Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 SEPTEMBER 2020

Table of contents

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: home.kpmg/bh
CR No. 6220

Independent auditors' report on review of condensed consolidated interim financial information

The Board of Directors
Al Salam Bank-Bahrain B.S.C
Manama
Kingdom of Bahrain

9 November 2020

Introduction

We have reviewed the accompanying 30 September 2020 condensed consolidated interim financial information of Al Salam Bank-Bahrain B.S.C (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2020;
- the condensed consolidated statement of income for the three month and nine-month periods ended 30 September 2020;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2020;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2020;
- 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 September 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

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Note	***30 September 2020 (Reviewed)***	*31 December 2019 (Audited) (Restated)*
		BD '000	*BD '000*
ASSETS			
Cash and balances with banks and Central Bank		**234,093**	219,456
Sovereign Sukuk	3	**384,284**	345,305
Placements with financial institutions	4	**82,393**	114,803
Corporate Sukuk		**12,555**	22,162
Financing assets	5	**784,751**	685,756
Finance lease assets	6	**464,031**	389,742
Non-trading investments	8	**97,182**	108,991
Investment properties		**72,583**	72,774
Development properties		**2,943**	2,943
Investment in associates		**12,132**	10,640
Other assets	9	**48,766**	44,260
Goodwill		**25,971**	25,971
TOTAL ASSETS		**2,221,684**	2,042,803
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	4	**99,890**	211,459
Customers' current accounts		**368,158**	289,456
Murabaha term financing		**296,401**	145,590
Other liabilities	10	**41,092**	41,481
TOTAL LIABILITIES		**805,541**	687,986
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	11	**221,496**	210,887
Wakala and Mudaraba from customers	11	**902,739**	823,856
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		**1,124,235**	1,034,743
OWNERS' EQUITY			
Share capital		**230,450**	221,586
Treasury stock		**(7,530)**	(6,758)
Reserves and retained earnings		**68,534**	104,547
Total owners' equity		**291,454**	319,375
Non-controlling interest		**454**	699
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		**2,221,684**	2,042,803

H.E. Shaikh Khalid bin Mustahail Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 21 form part of the condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine month period ended 30 September 2020

	Note	***Three months ended 30 September 2020 (Reviewed)***	*Three months ended 30 September 2019 (Reviewed) (Restated)*	***Nine months ended 30 September 2020 (Reviewed)***	*Nine months ended 30 September 2019 (Reviewed) (Restated)*
		BD '000	*BD '000*	***BD '000***	*BD '000*
OPERATING INCOME					
Finance income		**20,284**	15,288	**57,412**	42,958
Income from Sukuk		**4,951**	4,063	**14,334**	12,795
(Loss) / Income from non-trading investments		**(5,396)**	579	**(8,690)**	1,829
Loss from properties		**(66)**	(42)	**(105)**	(42)
Fees and commission, net		**1,799**	1,845	**5,620**	5,953
Share of profit from associates		**-**	94	**1,953**	1,209
Other income	12	**2,514**	635	**3,725**	3,479
Total operating income		**24,086**	22,462	**74,249**	68,181
Finance expense on placements from financial institutions		**(865)**	(885)	**(3,395)**	(2,738)
Finance expense on Murabaha term financing		**(1,451)**	(1,392)	**(4,073)**	(4,268)
Return on equity of investment accountholders before Group's share as a Mudarib and Wakala		**(10,726)**	(7,367)	**(29,561)**	(21,042)
Group's share as a Mudarib		**401**	-	**874**	-
Group's Wakala fee		**3,098**	(94)	**6,793**	(237)
Share of profit of investment accountholders		**(7,227)**	(7,461)	**(21,894)**	(21,279)
Net income		**14,543**	12,724	**44,887**	39,896
OPERATING EXPENSES					
Staff cost		**3,746**	3,640	**11,152**	10,629
Premises and equipment cost		**499**	575	**1,668**	1,701
Depreciation		**709**	308	**1,196**	981
Other operating expenses		**2,453**	2,648	**7,975**	7,500
Total operating expenses		**7,407**	7,171	**21,991**	20,811
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**7,136**	5,553	**22,896**	19,085
Net impairment charge	7	**(6,182)**	(644)	**(14,858)**	(1,954)
NET PROFIT FOR THE PERIOD		**954**	4,909	**8,038**	17,131
ATTRIBUTABLE TO:					
- Shareholders of the Bank		**972**	4,914	**8,073**	17,223
- Non-controlling interest		**(18)**	(5)	**(35)**	(92)
		954	4,909	**8,038**	17,131
Weighted average number of shares (in '000)		**2,142,899**	2,167,315	**2,142,899**	2,172,020
Basic and diluted earnings per share (fils)		**0.4**	2.3	**3.8**	7.9

H.E. Shaikh Khalid bin Mustahail Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 21 form part of the condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine month period ended 30 September 2020

