BAHRAIN ISLAMIC BANK B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 JUNE 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the six months ended 30 June 2020

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
Bahrain Islamic Bank B.S.C.
Manama
Kingdom of Bahrain

20 July 2020

Introduction

We have reviewed the accompanying 30 June 2020 condensed consolidated interim financial information of Bahrain Islamic Bank B.S.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 cash flows for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in owners' equity for the six-month period ended 30 June 2020;
- the condensed consolidated statement of sources and uses of good faith qard fund 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 as 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 Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2020 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation as stated in note 2 of this condensed consolidated interim financial information.

KPMG

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	***30 June 2020 BD'000*** *(reviewed)*	*31 December 2019 BD'000 (audited)*
ASSETS			
Cash and balances with banks and Central Bank		**50,652**	61,629
Placements with financial institutions		**122,593**	76,068
Financing assets	9,17	**559,641**	574,851
Investment securities	10,17	**273,062**	246,213
Ijarah Muntahia Bittamleek		**193,789**	179,857
Ijarah rental receivables		**31,128**	24,546
Investment in associates	17	**15,812**	18,750
Investment in real estate	11	**18,179**	18,756
Property and equipment		**13,900**	13,591
Other assets	12	**8,693**	9,299
TOTAL ASSETS		**1,287,449**	1,223,560
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**146,277**	126,964
Placements from non-financial institutions and individuals		**269,989**	213,420
Borrowings from financial institutions		**-**	29,566
Customers' current accounts		**211,750**	181,692
Other liabilities	13	**20,735**	21,516
Total Liabilities		**648,751**	573,158
Equity of Investment Accountholders			
Financial institutions		**78,090**	61,587
Non-financial institutions and individuals		**452,023**	467,892
Total Equity of Investment Accountholders	14	**530,113**	529,479
Owners' Equity			
Share capital		**106,406**	106,406
Treasury shares		**(892)**	(892)
Shares under employee share incentive scheme		**(108)**	(281)
Share premium		**206**	180
Reserves (refer to page 5)		**2,973**	15,510
Total Owners' Equity		**108,585**	120,923
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,287,449**	1,223,560

The condensed consolidated interim financial information comprising of pages 2 to 21 was approved by the Board of Directors on 20 July 2020 and signed on its behalf by:

Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

The accompanying notes 1 to 20 form part of this condensed consolidated interim financial information.

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	Note	*Six months ended 30 June* 2020 BD'000 (reviewed)	*Six months ended 30 June* 2019 BD'000 (reviewed)
INCOME			
Income from financing		**20,385**	22,614
Income from investment in Sukuk		**6,004**	6,125
Total income from jointly financed assets		**26,389**	28,739
Return on equity of investment accountholders		**(10,168)**	(16,860)
Group's share as Mudarib		**8,016**	9,612
Net return on equity of investment accountholders		**(2,152)**	(7,248)
Group's share of income from jointly financed assets (both as mudarib and investor)		**24,237**	21,491
Expense on placements from financial institutions		**(2,762)**	(1,385)
Expense on placements from non-financial institutions and individuals		**(4,738)**	(1,393)
Expense on borrowings from financial institutions		**(178)**	(1,591)
Fee and commission income		**2,175**	2,955
Income from investment securities		**925**	642
Income from investment in real estate, net		**(453)**	212
Share of results of associates, net		**3**	(146)
Other income		**1,035**	801
Total income		**20,244**	21,586
EXPENSES			
Staff costs		**6,612**	7,316
Depreciation		**714**	682
Other expenses		**4,451**	4,363
Total expenses		**11,777**	12,361
Profit before impairment allowances		**8,467**	9,225
Impairment allowance, net	15	**(6,987)**	(5,913)
PROFIT FOR THE PERIOD		**1,480**	3,312
BASIC AND DILUTED EARNINGS PER SHARE (fils)		**1.41**	3.15

