

Bahrain Middle East Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2020 (Reviewed)



Ernst & Young – Middle East
P.O. Box 140
East Tower – 10th floor
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/mena
C.R. no. 29977-1

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK B.S.C.

Introduction

We were engaged to review the accompanying interim condensed consolidated financial statements of Bahrain Middle East Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2020, which comprise the interim condensed consolidated statement of financial position as at 30 September 2020, and the related interim condensed consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) as modified by the Central Bank of Bahrain (the "CBB"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

Our responsibility is to conduct a review of the Bank's interim condensed consolidated financial statements in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." However, because of the significance of the matters described in the Basis for Disclaimer of Conclusion section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion on these interim condensed consolidated financial statements.

Basis for Disclaimer of Conclusion

a) As disclosed in note 2 of the interim condensed consolidated financial statements, the interim condensed consolidated financial statements have been prepared on a basis other than going concern whereby, the assets are required to be stated at their net realisable values and liabilities at amounts at which they are expected to be settled. In preparing the interim condensed consolidated financial statements, the management and the Board of Directors have considered and adopted several assumptions and judgments that they believe best reflect the assets' net realisable values and the amounts at which the liabilities are expected to be settled. However, they have been unable to make a reliable estimate of the net realizable value of a substantial portion of the Bank's non-performing assets amounting to US\$ 195.4 million included in Exposures to related parties due to uncertainties relating to their recovery. These amounts have been fully provided for and the Bank has chosen to value these at US\$ nil. We have not been provided with and have not been able to assess the reasonableness of the fair value of these assets.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF
BAHRAIN MIDDLE EAST BANK B.S.C. (continued)**

Basis for Disclaimer of Conclusion (continued)

b) As disclosed in notes 3 and 14 to the interim condensed consolidated financial statements, the Bank had previously accounted for unclaimed dividends payable of US\$ 2,578 thousand which were reversed in 2011. The Bahrain Bourse has issued resolution No. 3 on 29 April 2020 ('the Resolution'), establishing an Investor's Protection Guarantee fund effective as of 30 September 2020. The Bank did not comply with the requirement and did not reflect the liability of US\$ 2,578 thousand towards its shareholders for these unclaimed dividends declared in prior years on the consolidated statement of financial position. The Bank has requested for an exemption from the requirements of this resolution and is awaiting the Bahrain Bourse's final decision on this matter. The Bank continues to disclose the same as a commitment in the notes to the interim condensed consolidated financial statements. Liabilities are accordingly understated and equity is overstated in the consolidated statement of financial position by US\$ 2,578 thousand.

c) As disclosed in note 14 to the interim condensed consolidated financial statements, the Bank's current Board and Management that took control of the Bank from 2019, had concerns on certain transactions that took place from 2012 to 2018 with a sanctioned foreign government entity, and have voluntarily appointed in 2019 a Law Firm to review the transactions entered by the Bank from 2012 with the sanctioned foreign government entity.

The appointed Law firm stated in its report issued in June 2020, that based on a preliminary high-level limited review, the Bank is at risk of being found to have breached sanctions due to an action of roll-over of such sanctioned funds in its books only and there is a likelihood of unasserted possible claim or assessment by the relevant enforcement agencies. The Law Firm has further reported that it does not independently analyze all relevant transactions—just a sample—nor does it detail the full scope of the Bank's potential activities related to sanctioned parties or countries, whereby instead, the appointed US law firm have analyzed those records and transaction documents that the Bank provided to them. The Law Firm has also stated that the preliminary assessment does not constitute—and should not be misconstrued as—an independent internal investigation report., The Bank is of the understanding that this assertion is subject to a more detailed review of the underlying facts and transactions, to establish whether an actual breach took place.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF
BAHRAIN MIDDLE EAST BANK B.S.C. (continued)**

Basis for Disclaimer of Conclusion (continued)

The Bank's current Management has disclosed the recent legal opinion to the Central Bank of Bahrain, and the Bank has also initiated corrective actions that were suggested by the Law Firm, where appropriate. The Bank has informed us that, with regard to the above mentioned legal opinion, they are unaware of any claims, proceedings or regulatory actions that has been filed against the Bank by any regulatory agency till the date of these interim condensed consolidated financial statements. It is the Bank's assessment that it is not possible to estimate an amount or range of potential loss in case any sanction breaches have been ascertained and therefore it is unable to reliably quantify an amount of potential claim or a range of potential claims. Consequently, due to this fact, no provision on possible obligations has been recognized by the Bank in these financial statements.