Amounts in BD '000s

	Attributable to shareholders of the Bank											
			Reserves and retained earnings									
	Share capital	*Treasury stock*	*Share premium*	*Statutory reserve*	*Retained earnings*	*Investment fair value reserve*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Total reserves*	*Total Equity*	*Non-controlling interest*	*Group Total Equity*
Balance as of 1 January 2020	**221,586**	**(6,758)**	**12,209**	**21,107**	**42,608**	**8,257**	**23,589**	**(3,223)**	**104,547**	**319,375**	**699**	**320,074**
Net profit for the period	-	-	-	-	8,073	-	-	-	8,073	8,073	(35)	8,038
Foreign currency re-translation	-	-	-	-	-	-	(1)	(466)	(467)	(467)	-	(467)
Total recognised income and expense	-	-	-	-	8,073	-	(1)	(466)	7,606	7,606	(35)	7,571
Bonus shares issued	8,864	-	-	-	(8,864)	-	-	-	(8,864)	-	-	-
Cash dividend for the year 2019	-	-	-	-	(8,551)	-	-	-	(8,551)	(8,551)	-	(8,551)
Movement in fair value of Sukuks	-	-	-	-	-	(3,579)	-	-	(3,579)	(3,579)	-	(3,579)
Modification loss (note 2.2)	-	-	-	-	(24,768)	-	-	-	(24,768)	(24,768)	-	(24,768)
Subsidy from government (note 2.2)	-	-	-	-	2,143	-	-	-	2,143	2,143	-	2,143
Purchase of treasury stock	-	(772)	-	-	-	-	-	-	-	(772)	-	(772)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(210)	(210)
Balance at 30 September 2020	**230,450**	**(7,530)**	**12,209**	**21,107**	**10,641**	**4,678**	**23,588**	**(3,689)**	**68,534**	**291,454**	**454**	**291,908**
Balance as of 1 January 2019	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822
Impact of adopting FAS 33	-	-	-	-	(3,631)	-	-	-	(3,631)	(3,631)	-	(3,631)
Balance as at 1 January 2019 (restated)	214,093	(3,855)	12,209	18,998	38,470	199	23,589	(3,195)	90,270	300,508	683	301,191
Net profit for the period	-	-	-	-	17,223	-	-	-	17,223	17,223	(92)	17,131
Foreign currency re-translation	-	-	-	-	-	-	-	(107)	(107)	(107)	-	(107)
Total recognised income and expense	-	-	-	-	17,223	-	-	(107)	17,116	17,116	(92)	17,024
Bonus shares issued	7,493	-	-	-	(7,493)	-	-	-	(7,493)	-	-	-
Cash dividend for the year 2018	-	-	-	-	(7,353)	-	-	-	(7,353)	(7,353)	-	(7,353)
Purchase of treasury stock	-	(1,076)	-	-	-	-	-	-	-	(1,076)	-	(1,076)
Movement in fair value of Sukuks	-	-	-	-	-	6,636	-	-	6,636	6,636	-	6,636
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 September 2019	221,586	(4,931)	12,209	18,998	40,847	6,835	23,589	(3,302)	99,176	315,831	591	316,422

The attached notes 1 to 21 form part of the condensed consolidated interim financial information.

Al Salam Bank-Bahrain B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2020

	30 September 2020 (Reviewed)	*30 September 2019 (Reviewed) (Restated)*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net profit for the period	**8,038**	17,131
Adjustments:		
Depreciation	**1,196**	981
Amortisation of premium on Sukuk - net	**-**	205
(Loss) / Income from investments	**-**	(1,787)
Net allowance for credit losses / impairment	**14,858**	1,954
Impact of modification loss	**(23,170)**	-
Share of profit from associates	**(1,953)**	(1,209)
Operating income before changes in operating assets and liabilities	**(1,031)**	17,275
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	**9,683**	(5,433)
Cash and Bank balance	**(9,462)**	-
Financing assets and finance lease assets	**(187,873)**	(148,099)
Other assets	**(4,125)**	2,142
Placements from financial institutions	**(111,569)**	7,125
Customer current accounts	**78,702**	46,360
Other liabilities	**4,119**	(1,320)
Equity of investment accountholders	**89,492**	128,316
Net cash (used in) / from operating activities	**(132,064)**	46,366
INVESTING ACTIVITIES		
Sovereign Sukuk	**(42,597)**	14,856
Corporate Sukuk	**9,594**	(10,177)
Non-trading investments	**11,618**	2,375
Purchase of premises and equipment	**(504)**	(1,446)
Net cash (used in) / from investing activities	**(21,889)**	5,608
FINANCING ACTIVITIES		
Murabaha term financing	**150,811**	2,162
Dividends paid	**(13,228)**	(7,732)
Purchase of treasury stock	**(772)**	(1,076)
Net movements in non-controlling interest	**(210)**	-
Net cash from / (used in) financing activities	**136,601**	(6,646)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(17,352)**	45,328
Cash and cash equivalents at 1 January	**299,324**	216,561
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	**281,972**	261,889
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	**94,619**	64,000
Balances with other banks **	**104,908**	76,160
Deposits with original maturities of less than 90 days	**-**	2,526
Placements with financial institutions with original maturities of less than 90 days	**82,445**	119,203
	281,972	261,889

* Cash and cash equivalents as at 30 September 2020 is gross of the expected credit loss of BD 155 thousands (2019: BD 42 thousands).

**Balances with other banks is net of restricted cash of BD 9,462 thousands which is not available for day to day operations.

The attached notes 1 to 21 form part of the condensed consolidated interim financial information.