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

The accompanying notes 1 to 20 form part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	*2019*
	BD'000	*BD'000*
	(reviewed)	*(reviewed)*
OPERATING ACTIVITIES		
Profit for the period	**1,480**	3,312
Adjustments for non-cash items:		
Depreciation	**714**	682
Fair Value movement on investment in real estate	**395**	-
Impairment allowance, net	**6,987**	5,913
Amortization of gain on sale of investment in real estate	**(9)**	(9)
Gain on sale of investment securities	**(836)**	-
Loss / (Gain) on sale of investment in real estate	**52**	(117)
Loss / (Gain) on foreign exchange revaluation	**95**	(7)
Share of results of associates, net	**(3)**	146
Operating profit before changes in operating assets and liabilities	**8,875**	9,920
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	**13,306**	(1,020)
Financing assets	**(241)**	(1,787)
Ijarah Muntahia Bittamleek	**(25,987)**	(9,576)
Other assets	**606**	1,322
Customers' current accounts	**30,058**	26,696
Other liabilities	**384**	(10,488)
Placements from financial institutions	**19,313**	34,392
Placements from non-financial institutions and individuals	**56,569**	128,826
Equity of investment accountholders	**634**	(160,394)
Net cash from operating activities	**103,517**	17,891
INVESTING ACTIVITIES		
Disposal of investment in real estate	**130**	2,158
Purchase of property and equipment	**(1,023)**	(494)
Purchase of investment securities	**(42,601)**	(64,237)
Proceeds from disposal of investment securities	**15,088**	25,962
Redemption of investment in associates	**3,155**	-
Net cash used in investing activities	**(25,251)**	(36,611)
FINANCING ACTIVITIES		
Borrowings from financial institutions	**(29,412)**	(20,632)
Dividends paid	**(1)**	(3)
Net cash used in financing activities	**(29,413)**	(20,635)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**48,853**	(39,355)
Cash and cash equivalents at 1 January	**99,670**	163,116
CASH AND CASH EQUIVALENTS AT 30 June	**148,523**	123,761
Cash and cash equivalents comprise of:		
Cash on hand	**18,508**	10,727
Balances with CBB, excluding mandatory reserve deposits	**1,775**	223
Balances with banks and other financial institutions excluding restricted balances	**5,647**	8,279
Placements with financial institutions with original maturities less than 90 days	**122,593**	104,532
	148,523	123,761

The accompanying notes 1 to 20 form part of this condensed consolidated interim financial information.

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six months ended 30 June 2020

					Reserves					
2020 - reviewed	*Share capital BD'000*	*Treasury shares BD'000*	*Shares under employee share incentive scheme BD'000*	*Share premium BD'000*	*Statutory reserve BD'000*	*Real estate fair value reserve BD'000*	*Investment securities fair value reserve BD'000*	*Retained earnings / (Accumulated losses) BD'000*	*Total reserves BD'000*	*Total owners' equity BD'000*
Balance at 1 January 2020	**106,406**	**(892)**	**(281)**	**180**	**4,736**	**2,049**	**718**	**8,007**	**15,510**	**120,923**
Profit for the period	-	-	-	-	-	-	-	**1,480**	**1,480**	**1,480**
Zakah approved	-	-	-	-	-	-	-	**(328)**	**(328)**	**(328)**
Donations approved	-	-	-	-	-	-	-	**(250)**	**(250)**	**(250)**
Government Subsidy*	-	-	-	-	-	-	-	**1,689**	**1,689**	**1,689**
Modification loss*	-	-	-	-	-	-	-	**(14,615)**	**(14,615)**	**(14,615)**
Shares allocated to staff during the period	-	-	**173**	**26**	-	-	-	-	-	**199**
Net movement in investment securities fair value reserve	-	-	-	-	-	-	**(513)**	-	**(513)**	**(513)**
Balance at 30 June 2020	**106,406**	**(892)**	**(108)**	**206**	**4,736**	**2,049**	**205**	**(4,017)**	**2,973**	**108,585**
2019 - reviewed										
Balance at 1 January 2019	106,406	(892)	(391)	120	4,115	4,830	718	2,843	12,506	117,749
Profit for the period	-	-	-	-	-	-	-	3,312	3,312	3,312
Zakah approved	-	-	-	-	-	-	-	(179)	(179)	(179)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)
Shares allocated to staff during the period	-	-	231	60	-	-	-	-	-	291
Net movement in real estate fair value reserve	-	-	-	-	-	(915)	-	-	(915)	(915)
Balance at 30 June 2019	106,406	(892)	(160)	180	4,115	3,915	718	5,726	14,474	120,008

