPARATIVE INFORMATION

The condensed 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 comparatives for the condensed consolidated statements of income, changes in owner's equity, cash flows, and sources and uses of Zakah and Charity Fund have been extracted from the Group's reviewed condensed consolidated interim financial information for the six months ended 30 June 2019. Certain amounts have been regrouped to conform with current period presentation and did not affect previously reported net profit, equity, total assets and total liability of the Group.

8 SEASONALITY

Due to nature of the Bank's business, the six months' results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

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9 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	30 June 2020 (reviewed)	31 December 2019 (audited)
Commodity murabaha contracts	10,355	-
Wakala contracts	74,487	40,178
Total gross murabaha and wakala contracts	**84,842**	40,178
Less: Deferred profits on murabaha contracts	(7)	-
	84,835	40,178
Less: Net impairment losses on placements with financial institutions *	(12)	(10)
	84,823	40,168

The original maturity of commodity murabaha and wakala contracts are 90 days or less.

10 FINANCING ASSETS

	30 June 2020 (reviewed)	31 December 2019 (audited)
Gross commodity murabaha	188,594	181,204
Less: Deferred profits	(2,878)	(4,199)
Less: Profit in suspense	(6,045)	-
Impairment allowance (Stage 3)	(73,698)	(28,055)
	105,973	148,950
Ijarah financing	13,900	17,322
Impairment allowance (Stage 3)	(6,950)	-
Less: Net impairment losses on financing assets (Stage 1 & 2) *	(2,225)	(3,163)
	110,698	163,109

* For stage wise exposure and allowance for impairment refer note 19.

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11 IJARAH ASSETS

	Aircraft
Cost:	
At 1 January 2020	100,000
At 30 June 2020	**100,000**
Depreciation:	
At 1 January 2020	28,500
Charge for the period	1,800
At 30 June 2020	**30,300**
Provision for impairment:	
At 1 January 2020	-
Charge for the period (note 6)	18,474
At 30 June 2020	**18,474**
Net book value:	
As at 30 June 2020 (reviewed)	**51,226**
As at 31 December 2019 (audited)	71,500

The Aircraft is mortgaged against term financing (refer note 15).

12 INVESTMENT SECURITIES

	30 June 2020 (reviewed)	31 December 2019 (audited)
Equity type instruments - *at fair value through equity*		
- Quoted equity securities (at fair value) (i)	25,324	36,893
- Unquoted equity securities (at cost less impairment) (ii)	83,661	96,407
	108,985	133,300
Debt type instruments - *At amortised cost*		
- Quoted Sukuk (iii)	205,600	262,858
Less: Impairment allowance (iv)	(3,213)	(837)
	202,387	262,021
Investment in structured products - *at fair value through profit or loss* (v)	-	20,429
Total investment securities	**311,372**	415,750

(i) During the period, the Bank recognised an impairment allowance of USD 11,569 thousand (2019: USD 3,000 thousand) on quoted equity securities carried at fair value through equity.

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12 INVESTMENT SECURITIES (continued)

(ii) In 2019, the Group increased its stake in Oba Makarnacilik Sanayi ve Ticaret A.S. ("Oba Makarna"), a company incorporated in Turkey engaged in pasta production from 15% to 20%, resulting in the investee becoming an associate (note 13).

Unquoted equity securities are net of impairment allowance of USD 5,962 thousand (31 December 2019: USD 754 thousand). During the period, the Bank recognised an impairment allowance of USD 5,962 thousand (2019: USD Nil).

(iii) Quoted Sukuk with carrying amount of USD 169 million (31 December 2019: USD 208 million) are pledged against general bank financing of USD 91 million (31 December 2019: USD 141 million) (refer note 15).

(iv) For stage wise exposure and allowance for impairment refer note 19.

(v) In 2019, this represents Bank's investment in Islamic structured products amounting to USD 18.75 million with a notional value of USD 37.5 million which includes leveraged amount of USD 18.75 million. Fair value gain of USD 0.5 million (2019: USD 0.8 million) has been recognised during the period as described in note 16.