1 REPORTING ENTITY

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding	
			2020	2019
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	**70%**	70%
ASB Biodiesel (Hong Kong) Limited	Hong Kong	Production of Biodiesel	**36%**	36%

The Bank and its principal banking subsidiary operates through 10 branches in the Kingdom of Bahrain and one branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

These condensed consolidated financial information have been authorised for issue in accordance with a resolution of the Board of Directors dated 9 November 2020.

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 COVID-19. These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS), 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 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. Refer to note 2.2 for further details; and

(b) recognition of financial assistance received from the government and / or regulators as part of its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI, to the extent of any modification loss recorded in equity as a result of (a) above, and the excess amount to be recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements of FAS. Refer to note 2.2 for further details.

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

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

2 BASIS OF PREPARATION AND PRESENTATION (continued)

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 above-mentioned modifications to accounting policies that have been applied retrospectively and impact of adoption of new standards (note 2.3 A), 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.

The condensed consolidated interim financial information of the Group do not contain all information and disclosures required for the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated 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.

2.1 COVID-19 IMPACT

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. Global equity and commodity markets 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 Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group and its clients are expected to get some benefits from these Packages that will help them sustain the impact of the crisis.

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 September 2020, the Bank is compliant with the required regulatory capital adequacy ratio, net stable funding ratio and liquidity coverage ratios.

2.2 IMPACT OF COVID-19 CONCESSIONARY MEASURES

1) Modification of financial assets

During the current period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19 (refer note 2), the one-off modification losses amounting to BD 24,768 thousand arising from the 6-month payment holiday provided to financing customers without charging additional profit has been recognized 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 provided payment holiday on financing exposures amounting to BD 896,279 thousands as part of its support to impacted customers.

2) 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.

As per the regulatory directive financial assistance amounting to BD 2,143 thousands representing specified reimbursement of a portion of staff costs and waiver of fees, levies, utility charges and cost of Repo funding received from the government and regulator, in response to its COVID-19 support measures, has been recognized directly in equity.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.2 IMPACT OF COVID-19 CONCESSIONARY MEASURES (continued)

Fair valuation

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process. In particular for assets, where underlying is long term real estate infrastructure projects, management has considered long term measures and likely recoveries. This may not significantly impact the underlying drivers of fair valuation of such assets.

Carrying value of the non trading investment portfolio, has reported a fair value loss of 3.6% as at 30 September 2020 due to the ongoing volatility in the global and regional markets.

2.3 SIGNIFICANT ACCOUNTNG POLICIES

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's annual audited consolidated financial statements as at and for the year ended 31 December 2019, except for those disclosed in note 2 above and those arising from adoption of following standards and amendments to standards effective from 1 January 2020. Adoption of these standards and amendments did not result in changes to previously reported net profit or equity of the Group, however it has resulted in additional disclosures.

A. Early adoption of standards in prior years

i. FAS 30 Impairment, Credit Losses and Onerous Commitments

AAOIFI has 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 will replace 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 2017, the Group early adopted FAS 30 effective 1 January 2017 based on instructions of the CBB. The respective adjustments to the opening retained earnings and non-controlling interests as of 1 January 2017 were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2017.

ii. FAS 35 Risk Reserves

AAOIFI has 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 2017, the Group early adopted FAS 35 effective 1 January 2017 along with FAS 30.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.3 SIGNIFICANT ACCOUNTNG POLICIES (continued)

B. Early adoption of new standards in current period

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

The Group has early adopted FAS 31 as issued by AAOIFI on 1 January 2020, before its effective date of 1 January 2021 .

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al- Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

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

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However as the comingled pool arrangement has been in existence for all periods , the Bank decided to apply the standard retrospectively, thereby reclassifying all transactions outstanding as of the period end and the corresponding previous period end. The adoption of this standard has resulted in change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 11)

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

The Group has early adopted FAS 33 as issued by AAOIFI on 1 January 2020, before its effective date of 1 January 2021 .

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

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

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

The standard has been adopted effective 1 January 2020 and is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, except for remeasurement of certain assets from amortised cost to its fair value, the adoption of FAS 33 had no significant impact on any amounts previously reported in the condensed consolidated interim financial information for the period ended 30 September 2019 and the annual audited consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the current period and impact of change in reclassification.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.3 SIGNIFICANT ACCOUNTNG POLICIES (continued)

1) Changes in accounting policies

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 as per the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

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.

2) Reclassification of assets and liabilities

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

1 Jan 2020	Original classification under FAS 25	New classification under FAS 33	Original carrying amount under FAS 25	New carrying amount under FAS 33	Difference recognized in investment fair value reserve
			BD '000	BD '000	BD '000
Sovereign Sukuk	Amortised cost	FVTE	335,382	339,737	4,355
Corporate Sukuk	Amortised cost	FVTE	21,703	21,984	281

1 Jan 2019	Original classification under FAS 25	New classification under FAS	Original carrying amount under	New carrying amount under FAS 33	Difference recognized in retained earnings
			BD '000	BD '000	BD '000
Sovereign Sukuk	Amortised cost	FVTE	348,273	344,425	(3,848)
Corporate Sukuk	Amortised cost	FVTE	9,173	9,390	217

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.3 SIGNIFICANT ACCOUNTNG POLICIES (continued)

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

(i) 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.

(ii) FAS 34 Financial reporting for Sukuk-holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders.