** Refer to note 3*

The accompanying notes 1 to 20 form part of this condensed consolidated interim financial information.

Bahrain Islamic Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the six months ended 30 June 2020

	Qard Hasan receivables BD'000 (reviewed)	*Funds available for Qard Hasan BD'000 (reviewed)*	*Total BD'000 (reviewed)*
Balance at 1 January 2020	**57**	**160**	**217**
Sources of Qard Fund			
Non-Islamic income	-	-	-
Repayments	**(6)**	**6**	-
Total sources during the period	**(6)**	**6**	-
Uses of Qard fund			
Marriage	**12**	**(12)**	-
Others (Waqf)	**28**	**(28)**	-
Total uses during the period	**40**	**(40)**	-
Balance at 30 June 2020	**91**	**126**	**217**
Balance at 1 January 2019	71	57	128
Sources of Qard Fund			
Non-Islamic income	-	87	87
Repayments	(21)	21	-
Total sources during the period	(21)	108	87
Uses of Qard fund			
Marriage	6	(6)	-
Others (Waqf)	6	(6)	-
Total uses during the period	12	(12)	-
Balance at 30 June 2019	62	153	215

	30 June 2020 BD'000 *(reviewed)*	*30 June 2019 BD'000 (reviewed)*
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Non-Islamic income	**89**	87
	217	215

The accompanying notes 1 to 20 form 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

	30 June 2020 BD'000 *(reviewed)*	*30 June 2019 BD'000 (reviewed)*
Sources of Zakah and charity funds		
Undistributed Zakah and charity funds at the beginning of the period	**401**	314
Non-Islamic income / late payment fee	**83**	378
Contributions by the Bank for zakah	**328**	179
Contributions by the Bank for donations	**250**	250
Others	**8**	-
Total sources of Zakah and charity funds during the period	**1,070**	1,121
Uses of Zakah and charity funds		
Philanthropic societies	**159**	**297**
Aid to needy families	**175**	**229**
Islamic events	**-**	**-**
Others	**171**	14
Total uses of funds during the period	**505**	540
Undistributed Zakah and charity funds at the end of the period	**565**	581

1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

During 2019, one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse. The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank, NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%. Hence NBB is considered as Parent of the Bank for financial reporting purposes.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2019: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c).

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.

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, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratios (LCR). As of 30 June 2020 the Group had NSFR ratio of 128%.

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 to note 2), the one-off modification losses amounting to BD 14,615 thousand arising due to the 6-month payment holidays 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 holidays on financing exposures amounting to BD 536,574 thousand as part of its support to impacted customers.

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 1,689 thousand (representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges) and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures, has been recognized directly in equity.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group audited consolidated financial statements as at and for the year ended 31 December 2019, except for 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

(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.

B. Adoption of new standards

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

The Group has adopted FAS 31 as issued by AAOIFI effective 1 January 2020. 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.

After adopting FAS 31, all new funds raised using wakala structure, together called "wakala pool" are comingled with the Bank's pool of 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. Wakala pool is reported in equity of investment account holders 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 2020 and have an original contractual maturity before 31 December 2020. However, the Bank has decided to apply the standard on all transactions outstanding as of the period end and the corresponding previous period end. The adoption of this standard has resulted in additional disclosures (refer to note 14).