Further, back in 2013, the CBB had directed the Bank to take certain regulatory and legal actions in relation to these transactions, the Bank accordingly took the following actions:

- Ceased the authority of CEO at that time and filed a criminal and civil cases against him and the CFO which were awarded in favor of the bank;
- maintained the freeze on the sanctioned funds on balance sheet;
- Apply necessary changes to the financials of the Bank to reflect the impacts of the funds received.

Disclaimer of Conclusion

We do not express a conclusion on the accompanying interim condensed consolidated financial statements of the Bank. Because of the significance of the matters described in the "Basis for Disclaimer of Conclusion" section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for a review conclusion on these interim condensed consolidated financial statements.



27 June 2022
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2020 (Reviewed)

		<i>Reviewed</i> 30 September 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
	<i>Note</i>		
ASSETS			
Balances with banks and financial institutions	5	2,730	4,483
Placements with financial institutions	5	9,241	12,885
Investment securities	6	951	2,357
Loans and advances	7	-	-
Exposures to related parties	8	-	-
Other assets		323	889
TOTAL ASSETS		13,245	20,614
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions		129,009	131,471
Due to customers	5	3,057	3,196
Other liabilities		2,658	2,497
Total liabilities		134,724	137,164
EQUITY			
Share capital		100,000	100,000
Accumulated losses		(221,479)	(216,550)
Total equity		(121,479)	(116,550)
TOTAL LIABILITIES AND EQUITY		13,245	20,614


Khalifa Bin Duajj Bin Khalifa AlKhalifa
Chairman


Abdulrahman Abdulla Mohamed Husain
Vice Chairman


Abdulla Mohamed Dawood
Acting Chief Executive Officer

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2020 (Reviewed)

	Three-month period ended 30 September		Nine-month period ended 30 September		
	2020	2019	2020	2019	
	Note	US\$ '000	US\$ '000	US\$ '000	
OPERATING INCOME					
Interest income		14	70	55	350
Interest expense		(42)	(69)	(175)	(293)
Net interest (loss) income		(28)	1	(120)	57
Gain (loss) on investment securities		13	31	(1,324)	969
Fee and commission income		18	19	59	75
Other income		13	47	126	185
Foreign exchange loss		(238)	(144)	(251)	(81)
Total operating income (loss)		(222)	(46)	(1,510)	1,205
OPERATING EXPENSES					
Staff expenses		352	555	1,392	1,792
Travel and business development expenses		-	-	5	8
Legal and professional expenses		275	344	1,016	701
Premises and equipment expenses		27	29	114	94
Depreciation and amortisation expenses		6	99	451	313
Other operating expenses		111	134	447	438
Total operating expenses		771	1,161	3,425	3,346
NET LOSS FOR THE PERIOD					
BEFORE EXPECTED CREDIT LOSSES		(993)	(1,207)	(4,935)	(2,141)
Expected credit (losses) reversals	9	(13)	563	6	700
NET LOSS FOR THE PERIOD		(1,006)	(644)	(4,929)	(1,441)
Other comprehensive income for the period		-	-	-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(1,006)	(644)	(4,929)	(1,441)
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)					
		(0.25)	(0.16)	(1.23)	(0.36)


Khalifa Bin Duaij Bin Khalifa AlKhalifa
Chairman


Abdulrahman Abdulla Mohamed Husain
Vice Chairman


Abdulla Mohamed Dawood
Acting Chief Executive Officer

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2020 (Reviewed)