2.4 Changes to the significant estimates and judgements

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

a) Investment classification

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield. The impact on investment classification on adoption of FAS 33 has been disclosed in note 2.1 above.

b) Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the consolidated statement of changes in equity is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

In the current uncertain and extra-ordinary market conditions, for the purpose of determination of what constitutes significant or prolonged decline in fair value of investments, the management takes into account the following additional factors:

- Their intention relating to the respective holding periods of such investments i.e. for trading purposes, or with intention for strategic investment , or for long-term dividends and capital gains etc.;
- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition as a result of COVID-19;
- Forecasts of expected recovery of market values within the expected holding periods; and/ or
- Forecasts of the expected recovery of the core business of the investee entity within the expected holding periods and consequential cash flows to the institution.

c) Expected Credit Loss (ECL)

The process of making the required estimates and assumptions for ECL, involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements (refer note 18).

2.5 Seasonality of operations

The Group does not have significant income of seasonal nature. However, uncertainties of the current situation due to COVID-19 and economic volatility has impacted the Group's operations leading to more cautious and tightened lending criteria and lower disbursement of financing resulting in lower net profit income and decrease in/loss of other revenue. The management expects that the forecasted revenue and net profit for the year 2020 will be affected by this.

3 SOVEREIGN SUKUK

This includes BD 325,009 thousands (2019 BD 181,549 thousands) of sukuk which are pledged against Murabaha term financing of BD 279,436 thousands (2019: BD 128,625 thousands).

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements with and from financial institutions in the form of Murabaha and Wakala contracts.

	30 September 2020 2020	31 December 2019
	BD '000	BD '000
Placements with financial institutions		
Wakala asset	40,570	56,254
Commodity Murabaha asset	41,994	58,648
Allowance for credit losses	(171)	(99)
	82,393	114,803
Placements from financial institutions		
Commodity Murabaha liability	99,890	211,459
	99,890	211,459

5 FINANCING ASSETS

	30 September 2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Murabaha financing	347,802	4,085	44,063	395,950
Mudaraba financing	345,138	36,716	2,752	384,606
Musharaka financing	31,955	-	342	32,297
Credit cards	3,008	-	578	3,586
Total financing assets	727,903	40,801	47,735	816,439
Allowance for credit losses (note 7)	(8,080)	(9,074)	(14,534)	(31,688)
	719,823	31,727	33,201	784,751

	31 December 2019			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Murabaha financing	241,026	20,128	31,965	293,119
Mudaraba financing	340,567	32,127	7,323	380,017
Musharaka financing	30,407	64	421	30,892
Credit cards	3,015	168	639	3,822
Total financing assets	615,015	52,487	40,348	707,850
Allowance for credit losses	(5,180)	(7,118)	(9,796)	(22,094)
	609,835	45,369	30,552	685,756

6 FINANCE LEASE ASSETS

	30 September 2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Finance lease assets	414,605	44,809	10,894	470,308
Allowance for impairment (note 7)	(2,948)	(260)	(3,069)	(6,277)
	411,657	44,549	7,825	464,031

6 FINANCE LEASE ASSETS (continued)

	31 December 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Finance lease assets	322,987	58,296	12,901	394,184
Allowance for impairment	(1,444)	(169)	(2,829)	(4,442)
	321,543	58,127	10,072	389,742

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit losses in the below table includes all financial assets, finance lease assets and off-balance sheet exposures.

	30 September 2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Balance at the beginning of the period	**7,191**	**7,295**	**19,042**	**33,528**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	**1,246**	**(895)**	**(351)**	**-**
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(297)**	**601**	**(304)**	**-**
- transferred to Stage 3: Lifetime ECL credit-impaired	**(38)**	**(651)**	**689**	**-**
Net remeasurement of loss allowance	**3,817**	**3,136**	**8,074**	**15,027**
Recoveries / write-backs	**-**	**(50)**	**(119)**	**(169)**
Allowance for credit losses	**4,728**	**2,141**	**7,989**	**14,858**
Exchange adjustments and other movements	**-**	**-**	**(121)**	**(121)**
Amounts charged off during the period	**-**	**-**	**(3,215)**	**(3,215)**
Balance at the end of the period	**11,919**	**9,436**	**23,695**	**45,050**

	30 September 2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Cash and balances with banks and Central Bank	**155**	**-**	**-**	**155**
Sovereign Sukuk	**62**	**-**	**-**	**62**
Placements with financial institutions	**171**	**-**	**-**	**171**
Corporate Sukuk	**21**	**-**	**-**	**21**
Financing assets	**8,080**	**9,074**	**14,534**	**31,688**
Finance lease assets	**2,948**	**260**	**3,069**	**6,277**
Loans and advances to customers				
- Assets under conversion	**207**	**2**	**3,615**	**3,824**
- Other receivables	**43**	**-**	**2,183**	**2,226**
Financing commitments and financial guarantee contracts	**232**	**100**	**294**	**626**
	11,919	**9,436**	**23,695**	**45,050**

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	30 September 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Balance at the beginning of the period	5,593	5,386	28,427	39,406
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	2,138	(1,415)	(723)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(481)	1,873	(1,392)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(21)	(571)	592	-
Net remeasurement of loss allowance	(52)	601	2,983	3,532
Recoveries / write-backs	(602)	(140)	(915)	(1,657)
Allowance for credit losses	982	348	545	1,875
Exchange adjustments and other movements	(2)	-	(39)	(41)
Amounts charged off during the period	-	-	(9,757)	(9,757)
Elimination on consolidation	-	-	107	107
Balance at the end of the period	6,573	5,734	19,283	31,590