FAS 33 Investment in Sukuks, shares and similar instruments

The Group has adopted FAS 33 as issued by AAOIFI effective 1 January 2020. 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 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuks, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the condensed consolidated interim financial information for the period ended 30 June 2019 and the consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the current period.

4 SIGNIFICANT ACCOUNTING 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 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.

2) Changes to the significant estimates and judgements

a) Investment classification
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.

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 recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

3) Classification and measurement of investment securities

The Bank has performed a detailed analysis of its business models for the investment securities as well performed an analysis of their cash flow characteristics. There is no change in the classification of investment securities.

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

FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of this standard.

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.

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 in 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 Significant Increase in Credit Risk (SICR) on a

The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL) (refer to note 6).

5 FINANCIAL RISK MANAGEMENT (Continued)

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 regulaory capital profile of the Group:
• 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 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 more frequently 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 finanical statements.

Operational risk management

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a 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 completed 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.

IBOR reform

Phase 2 of the IBOR project relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services remain a key area of focus. Management is in the process of planning for a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is expected to be significant in terms of scale and complexity and will impact products, internal systems and processes.

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. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly. Given the fact that the client base is primarily based in Bahrain, all Government relief efforts to mitigate the impact of COVID-19 will also have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts into its ongoing ECL assessment.

6 JUDGMENT AND ESTIMATES (Continued)

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

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

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

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

Reasonableness of Forward Looking Information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking "base case" economic scenario which reflects the Group's view of the most likely future macro-economic conditions.

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio, applying expert judgement in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis, unless there is significant change in credit risk.

Macro-economic variables are checked for correlation with the probability of default and only those variables for which the movement can be rationalised statistically are used. Stress has been applied on existing macro-economic variable in ECL review exercise. However, many of the macroeconoic variables which were used in the ECL model are still updated or published by external agencies or government agencies. Therefore, ECL models have not been fully updated to reflect all external forward looking variables and management judgement has been used.

The Group has compared the downside macroeconomic variables to indicative data received from an independent source and ECL for some portfolios or sectors have been further stressed. In addition, the Group has reviewed its portfolio of retail exposures with regards to specific industries whose employees are expected to be most impacted due to COVID-19 such as airlines, hospitality, retail and tourism to determine if any specific provisions are necessary. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to COVID-19.

6 JUDGMENT AND ESTIMATES (Continued)

Probability weights

Management judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 30 June 2020. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, base case and downside scenarios) and changed the downside weightings through to 100%.

The increase in the downturn weighting of the macro economic scenario and the management overlays has resulted in an additional ECL of BD 337 thousand for the Group. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

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.

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, sources and uses of Good Faith Qard Fund 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.

8 SEASONALITY

The Bank does not have significant income of seasonal nature. The Other income includes BD 89 thousand (2019: BD 642 thousand) of dividends received from Bank's investments.

9 FINANCING ASSETS

	30 June 2020 BD'000 (Reviewed)	*31 December 2019 BD'000 (Audited)*
Murabaha	**545,151**	576,295
Musharaka	**95,537**	96,314
Gross financing assets	**640,688**	**672,609**
Deferred profits	**(62,036)**	(68,288)
Modification loss	**(3,415)**	-
Impairment allowance	**(15,596)**	(29,470)
Net financing assets	**559,641**	574,851

9.1 The movement on impairment allowances is as follows:

2020	***Stage 1 BD'000***	***Stage 2 BD'000***	***Stage 3 BD'000***	***Total BD'000***
Gross financing assets	**558,220**	**23,102**	**59,366**	**640,688**
Less: Deferred profits	**52,471**	**1,822**	**7,743**	**62,036**
Less: Modification loss	**3,001**	**128**	**286**	**3,415**
Less: Impairment allowance				
At 1 January 2020	**1,615**	**1,557**	**26,298**	**29,470**
Net movement between stages	**309**	**(218)**	**(91)**	**-**
Net charge for the period	**423**	**(110)**	**4,401**	**4,714**
Write-off	**-**	**-**	**(18,588)**	**(18,588)**
Impairment allowance at 30 June 2020	**2,347**	**1,229**	**12,020**	**15,596**
Net financing assets	**500,401**	**19,923**	**39,317**	**559,641**