	Note	Nine-month period ended 30 September	
		2020 US\$ '000	2019 US\$ '000
OPERATING ACTIVITIES			
Net loss for the period		(4,929)	(1,441)
Adjustments for:			
Impairment allowance - net (excluding on cash and cash equivalents)	9	-	(677)
Depreciation and amortisation		451	313
Changes in operating assets and liabilities:			
Balances with banks and financial institutions (held on account of sub-participants in private equity funds)	5	(673)	-
Placements with financial institutions (held on account of sub-participants in private equity funds)	5	(2,334)	-
Investment securities		1,406	12,048
Exposures to related parties		-	677
Other assets		115	(333)
Due to financial institutions		(2,462)	(14,318)
Due to customers		(139)	(936)
Other liabilities		161	116
Net cash used in operating activities		(8,404)	(4,551)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(8,404)	(4,551)
Cash and cash equivalents at 1 January		10,805	20,984
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		2,401	16,433
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		2,730	6,114
Placements with financial institutions with original maturities of three months or less		2,678	10,319
TOTAL		5,408	16,433
Less: Cash and cash equivalents held on account of sub-participants in private equity funds	5	(3,007)	-
NET AVAILABLE CASH AND CASH EQUIVALENTS		2,401	16,433

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2020 (Reviewed)

	<i>Share capital</i> <i>US\$ '000</i>	<i>Accumulated losses</i> <i>US\$ '000</i>	<i>Total equity</i> <i>US\$ '000</i>
Balance at 1 January 2020	100,000	(216,550)	(116,550)
Total comprehensive loss for the period	-	(4,929)	(4,929)
Balance at 30 September 2020	100,000	(221,479)	(121,479)
Balance at 1 January 2019	100,000	(212,631)	(112,631)
Total comprehensive loss for the period	-	(1,441)	(1,441)
Balance at 30 September 2019	100,000	(214,072)	(114,072)

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

1 INCORPORATION AND ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank" or "BMB") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain on 5 July 1982 and was granted a license by the Central Bank of Bahrain ("CBB") to carry out banking services. On 9 April 2007, the CBB changed their licenses categories and have issued BMB a Conventional Wholesale Banking license. The commercial registration ("CR") number of the Bank is 12266 and its CBB license number is WBS/023. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. The principal activities of the Bank and its subsidiaries (together also referred to as "the Group") are trade finance, private & corporate banking, institutional banking and asset management services.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

AN Investment W.L.L., a limited liability company incorporated in the Kingdom of Bahrain, is the Parent company of the Bank.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 June 2022.

2 GOING CONCERN

As at 30 September 2020, the Group's accumulated losses amounted to US\$ 221.5 million (31 December 2019: US\$ 216.6 million) and its total liabilities significantly exceeded its total assets by US\$ 121.5 million (31 December 2019: US\$ 116.6 million). Furthermore, the current contractual liabilities of the Group also exceeded its liquid assets. Although, the current contractual liabilities of US\$ 127.9 million (31 December 2019: US\$ 127.6 million) is to a single counterparty and are expected to remain outstanding based on certain restrictions, the ability of the Bank to meet its obligations when due, depends on its ability to recover its fully provided non-performing assets that are due from a related party with an exposure of US\$ 195.4 million (31 December 2019: US\$ 194.8 million) and to recover its non-performing loans from a locally incorporated bank that has defaulted on its obligations with an exposures of US\$ 13.1 million (31 December 2019: US\$ 13.1 million).

To address these factors, the Board and management have taken a number of initiatives in past including severally negotiating with the related parties to restructure the exposures. Currently, the management is considering various legal options with the objective of achieving recovery from all the defaulting parties. In addition, the Board and management are continuing to work on different continuity options, which include the restructure of the Bank with the objective of prudently utilizing the available liquidity and other resources to continue the Bank's operations.

Despite the above steps being taken by the Board and the management, the Bank's liquidity position remains uncertain and based on the liquidity projections prepared by the management, the Bank will not be able to meet its obligations for the next twelve months from the date of approval of these consolidated financial statements, unless the Bank is able to recover its above mentioned non-performing exposures either fully or partially. Considering these facts, these interim condensed consolidated financial statements have been prepared on a basis other than going concern whereby, the assets are stated at their net realisable values and liabilities are stated at amounts at which they are expected to be settled.

On 30 June 2020, the Bank adopted a basis other than going concern for the preparation and measurement of assets and liabilities resulted in decrease in total assets by US\$ 1,736 thousand, net increase in total liabilities by US\$ 554 thousand and increase in net loss for the period of US\$ 2,290 thousand.