	30 September 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Cash and balances with banks and Central Bank	17	-	-	17
Sovereign Sukuk	28	-	-	28
Placements with financial institutions	44	-	-	44
Corporate Sukuk	7	3	-	10
Financing assets	5,591	5,497	9,778	20,866
Finance lease assets	526	202	4,002	4,730
Loans and advances to customers				
- Assets under conversion	52	-	3,119	3,171
- Other receivables	44	-	2,186	2,230
Financing commitments and financial guarantee contracts	264	32	198	494
	6,573	5,734	19,283	31,590

8 NON-TRADING INVESTMENTS

Non-trading investments comprise of investments in equity securities and are classified as fair value through equity or fair value through profit or loss.

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

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

The Group has 40% stake (2019: 40%) in Manara Developments Company WLL, a company incorporated in Bahrain and engaged in the business of property development. The investment is being fair valued through profit or loss using the fair value scope exemption of FAS 24.

9 OTHER ASSETS

	30 September 2020	31 December 2019
	BD '000	BD '000
Assets under conversion (a)		
Loans and advances to customers	**6,344**	7,285
Non-trading investments - fair value through equity (b)	**900**	964
Non-trading investments - debt	**21**	21
	7,265	8,270
Other receivables and advances	**21,546**	12,374
Prepayments	**931**	924
Premises and equipment (c)	**19,024**	22,692
	48,766	44,260

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Income derived from these assets are transferred to charity payable and as such are not recognised in the condensed consolidated financial information. During the period under review, Shari'a prohibited income amounting to BD 86 thousands have been transferred to charity payable, under "Accounts payable and accruals" of note 10.

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	30 September 2020 2020	31 December 2019
	BD '000	BD '000
At 1 January	**964**	1,041
Additions during the period	**-**	2
Write down during the period	**(64)**	(79)
At end of period	**900**	964

(c) This includes BD 20,327 thousands (2019: BD 19,885 thousands) of subsidiary property, plant & equipment.

Loans and advances to customer - Assets under conversion

	30 September 2020			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers	**2,081**	**25**	**8,062**	**10,168**
Allowance for credit losses (note 7)	**(207)**	**(2)**	**(3,615)**	**(3,824)**
	1,874	**23**	**4,447**	**6,344**

9 OTHER ASSETS (continued)

	31 December 2019			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers	1,701	384	9,184	11,269
Allowance for credit losses	(80)	-	(4,008)	(4,088)
	1,621	384	5,176	7,181

10 OTHER LIABILITIES

	30 September 2020 2020	31 December 2019
	BD '000	BD '000
Accounts payable and accruals	**38,052**	28,693
Dividend payable	**904**	5,581
Project payables	**60**	60
Liabilities under conversion	**-**	5,229
End of service benefits and other employee related accruals	**1,450**	1,464
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**626**	454
	41,092	41,481

In accordance with the resolution No.3 of 2020 dated 29 April 2020, the Bank has transferred unclaimed dividends upto the year 2018 of BD 4,921 thousand along with the liability to settle the unclaimed dividends to the Amanat Fund (Unclaimed cash dividends Fund) with Bahrain Clear B.S.C. (c). Accordingly, the related dividend liabilities has been derecognised.

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

The Group utilizes the funds from EIAH to finance assets.
Asset in which EIAH funds are invested :

	30 September 2020 2020	31 December 2019
Asset	BD '000	BD '000
Mandatory reserve with Central Bank	**25,258**	34,026
Cash and other balances with Central Bank	**94,620**	83,803
Placements with financial institutions	**82,564**	76,660
Financing assets	**624,253**	615,015
Finance lease assets	**297,540**	183,269
	1,124,235	992,773

Equity of investment accountholders' fund is commingled with Group's and Wakala fund to form one general mudaraba pool. This pooled fund is used to fund and invest in assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and 85% is retained by the Group as Mudarib share or Wakala fee. The Group did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the period ended 30 September 2020 was 2.46% (2019: 1.55%).

12 OTHER INCOME

Other income primarily comprise net recoveries of BD 1,223 thousands offset by BD 1,630 thousands towards settlement of a legal case for the current period while BD 2,339 thousands for the comparative period represents recoveries of financing assets which were previously written off or fully provided. This also includes BD 3,529 thousands primarily on account of waiver of liability and reversal of impairment in subsidiary and BD 520 thousands gain on foreign exchange for the current period.