13 EQUITY ACCOUNTED INVESTEES

	30 June 2020 (reviewed)	31 December 2019 (audited)
Associates	107,106	140,834
Impairment allowance	(59,747)	(69,685)
	47,359	71,149

Movement on the equity accounted investees during the period:

	30 June 2020 (reviewed)	31 December 2019 (audited)
At beginning of the period	71,149	29,341
Reclassified from investment securities during the period[(iv)] (note 12)	7,734	42,935
Acquisition during the period	-	643
Share of results of equity accounted investees, net	1,242	2,902
Foreign exchange translation differences	(5,633)	(4,672)
Disposal during the period	(27,133)	-
Balance at the end of the period	**47,359**	71,149

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13 EQUITY ACCOUNTED INVESTEES (continued)

Equity accounted investees comprise the following:

Name	***Country of incorporation***	***% holding***		***Nature of business***
		2020	***2019***	
Associates:				
Oba Makarna [(i)]	Turkey	20%	20%	Pasta production
Al Izz Islamic Bank [(ii)]	Oman	-	15.18%	Islamic retail banking
Arab Drilling and Workover Company [(iii)]	Libya	40%	40%	Lease of oil drilling rigs
Heartbeat Investment Company LLC [(iv)]	United Arab Emirates	41.08%	-	Pharmaceutical

(i) The results of Oba Makarna used for equity accounting is based on management accounts for the period from 1 October 2019 to 31 March 2020. In 2019, the Group acquired an additional 5% stake in Oba Makarna increasing the Group's interest to 20% therefore acquiring significant influence, resulting in a reclassification of the investment from "investment securities" to "equity accounted investees" (note 12 (ii)).

(ii) The results of Al Izz Islamic Bank used for equity accounting is based on the management accounts for the period from 1 October 2019 to 31 March 2020. The Group has exited its investment in Al Izz Islamic Bank and recognized gain of USD 1,442 thousands, included in the share of results of equity accounted investees in the income statement.

(iii) Due to the political situation in Libya, the investment has been fully provided for.

(iv) Included herein is Bank's investment in ADCAN Pharma LLC and Medisal for Pharmaceuticals Industry, 100% owned by Heartbeat Investment Company LLC (Heartbeat) which is 41.08% owned by the Group. In the prior year, a share subscription agreement was signed by Heartbeat with a new shareholder that diluted the interest of the Group to below 20% and hence this investment was classified at investments at fair value through equity. The previous structure did not materialise and the Group is now in the process of fully exiting its equity and debt position through another sale transaction, which is expected to be concluded before end of this year. Accordingly, the investment has been reclassified from unquoted equity securities to equity accounted investees as assets held-for-sale.

14 OTHER ASSETS

	30 June 2020 (reviewed)	31 December 2019 (audited)
Receivable from investee *	10,938	10,938
Ijarah rental receivable	34,880	31,457
Prepayments and advances	1,338	1,937
Intangible assets	689	927
Fees and commission receivable	7,909	7,995
Others	2,543	2,318
	58,297	55,572
Less: Net impairment losses on other assets **	(21,504)	(223)
	36,793	55,349

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14 OTHER ASSETS (continued)

* Receivable from investee represents an amount advanced to Al Dur Power and Water Company, an investee of the Group, to meet liability reserve account (LRA) funding requirement under a common term agreement, whereby the shareholders are required to fund such account for the purpose of meeting the repayment of senior debt obligations of the investee.

** For stage wise exposure and allowance for impairment refer note 19.

15 BANK FINANCING

	30 June 2020 (reviewed)	31 December 2019 (audited)
Term financing *	49,418	46,823
General financing **	92,133	144,527
	141,551	191,350

* Term financing is secured by a mortgage over an aircraft (note 11). Term financing has been availed by FEB-Novus Fin One Ltd Bahamas, a 100% subsidiary of FEB-Novus Aircraft Holding Company, Bahamas which is a 98.5% subsidiary of the Bank. Term financing is at a floating rate of 1 month Libor plus 3.20% maturing on 23 January 2024.