The consolidated financial statements of the Bank for the prior periods were prepared on a going concern basis and therefore, comparative amounts disclosed in these interim condensed consolidated financial statements for the year ended 31 December 2019 and for the nine-month period ended 30 September 2019 are based on going concern basis of preparation and measurement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

2 GOING CONCERN (continued)

The Board and management of the Bank will continue to work on the recovery of non-performing exposures while prudently utilizing the available liquidity of the Bank.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

a *Non-compliance with Central Bank Of Bahrain Rulebook relating to minimum capital requirement, capital adequacy, large exposures and public disclosure requirements*

1 As at 30 September 2020, the Bank's equity stood negative at US\$ 121.5 million (31 December 2019: US\$ 116.6 million) which is less than the minimum required by the CBB for wholesale bank licensees of USD 100 million. Furthermore, the capital adequacy ratio of the Bank stands negative compared to the minimum required total capital ratio of 12.5% by the CBB and accordingly, the Bank is not in compliance with the minimum capital adequacy requirements set out in the regulations issued by the CBB. In addition, the Bank is not in compliance with the liquidity coverage ratio ("LCR"), net stable funding ratio ("NSFR") and leverage ratio ("LR") requirements set out in these regulations.

2 The Bank has exposures to a major shareholder of US\$ 195.4 million as at 30 September 2020 which is in not in compliance with section CM-5.5.7A and CM-5.5.11 of CBB Rulebook. Further, due to the negative equity, the Bank is not in compliance with the large exposure limits as defined in CM-5 and elsewhere in the CBB Rulebook Volume 1.

b *Non-compliance with Bahrain Commercial Companies Law and the Bank's Articles of Association*

1 As of 30 September 2020, the Bank's accumulated losses are more than 50% of its paid-up capital. As required by the Bahrain Commercial Companies Law (BCCL), the Bank should convene a shareholder's meeting to decide whether or not to continue the operations of the Bank. The Bank has invited its shareholders to an extra-ordinary general meeting to discuss the capital position of the Bank in compliance with Article 58 of the Bank's Amended and Restated Articles of Association on 26 January 2020 and to two further adjournments on 2 April 2020 and on 9 April 2020, however the quorum required was not met.

c *Non-compliance with Bahrain Bourse Resolution No. 3 for the year 2020*

1 Bahrain Bourse has issued resolution No. 3 for the year 2020 on 29 April 2020 establishing an Investor's Protection Guarantee fund effective as of 30 June 2020. The Bank has formally requested for an exemption to the requirements of this resolution on 30 June 2020 and is awaiting the Bahrain Bourse's final decision on this matter.

4 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

4.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared on a basis other than going concern as mentioned in detail in note 2 above.

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of these interim condensed consolidated financial statements is hereafter referred to as 'IAS 34 as modified by CBB'.

The CBB has recently issued circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

4 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

4.1 Basis of preparation (continued)

- a. recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. This did not have any impact on the Group as the Group does not have financial assets subject to the above requirements.
- b. recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20. The Group received a government grant of US\$ 205 thousand which was fully recognized in the statement of profit or loss as a reduction from the related expenses as the Group did not have any modification loss recorded in equity.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019. In addition, results for the nine-month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

4.2 Significant accounting policies

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively, and except for applying a basis other than going concern for the preparation of these financial statements (refer details in notes 2 and 4.1) , all other accounting policies remain the same and have been consistently applied in these condensed consolidated interim financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period. There were no new standards or amendments issued which had an impact on the Group.

4.3 Use of estimates and judgements

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2019 except as disclosed in note 2 and except the following estimates and judgements which are applicable from 1 January 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

4 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)**4.3 Use of estimates and judgements (continued)****Impact of COVID-19**

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. On 27 March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk ("SICR") and the measurement of ECLs are required to be based on reasonable and supportable information considering both to effects of COVID-19 and the significant government support measures being undertaken.

Whilst it is challenging now to predict the full extent and duration of its business and economic impact, the Bank carried out an impact assessment on the overall operations and business aspects, etc. and concluded that it did not have any material impact on the business, financial position or performance of the Bank. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The Bank's impact assessment resulted in the following changes to the expected credit loss methodology and valuation estimates and judgements as at and for the period ended 30 September 2020:

Expected credit losses

The bank uses a range of macro-economic factors in ECL assessment which are periodically reviewed and updated and the Bank applies judgment in determining what constitutes reasonable and forward-looking estimates.