13 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 30 September 2020 and 31 December 2019 were as follows:

	30 September 2020				
	Associates and joint ventures	***Major shareholders***	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Assets:					
Cash and balances with banks and Central Bank	-	**209**	-	-	**209**
Financing assets	**13,650**	**5,087**	**6,476**	**1,052**	**26,265**
Non trading investments	**78,563**	-	**1,727**	-	**80,290**
Investment in associates	**12,132**	-	-	-	**12,132**
Other assets	**2,968**	-	-	-	**2,968**
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	**26,214**	-	-	**26,214**
Customers' current accounts	**1,457**	**3,907**	**2,721**	**183**	**8,268**
Equity of investment accountholders	**2,850**	**18,099**	**23,629**	**2,248**	**46,826**
Other liabilities	-	-	**21**	**9**	**30**
Contingent liabilities and commitments	**222**	**134**	**102**	-	**458**

	31 December 2019				
	Associates and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Assets:					
Corporate Sukuk	-	-	3,407	-	3,407
Financing assets	10,057	2	17,256	1,159	28,474
Non trading investments	88,814	-	2,187	-	91,001
Investment in associates	10,640	-	-	-	10,640
Other assets	2,938	-	-	-	2,938
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	92,368	5	-	92,373
Customers' current accounts	1,517	14,712	1,602	317	18,148
Equity of investment accountholders	943	12,921	14,688	2,279	30,831
Other liabilities	-	526	-	15	541
Contingent liabilities and commitments	-	553	101	-	654

13 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the condensed consolidated income statement are as follows:

	30 September 2020				
	Associates and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Income:					
Finance income	**660**	**43**	**199**	**6**	**908**
Fair value changes on investments	**(2,754)**	**-**	**-**	**-**	**(2,754)**
Dividend income	**101**	**-**	**-**	**-**	**101**
Share of profit from associates	**1,953**	**-**	**-**	**-**	**1,953**
Expenses:					
Finance expense on placements from financial institutions	**-**	**1,645**	**-**	**-**	**1,645**
Share of profits on equity of investment accountholders	**63**	**102**	**557**	**48**	**770**
Other operating expenses	**-**	**-**	**894**	**-**	**894**

	30 September 2019				
	Associates and joint ventures	*Major shareholders*	*Directors and related entities*	*Senior management*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Income:					
Finance income	500	33	802	14	1,349
Income from non-trading investments	1,956	-	(234)	-	1,722
Share of profit from associates	1,209	-	-	-	1,209
Expenses:					
Finance expense on placements from financial institutions	16	1,536	363	49	1,964
Share of profits on equity of investment accountholders	-	2	-	1	3
Other operating expenses	-	-	779	-	779

14 CONTINGENT LIABILITIES AND COMMITMENTS

	30 September 2020 2020 BD '000	31 December 2019 BD '000
Contingent liabilities on behalf of customers		
Guarantees	**18,651**	20,860
Letters of credit	**4,135**	9,223
Acceptances	**1,197**	808
	23,983	30,891
Irrevocable unutilised commitments		
Unutilised financing commitments	**75,315**	55,230
Unutilised non-funded commitments	**7,090**	9,396
	82,405	64,626

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	30 September 2020 2020 BD '000	31 December 2019 BD '000
Within 1 year	**1,311**	1,238
After one year but not more than five years	**1,861**	746
	3,172	1,984

15 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions for general management of its balance sheet to manage its exposures to foreign currency risk. The fair values of FX Wa'ad instruments is as follows;

	30 September 2020 BD '000		31 December 2019 BD '000	
FX Wa'ad instruments	**Notional Amount**	**Fair Value**	Notional Amount	Fair Value
USD long position	**2,255**	**2,288**	3,979	4,071
USD short position	**(6,002)**	**(5,987)**	(4,966)	(5,058)
EUR long position	**4,486**	**4,471**	-	-
EUR short position	**(2,255)**	**(2,288)**	-	-
BHD long position	**1,516**	**1,516**	987	987

16 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into three major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking, affluent banking and SMEs.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	30 September 2020				
	Banking	*Treasury*	*Investments*	*Unallocated*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Net income	**38,684**	**9,460**	**(3,257)**	**-**	**44,887**
Segment result	**4,663**	**7,377**	**(4,002)**	**-**	**8,038**
Segment assets	**1,209,864**	**736,463**	**273,101**	**2,256**	**2,221,684**
Segment liabilities, and equity	**1,249,643**	**672,436**	**6,792**	**292,813**	**2,221,684**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	30 September 2019				
	Banking	*Treasury*	*Investments*	*Unallocated*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Net income	26,035	10,538	3,323	-	39,896
Segment result	9,335	7,423	373	-	17,131

Segment information for the year ended 31 December 2019 was as follows:

Segment assets	1,111,107	718,295	201,962	11,439	2,042,803
Segment liabilities, and equity	1,098,663	612,899	1,256	329,985	2,042,803

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

17 FAIR VALUE HIERARCHY

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

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

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

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the condensed consolidated statement of financial position:

30 September 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Sovereign Sukuk	**384,284**	**-**	**-**	**384,284**
Corporate Sukuk	**5,683**	**-**	**6,872**	**12,555**
Financial assets at fair value through profit or loss	**3,076**	**3,149**	**89,466**	**95,691**
Financial assets at fair value through equity	**-**	**-**	**1,491**	**1,491**
	393,043	**3,149**	**97,829**	**494,021**

31 December 2019 (Restated)	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Sovereign Sukuk	345,305	-	-	345,305
Corporate Sukuk	14,254	-	7,908	22,162
Financial assets at fair value through profit or loss	3,578	6,480	97,380	107,438
Financial assets at fair value through equity	-	-	1,553	1,553
	363,137	6,480	106,841	476,458

1 January 2019 (Restated)	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Sovereign Sukuk	355,026	-	-	355,026
Corporate Sukuk	9,459	-	-	9,459
	364,485	-	-	364,485

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	30 September 2020	*31 December 2019*
	BD '000	*BD '000*
At 1 January	**98,933**	98,650
Fair value changes	**(7,745)**	(2,008)
Repayments during the year	**(231)**	(294)
Additions during the year	**-**	2,585
At end of the period	**90,957**	98,933

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	30 September 2020	*31 December 2019*
	BD '000	*BD '000*
At 1 January	**7,908**	-
Additions during the year	**9,560**	7,908
Fair value changes	**(3,255)**	-
Disposals during the year	**(7,341)**	-
	6,872	**7,908**

17 FAIR VALUE HIERARCHY (continued)

Financial instruments not measured at fair value

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 September 2020 and 31 December 2019 due to their short term nature.