During the period, due to COVID-19, FEB-Novus Fin One Ltd Bahamas has breached the Loan-to-value ("LTV") threshold level as stipulated in the term financing agreement with Nord LB. Accordingly, the lease rentals are restricted for use by the Group.

This also includes financing obtained by FEB Aqar S.P.C., a 100% subsidiary of the Bank, for a development project in Bahrain Financial Harbour. The financing is collateralized with the project land and the right of receipts from sale/rental of office space and residential units have been assigned to the lender.

** This represent financing for general purpose secured by Sukuk of USD 169 million (note 12).

16 INCOME FROM INVESTMENT SECURITIES

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
Profit on Sukuk	4,997	5,365
Dividend income	1,476	2,108
Fair value gain on investment in structured products	464	810
Loss on disposal of Sukuk	(480)	(171)
	6,457	8,112

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17 NET IMPAIRMENT LOSSES

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
Quoted equity securities (note 12)	11,569	3,000
Unquoted equity securities (note 12)	5,962	-
Investment in Sukuk (note 19)	2,376	250
Placements with financial institutions (note 19)	2	(8)
Financing assets (note 19)	51,655	(1,523)
Ijarah assets (note 11)	18,474	
Other assets (note 19)	21,281	-
	111,319	1,719

18 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors, Shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The significant balances with related parties were as follows:

30 June 2020 (reviewed)	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	**Total**
Assets				
Cash and bank balances	-	-	3,406	**3,406**
Placements with financial institutions	-	-	61,779	**61,779**
Financing assets	9,053	-	-	**9,053**
Investment securities			25,324	**25,324**
Equity accounted investees	47,359	-	-	**47,359**
Other assets	6	-	-	**6**
Liabilities				
Placements from financial institutions	-	-	37,258	**37,258**
Other liabilities	-	1,527	11,612	**13,139**

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18 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

31 December 2019 (audited)	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Assets				
Cash and bank balances	-	-	8,255	8,255
Placements with financial institutions	-	-	28,463	28,463
Financing assets	-	-	49,821	49,821
Investment securities	-	-	36,893	36,893
Equity accounted investees	71,149	-	-	71,149
Other assets	20	-	2,498	2,518
Liabilities				
Placements from financial institutions	-	-	36,949	36,949
Other liabilities	-	1,740	22,054	23,794

The transactions with related parties included in the condensed consolidated income statement were as follows:

30 June 2020 (reviewed)	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	**Total**
Income				
Income from investment securities	-	-	1,476	**1,476**
Income from financing and placements with financial institutions	-	-	147	**147**
Share of results of equity accounted investees	1,242	-	-	**1,242**
Fees and commission income	-	-	-	**-**
Expenses				
Staff cost	-	1,419	-	**1,419**
Financing cost on placements from financial institutions	-	-	309	**309**
Other operating expenses	-	988	-	**988**
Net impairment losses	-	-	10,898	**10,898**

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18 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

30 June 2019 (reviewed)	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Income				
Income from investment securities	(300)	-	2,425	2,125
Income from financing and placements with financial institutions	-	-	1,752	1,752
Share of results of equity accounted investees	1,730	-	-	1,730
Fees and commission income	-	-	361	361
Expenses				
Staff cost	-	1,912	-	1,912
Financing cost on placements from financial institutions	-	-	582	582
Other operating expenses	-	698	-	698
Net impairment losses	-	-	3,012	3,012

19 EXPECTED CREDIT LOSSES

The following table shows reconciliation from the opening to the closing balances of the carrying amounts of financial assets at amortized cost and the loss allowance:

	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Total USD'000
Gross exposure subject to ECL at 30 June 2020				
- Financing assets	7,725	50,931	134,915	193,571
- Investment in Sukuk	93,124	112,476	-	205,600
- Placements with financial institutions	84,835	-	-	84,835
- Other assets	10,938	-	42,789	53,727
	196,622	**163,407**	**177,704**	**537,733**
Opening Balance ECL - as at 1 January 2020				
- Financing assets	-	3,163	28,055	31,218
- Investment in Sukuk	42	795	-	837
- Placements with financial institutions	10	-	-	10
- Other assets	164	59	-	223
	216	**4,017**	**28,055**	**32,288**
Net transfer between stages				
- Financing assets	-	(609)	609	-
- Investment in Sukuk	(6)	6	-	-
- Placements with financial institutions	-	-	-	-
- Other assets	(54)	(59)	113	-
	(60)	**(662)**	**722**	**-**
Charge for the period (net)				
- Financing assets	-	(329)	51,984	51,655
- Investment in Sukuk	(14)	2,390	-	2,376
- Placements with financial institutions	2	-	-	2
- Other assets	-	-	21,281	21,281
	(12)	**2,061**	**73,265**	**75,314**
Closing Balance ECL - as at 30 June 2020				
- Financing assets	-	2,225	80,648	82,873
- Investment in Sukuk	22	3,191	-	3,213
- Placements with financial institutions	12	-	-	12
- Other assets	110	-	21,394	21,504
	144	**5,416**	**102,042**	**107,602**
Net exposure at 30 June 2020				
- Financing assets	7,725	48,706	54,267	110,698
- Investment in Sukuk	93,102	109,285	-	202,387
- Placements with financial institutions	84,823	-	-	84,823
- Other assets	10,828	-	21,395	32,223
	196,478	**157,991**	**75,662**	**430,131**

Cash and bank balances did not have a significant ECL.

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20 COMMITMENTS

	30 June 2020 (reviewed)	31 December 2019 (audited)
Financing commitments	8,188	10,884
Forward treasury commitments	-	5,305
Operating lease commitments	355	637
	8,543	16,826

21 FINANCIAL INSTRUMENTS

I. Financial instruments at fair value:

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value.

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities / Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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.

Fair value of investment in structured products is derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e.as prices) or indirectly (i.e. derived from prices)

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21 FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

30 June 2020 (reviewed)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through equity				
Quoted equity securities	25,324	-	-	**25,324**
Fair value through profit or loss				
Investment in structured products	-	-	-	**-**

31 December 2019 (audited)	Level 1	Level 2	Level 3	Total
Fair value through equity				
Quoted equity securities	36,893	-	-	36,893
Fair value through profit or loss				
Investment in structured products	-	20,429	-	20,429

II. *Financial instruments not at fair value:*

Set out below is an overview of Group's financial instruments, other than cash & cash equivalents:

30 June 2020 (reviewed)	Carrying amount	Fair value
Financial assets:		
Financing assets	110,698	110,698
Investment securities[1]	202,387	189,752
Total	**313,085**	300,450
Financial liabilities:		
Bank financing	141,551	141,551
Total	**141,551**	141,551

31 December 2019 (audited)	Carrying amount	Fair value
Financing assets	163,109	163,109
Investment securities[1]	262,021	261,849
Total	425,130	424,958
Financial liabilities:		
Bank financing	191,350	191,350
Total	191,350	191,350

[1] Equity type instruments carried at cost less impairment, of USD 83,661 thousand (31 December 2019: USD 96,407 thousand) are excluded due to absence of reliable measure of fair value. The fair values of the Group's other financial instruments on the reporting date are not significantly different from their carrying values.

22 NET STABLE FUNDING RATIO

The NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 2019. As per recent CBB circular OG/106/2020 dated 17 March 2020, the limit is reduced to 80% for a period of six months, to contain the financial repercussions of the COVID-19. The Group's consolidated NSFR ratio as of 30 June 2020 is 110.7% (31 December 2019: 111.3%).

In comparison to the year ended 31 December 2019, the NSFR ratio slightly decreased due to decrease in the ASF by 26% mainly driven by the decreased in the general financing and decreased on RSF by 25% mainly due to decreased in financing assets.