2019	*Stage 1 BD'000*	*Stage 2 BD'000*	*Stage 3 BD'000*	*Total BD'000*
Gross financing assets	524,423	37,422	110,764	672,609
Less: Deferred profits	50,830	4,404	13,054	68,288
Less: Impairment allowance				
At 1 January 2018	2,157	3,146	24,536	29,839
Net movement between stages	205	(286)	81	-
Net charge for the year	(747)	(1,303)	9,465	7,415
Write-off	-	-	(7,784)	(7,784)
Impairment allowance at 31 December 2019	1,615	1,557	26,298	29,470
Net financing assets	471,978	31,461	71,412	574,851

The total modification loss of BD 14,615 thousand comprises of BD 10,694 thousand relating to financing assets and BD 3,921 thousand relating to Ijarah Muntahia Bittamleek, of which BD 7,279 thousand relating to financing assets and BD 2,621 thousand relating to Ijarah Muntahia Bittamleek has been amortized until 30 June 2020.

10 INVESTMENT SECURITIES

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
i) Debt type instruments*		
Quoted Sukuk - carried at amortised cost		
Gross balance at the beginning of the period	190,473	160,727
Acquisitions	42,601	35,999
Disposals and redemptions	(7,918)	(6,253)
Gross balance at the end of the period	225,156	190,473
Impairment allowance	-	(7)
Net balance at the end of the period	225,156	190,466
Unquoted Sukuk - carried at amortised cost		
Gross balance at the beginning of the period	35,534	58,725
Acquisitions	-	60
Disposals and redemptions	(13)	(23,258)
Foreign currency translation changes	(54)	7
Gross balance at the end of the period	35,467	35,534
Impairment allowance	(12,545)	(12,187)
Net balance at the end of the period	22,922	23,347
ii) Equity type instruments		
Unquoted shares - at fair value through equity	14,661	18,232
Unquoted managed funds - at fair value through equity	10,323	14,168
Total net investment securities	273,062	246,213

** As of 30 June 2020, debt type instruments includes Sukuk of BD 41,660 thousand (31 December 2019: BD 38,800 thousand) pledged against borrowings from financial institutions of BD 40,741 thousand (31 December 2019: BD 29,566 thousand). As of 30 June 2020, the borrowing from financial institution of BD 40,741 thousand represents zero cost funding received from CBB through a wakala contract, included as part of equity of investment account holders.*

11 INVESTMENT IN REAL ESTATE

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
Lands	**18,179**	18,675
Buildings	**-**	81
	18,179	18,756

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
Movement in investment in real estate:		
Beginning of the period	**18,756**	24,284
Disposal	**(182)**	(2,263)
Fair value changes	**(395)**	(3,265)
End of the period	**18,179**	18,756

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

12 OTHER ASSETS

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
Repossessed assets	**5,048**	5,103
Receivables*	**142**	1,453
Staff advances	**1,762**	1,697
Prepaid expenses	**823**	486
Other	**918**	560
	8,693	9,299

** Receivables are net of ECL amounting to BD Nil thousand as of 30 June 2020 (31 December 2019: BD 333 thousand).*

13 OTHER LIABILITIES

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
Managers' cheques	**6,689**	4,382
Payable to vendors	**3,817**	6,846
Accrued expenses	**3,541**	3,792
Dividends payable	**298**	921
Zakah and charity fund	**565**	401
Other*	**5,825**	5,174
	20,735	21,516

** Other liabilities includes ECL of BD 99 thousand as of 30 June 2020 (31 December 2019: BD 57 thousand) on commitments.*