18 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.

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease of other revenue.

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 SICR on a qualitative basis.

Expected credit Losses

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

The key updates to model parameters, excluding effect of management overlays, has been detailed below:

Key model inputs	Change in estimates
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation between Non-oil GDP and Oil price and NPLs at a country level.
Probability weighted outcomes	Probability weights updated to reflect a downturn - Base 60, Stressed 30, Improved 10 (31 December 2019: 60:20:20)
Unfunded exposure	Increment in CCFs by 25% as compared to December 2019
Loss Given Default	Unsecured LGD increased to 65% from 60% Collateral haircuts Increment 10%

The Group has also stressed financing exposures with regards to specific industries which are expected to be most impacted due to Covid-19 and considered for ECL. The classification of exposures for these specfic industries have not been stressed. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to Covid- 19.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

18 FINANCIAL RISK MANAGEMENT (continued)

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

Any changes made to ECL to estimate the overall impact of Covid-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are 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 sectors, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

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

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

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

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 provided for a period of six months with effect from March 2020 that has an impact on the liquidity risk of the Group:

- Payment holiday for principal and profit for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent, amount at the discretion of CBB;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%;

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

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

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 potential risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has also enhanced its monitoring processes to identify operational risks in the revised working pattern.

18 FINANCIAL RISK MANAGEMENT (continued)

The BCP was thoroughly tested during this period, as the Bank implemented measures like working from the BCP Site and from home. These measures were implemented in time and performed satisfactorily. The work from home set-up was thoroughly reviewed prior to its commissioning to ensure that the information security risks associated with it are thoroughly addressed and mitigated.

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

19 REGULATORY RATIOS

1) Liquidity Coverage Ratio (LCR)

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 30 September 2020 and 31 December 2019, is as follows:

	Total weighted value BD'000	
	30 September 2020	31 December 2019
Stock of HQLA	**158,653**	267,049
Net cashflows	**140,736**	122,135
LCR %	**114.67%**	230.14%
Minimum required by CBB	**80%**	100%

2) Capital Adequacy Ratio

	As at	
BD'000	**30 September 2020**	31 December 2019
CET 1 Capital before regulatory adjustments	**287,547**	291,230
Less: regulatory adjustments	**25,971**	25,971
CET 1 Capital after regulatory adjustments	**261,576**	265,259
AT 1 Capital	**28**	17
T 2 Capital adjustments	**36,554**	15,533
Regulatory Capital	**298,158**	304,421
Risk weighted exposure:		
Credit Risk Weighted Assets	**1,034,226**	1,329,714
Market Risk Weighted Assets	**325**	3,108
Operational Risk Weighted Assets	**97,265**	100,785
Total Regulatory Risk Weighted Assets	**1,131,816**	1,433,607
Total Adjusted Risk Weighted Exposures	**1,131,816**	1,433,607
Capital Adequacy Ratio	**26.34%**	21.23%
Tier 1 Capital Adequacy Ratio	**23.11%**	18.50%
Minimum required by CBB	**12.50%**	12.50%

As of 30 September 2020, aggregate of modification loss of BD 24,768 thousands and incremental ECL of BD 5,452 thousand has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for two years ending 31 December 2020 and 31 December 2021, thereafter this amount will be proportionately deducted from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

20 NET STABLE FUNDING RATIO

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon.The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

The Net Stable Ratio ("NSFR") is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020 and OG/296/2020 dated 26 August 2020, the limit has been reduced to 80% until December 2020, to contain the financial repercussions of COVID-19.

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

BD'000	**Unweighted Values (before applying relevant factors)**				
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	**264,950**	**-**	**-**	**36,553**	**301,503**
Other Capital Instruments	**-**	**-**	**-**	**-**	**-**
Retail deposits and deposits from small business customers:					
Stable deposits	**-**	**-**	**-**	**-**	**-**
Less stable deposits	**-**	**425,026**	**113,403**	**74,357**	**558,943**
Wholesale funding:					
Operational deposits	**-**	**-**	**-**	**-**	**-**
Other wholesale funding	**-**	**1,069,711**	**113,041**	**62,451**	**360,981**
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	**-**	**-**	**-**	**-**	**-**
All other liabilities not included in the above categories	**-**	**53,309**	**-**	**-**	**-**
Total ASF	**264,950**	**1,548,046**	**226,444**	**173,361**	**1,221,427**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	**-**	**-**	**-**	**-**	**15,901**
Deposits held at other financial institutions for operational purposes	**-**	**-**	**-**	**-**	**-**
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	**-**	**-**	**-**	**-**	**-**
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	**-**	**229,763**	**3,404**	**6,150**	**42,317**
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	**-**	**189,486**	**149,202**	**733,808**	**758,913**
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	**-**	**-**	**-**	**170,840**	**111,046**
Performing residential mortgages, of which:	**-**	**-**	**-**	**112,190**	**72,924**
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	**-**	**-**	**-**	**112,190**	**72,924**
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	**-**	**9,371**	**-**	**582**	**5,180**