The NSFR (as a percentage) as at 30 June 2020 is calculated as follows:

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22 NET STABLE FUNDING RATIO (continued)

		Unweighted Values (i.e. before relevant applying factors)				
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*	437,460	-	-	-	437,460
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	-	-	-	-
7	Wholesale funding:					
8	*Operational deposits*	-	1,991	-	-	996
9	*Other wholesale funding*	-	31,131	107,847	130	54,054
10	Other liabilities:					
11	*NSFR Shari'a-compliant hedging contract liabilities*	-	-	-	-	-
12	All other liabilities not included in the above categories	-	14,471	-	-	-
13	**Total ASF**	**437,460**	**47,593**	**107,847**	**130**	**492,510**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	38,529	-	-	52,533	54,459
15	Deposits held at other financial institutions for operational purposes	-	89,248	-	-	13,387
16	Performing financing and sukuk / securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	*Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions*	-	-	-	-	-
19	*Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks, PSEs of which:*	-	48,385	-	7,725	30,759
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*	-	-	3,971	56,929	50,375
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*	249,162	-	-	46,549	295,711
30	OBS items	8,190	-	-	-	410
31	**Total RSF**	**295,881**	**137,633**	**3,971**	**163,736**	**445,101**
32	**NSFR (%)**					**110.7%**

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22 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 2019 is calculated as follows:

		Unweighted Values (i.e. before relevant applying factors)				
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*	553,246	-	-	-	553,246
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	-	-	-	-
7	Wholesale funding:					
8	*Operational deposits*	-	12,426	-	-	6,213
9	*Other wholesale funding*	-	41,306	88,256	61,630	105,758
10	Other liabilities:					
11	*NSFR Shari'a-compliant hedging contract liabilities*	-	-	-	-	-
12	All other liabilities not included in the above categories	-	15,025	-	-	-
13	Total ASF	553,246	68,757	88,256	61,630	665,217
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	36,041	-	-	53,254	55,055
15	Deposits held at other financial institutions for operational purposes	-	54,301	-	-	8,145
16	Performing financing and sukuk / securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	*Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions*	-	-	-	-	-
19	*Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks, PSEs of which:*	-	24,322	40,515	129,729	142,688
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*	-	15,309	-	79,405	75,149
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*	244,443	26,187	20,429	47,954	315,705
30	OBS items	16,188	-	-	-	809
31	Total RSF	296,672	120,119	60,944	310,342	597,551
32	NSFR (%)					111.3%

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

UN-REVIEWED SUPPLEMENTARY FINANCIAL INFORMATION - IMPACT OF COVID-19 USD 000's

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 economic slowdown with uncertainties in the economic environment. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The Central Bank of Bahrain (CBB) announced various measures to combat the effects of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:
- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 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 aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group had no impacted customers to whom it provided payment holidays on financing exposures, thus no one-off modification losses arose due to the 6-month payment holidays provided to financing customers without charging additional profit.

- The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group received financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges received from the government and/or regulators, in response to its COVID-19 support measures amounting to USD 520 thousand.

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

- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the 6 months ended 30 June 2020, no new financing assets were booked by the Group nor acquisition of any new strategic investments.

- The stressed economic situation and operational challenges resulted in further deterioration of asset values and the Group's realisation and remedial initiatives, requiring the Group to recognize significant amount of impairment provisions and investment losses on its exposures amounting to USD 43,906 thousand.

- 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 Group recorded a net loss of USD 112,613 thousand.

UN-REVIEWED SUPPLEMENTARY FINANCIAL INFORMATION - IMPACT OF COVID-19 USD 000's

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

	Net impact on the Group's consolidated income statement	Net impact on the Group's consolidated financial position	Net impact on the Group's consolidated owners' equity
Government grants	520	-	520
Incremental expenses	(500)	-	(500)
Provisions and impairment losses	(43,906)	(43,906)	(43,906)

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as an indication of the results of 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 the date of preparation of this information. Circumstances may change which may result in this information 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.