14 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	30 June 2020 BD'000 (Reviewed)	31 December 2019 BD'000 (Audited)
Placements and borrowings from financial institutions – Wakala	**78,090**	61,587
Placements from non-financial institutions and individuals – Wakala	**44,250**	40,190
Mudharaba	**407,773**	427,702
	530,113	529,479

14 EQUITY OF INVESTMENT ACCOUNT HOLDERS (Continued)

The funds received from Wakala pool and mudharba pool together "IAH" have been commingled and jointly invested with the Group in the following asset classes and reported under equity of investment account holders:

	30 June 2020 BD'000 (Reviewed)	*31 December 2019 BD'000 (Audited)*
Cash and balances with banks and Central Bank	**23,984**	28,922
Placements with financial institutions	**32,585**	-
Financing assets	**256,639**	289,755
Debt type instruments – Sukuk	**113,763**	107,773
Ijarah Muntahia Bittamleek and Ijarah rental receivables	**103,142**	103,029
	530,113	529,479

15 IMPAIRMENT ALLOWANCE, NET

	30 June 2020 BD'000 (Reviewed)	*30 June 2019 BD'000 (Reviewed)*
Financing assets (note 9.1)	**4,714**	4,931
Ijarah rental receivables	**1,553**	432
Investments in Sukuk	**405**	(14)
Investments at fair value through equity	**271**	419
Investment in associate	**-**	216
Placements with financial institutions	**2**	(3)
Other assets	**-**	35
Commitments	**42**	(103)
	6,987	5,913

16 COMMITMENTS AND CONTINGENT LIABILITIES

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	30 June 2020 BD'000 (Reviewed)	*31 December 2019 BD'000 (Audited)*
Letters of credit and acceptances	**3,553**	7,448
Guarantees	**57,072**	63,324
Credit Cards	**36,210**	34,638
Altamweel Almaren	**27,490**	23,113
Commitments to finance	**42,887**	39,202
Operating lease commitments*	**281**	268
	167,493	167,993

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

17 RELATED PARTY TRANSACTIONS

Related parties comprise of 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 made on commercial terms.

During the period, the Group sold certain assets with a carrying value of BD 43,871 thousand to Parent for a consideration of BD 43,871 thousand. The assets sold comprise, financing assets of BD 36,159 thousand, investment in equity and funds of BD 5,000 thousand and investment in associate of BD 2,712 thousand. This transaction was done at agreed commercial terms. The Bank will continue to service these assets on behalf of the Parent until these assets have been realized.

The significant balances and transactions with related parties at 30 June 2020 were as follows:

	30 June 2020 (Reviewed)				
	Shareholders BD'000	***Associates and joint ventures BD'000***	***Directors and related entities BD'000***	***Senior management BD'000***	***Total BD'000***
Assets					
Financing assets	-	-	**1,394**	-	**1,394**
Ijarah Muntahia Bittamleek and Ijarah rental receivables	-	-	**750**	-	**750**
Investment in associates	-	**15,812**	-	-	**15,812**
Other assets	-	-	-	**347**	**347**
Liabilities and Equity of investment accountholders					
Placements from non-financial institutions and individuals	-	-	**1,085**	-	**1,085**
Customers' current accounts	-	**352**	**817**	**130**	**1,299**
Other liabilities	-	-	**183**	-	**183**
Equity of investment accountholders	-	-	**890**	**1,636**	**2,526**

	30 June 2020 (Reviewed)				
	Shareholders BD'000	***Associates and joint ventures BD'000***	***Directors and related entities BD'000***	***Senior management BD'000***	***Total BD'000***
Income					
Income from financing	-	-	**61**	-	**61**
Share of results of associates, net	-	**3**	-	-	**3**
Return on equity of investment accountholders	-	-	**(1)**	**(37)**	**(38)**
Expense on placements from non-financial institutions and individuals	-	-	**(8)**	-	**(8)**
Expenses					
Staff costs	-	-	-	**(879)**	**(879)**
Other expenses	-	-	**(268)**	-	**(268)**