20 NET STABLE FUNDING RATIO (continued)

BD '000	Unweighted Values (before applying relevant factors)				
Item	**No specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	305,593	-	-	43,031	334,131
OBS items	-	114,352	-	-	5,718
Total RSF	305,593	542,972	152,606	895,761	1,235,084
NSFR (%)	-	-	-	-	98.9%

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

BD'000	Unweighted Values (before applying relevant factors)				
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	291,239	-	-	38,995	330,234
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	-	-	-	-
Less stable deposits	-	383,983	107,506	59,104	501,444
Wholesale funding:					
Operational deposits	-	-	-	-	-
Other wholesale funding	-	872,778	138,161	96,385	405,825
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	44,451	-	-	-
Total ASF	291,239	1,301,212	245,667	194,484	1,237,503

20 NET STABLE FUNDING RATIO (continued)

BD'000	Unweighted Values (before applying relevant factors)				
Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	-
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	221,009	3,161	5,918	40,650
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	177,553	134,751	714,111	732,316
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	154,150	100,197
Performing residential mortgages, of which:	-	-	-	8,305	5,398
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	8,305	5,398
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	5,073	-	942	3,337
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	284,141	9,282	-	80,342	369,124
OBS items	-	100,483	-	-	5,024
Total RSF	284,141	513,400	383,579	249,657	1,169,401
NSFR (%)	-		-	-	105.8%

21 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation and restated on adoption of FAS 31 and FAS 33 (refer note 2.3 A). Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

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

In line with the Central Bank of Bahrain ("CBB") directions per circular OG/259/2020 of 14 July 2020 that aims to maintain transparency amidst the current financial implications of Coronavirus (COVID-19) outbreak, the Bank has provided additional supplementary information on the impact of COVID 19 on its financial statements and the results of its operations.

On 11 March 2020, the COVID-19 outbreak was declared as a pandemic by the World Health Organization ("WHO") and has rapidly evolved globally. This has resulted in an economic slowdown with uncertainties in the economic environment across the globe. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities all over the world have taken various steps to contain the spread of COVID-19 including implementation of travel restrictions as well as lockdown and quarantine measures. The pandemic as well as the resulting measures have had a significant knock-on impact on Al Salam Bank and its principal subsidiaries (collectively the "Group") and its associates. 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 CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements. These measures included the following:

· Payment holiday of 6 months to eligible and approved 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") from 100% to 80%.

· Capital relief by allowing the aggregate of modification loss and incremental expected credit losses ("ECL") from March to December 2020 to be added back to Tier 1 capital for the two financial years ending 31 December 2020 and 31 December 2021 and deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforesaid measures have resulted in the following effects on 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 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 the modification.

· The mandated 6 month payments holiday included the requirement to suspend minimum payments, service fees and outstanding credit card balances. In addition, COVID-19 also resulted in lower transaction volumes and related fees. This resulted in a significant decline in the Group's fee income.

· The Government of the Kingdom of Bahrain have announced various economic stimulus program ("packages") to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges as well as zero cost funding received from the Government and/or the regulators in response to its COVID-19 support measures. This has been recognized directly in the Group's equity as per the instructions of the CBB.

· The Group also maintained a lower cash reserve due to reduction in cash reserve ratio to 3%.

· Due to the stressed liquidity scenario in the market, the Bank also had to incur higher funding costs for sourcing new deposits and foreign exchange.

· The strain caused by COVID-19 on the local economy resulted in a slowdown in the growth rate of new financing assets. During the 9 months ended 30 September 2020, growth rate of financing assets booked were 28% lower than the same period of previous year. In addition, the stressed economic situation resulted in an incremental ECL provision on its exposures during the first half of 2020.

· Decreased consumer spending caused by the economic slowdown resulted in increase in balances on demand held by the Group.

· The Group continues to meet the regulatory requirement of capital adequacy ratio ("CAR"), LCR and NSFR. The consolidated CAR, LCR and NSFR as at 30 September 2020 stands at 26.34%, 88.85%, 98.9% respectively.

In addition to the above areas of impact, due to the overall economic situation certain strategic business and investment initiatives have been postponed until there is further clarity on the recovery indicators and its impact on the business environment. Overall, for the period, the Bank achieved a net profit of BD 8.03 million, which is lower than BD 17.1 million in the same period of the previous year, registering a drop of 53%.

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

	Net impact on the Group		
Amounts in BD '000	**Consolidated Income statement**	**Consolidated financial position**	**Consolidated Owners equity**
Modification loss	-	-	(24,768)
Modification loss amortization	24,768	24,768	-
Lower Credit card fee	(131)	-	-
Government grants	-	-	2,143
Concessionary repo @ 0%	-	121,613	-
Average reduction of cash reserve	-	123,153	-
Stressed liquidity	(337)	-	-
ECL attributable to COVID -19	(5,452)	(5,452)	-

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

The information provided in this supplementary disclosure should not be considered as an indication for 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 assessment is as at the date of preparation of this information and only considers significant areas of impact. Circumstances may change which will result in this information being 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.