	31 December 2019 (Audited)				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	1,261	-	1,261
Investment in associates	-	18,750	-	-	18,750
Other assets	-	-	-	266	266
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,857	390	109	2,356
Other liabilities	-	-	297	-	297
Equity of investment accountholders	-	-	959	1,159	2,118
Placements from individuals and non-financial institutions	44,930	-	50	-	44,980

	30 June 2019 (Reviewed)				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	-	39	-	39
Share of results of associates, net	-	(146)	-	-	(146)
Return on equity of investment accountholders	(796)	-	(1)	(22)	(819)
Expense on placements from non-financial institutions and individuals	(50)	-	-	-	(50)
Expenses					
Staff costs	-	-	-	(789)	(789)
Other expenses	-	-	(30)	-	(30)

Compensation of the key management personnel is as follows:

	Six months ended 30 June	
	2020 BD'000	*2019 BD'000*
Short term employee benefits	**698**	633
Other long term benefits	**181**	156
	879	789

18 FINANCIAL INSTRUMENTS

Fair valuation

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.

As of 30 June 2020, the Bank did not have any financial instruments recorded at fair value.

Transfers between Level 1, Level 2 and Level 3

During the six-months period ended 30 June 2020 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

Fair values of quoted securities/sukuk are derived from quoted market prices in active markets, if available. In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different from fair value of these assets. Other than equity investments, and managed funds of BD 25,256 thousand (2019: BD 32,400 thousand) which are treated as Level 3 investments and the fair value movement during the period charged to income statement is BD 271 thousand and charged to the equity is BD Nil. The estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

19 SEGMENTAL INFORMATION

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

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

19 SEGMENTAL INFORMATION (continued)

Segment information is disclosed as follows:

	For the six months ended 30 June 2020 (Reviewed)			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total net income	**3,933**	**10,008**	**6,303**	**20,244**
Total expenses	**(2,728)**	**(8,118)**	**(931)**	**(11,777)**
Impairment allowance, net	**(5,820)**	**(489)**	**(678)**	**(6,987)**
Profit / (loss) for the period	**(4,615)**	**1,401**	**4,694**	**1,480**

Other information

	30 June 2020 (Reviewed)			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Segment assets	**302,179**	**538,422**	**446,848**	**1,287,449**
Segment liabilities, and equity	**464,889**	**613,921**	**208,639**	**1,287,449**

	For the six months ended 30 June 2019 (Reviewed)			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total net income	4,487	11,992	6,087	22,566
Total expenses	(2,898)	(9,430)	(1,013)	(13,341)
Impairment allowance, net	(4,411)	(849)	(653)	(5,913)
Profit / (loss) for the period	(2,822)	1,713	4,421	3,312

Other information

	31 December 2019 (Audited)			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Segment assets	334,932	510,689	377,939	1,223,560
Segment liabilities, and equity	417,266	564,368	241,926	1,223,560

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

20 COMPARATIVES

Certain prior period amounts have been regrouped to conform to current period's presentation. Such regrouping did not affect previously reported profit for the period or total equity.

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

• The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group's fees income.

• 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, financing assets bookings were 12% lower than the same period of the previous year.

• Decreased consumer spending caused by the economic slow-down resulted in an increase in balances on demand held by the Group, whereas, time deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payment holiday.

• The stressed economic situation resulted in the Group recognizing incremental ECL on its exposures.

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
	BD'000	*BD'000*	*BD'000*
Average reduction of cash reserve	-	14,798	-
Concessionary repo at 0%		40,741	-
Modification loss	-	-	(14,615)
Modification loss amortization	9,900	9,900	-
Government grants	-	-	1,689
Stressed liquidity	(389)	-	-
Credit card income	(493)	-	-
ECL attributable to COVID-19	(337)	(337)	-
	8,681	**65,102**	**(12,927)**

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.