For the period ended 30 September 2020, the Bank has reviewed these macro-economic factors based on the macro-economic forecast by the International Monetary Fund ("IMF"). The Bank has used the mechanism to stress the probability scenario weightages (negative case scenario increased from 20% to 40% and positive case scenario decreased from 20% to 0%) to estimate additional ECL requirements due to COVID-19. As a result of these measures, there was no material increase in the ECL for the period ended 30 September 2020 as most of the assets of the Bank subject to ECL are nostro balances and interbank placements which are short term in nature.

5 AMOUNTS HELD ON ACCOUNT OF SUB-PARTICIPANTS IN PRIVATE EQUITY FUNDS

Balances with banks and financial institutions and placements with financial institutions include amounts of US\$ 673 thousand (31 December 2019: Nil) and US\$ 2,334 thousand (31 December 2019: US\$ 3,196 thousand) respectively, which are held with third party retail banks in the Kingdom of Bahrain representing amounts held on account of sub-participants in private equity funds representing their current accounts balances held with the Bank and for the purposes of honoring their capital calls to fund managers.

6 INVESTMENT SECURITIES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Fair value through profit or loss		
Quoted investments		
Equities	451	460
Unquoted investments		
Managed funds	500	1,897
Total	951	2,357

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

6 INVESTMENT SECURITIES (continued)

The Bank has considered the forced-sale value of its unquoted managed fund investments based on the indicative pricing received from the secondary market. This has resulted in unrealized loss of US\$ 1,397 thousand which has been recognized in the interim condensed consolidated statement of profit or loss. Those investment securities have been sold subsequent to the balance sheet date.

7 LOANS AND ADVANCES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Installment sale receivable	3,533	3,533
Corporate loan	705	705
	4,238	4,238
Less: Expected credit losses	(4,238)	(4,238)
Net loans and advances	-	-

The Installment sale receivable referred to above relates to a sale agreement entered by the Bank to sell its investment in a plot of land in the State of Kuwait on an installment sale basis to a Kuwaiti entity. The loan is secured by corporate guarantees from a shareholder and additional guarantee from two entities associated to the shareholder. This loan is categorized as a non-performing loan (Stage 3) and has been fully provided for.

The Bank had filed a legal case against this counterparty and its guarantors in 2020 at Bahrain Chamber of Dispute Resolution (BCDR), whereby in 2021, the judgment was issued in favor of the Bank for an amount of USD 4,121 thousand including accrued interest and the case related costs. During 2022, the Bank has agreed on the settlement terms in relation to the BCDR judgement against the above mentioned guarantors and recovered total of USD 2,600 thousand (refer note 15).

Corporate loan of US\$ 705 thousand is also non-performing and has been fully provided for.

8 EXPOSURES TO RELATED PARTIES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Exposures to related parties	195,356	194,757
Less: Expected credit losses	(195,356)	(194,757)
Net exposures to related parties	-	-

Further to the discovery of certain facts in 2018, the Bank reclassified its trade finance exposures as exposures to related parties. In addition, the Bank also reclassified certain amounts from placements with financial institutions and investment securities after the discovery of certain agreements which were executed for the benefit of the related parties. These related parties exposures are non-performing since September 2018 and have been classified under Stage 3.

The following table sets out the information about the credit quality of exposures to related parties and movement in related expected credit losses:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

8 EXPOSURES TO RELATED PARTIES (continued)

	30 September 2020 (Reviewed)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2020	-	-	194,757	194,757
Foreign exchange movements	-	-	599	599
Balance at 30 September 2020	-	-	195,356	195,356
Gross exposure	-	-	195,356	195,356
	31 December 2019 (Audited)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2019	-	-	195,031	195,031
Foreign exchange movements	-	-	(274)	(274)
Balance at 31 December 2019	-	-	194,757	194,757
Gross exposure	-	-	194,757	194,757

9 EXPECTED CREDIT LOSSES (REVERSALS)

The expected credit losses (reversals) recorded in the statement of profit or loss is as follows:

	30 September 2020 (Reviewed)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total ECL
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balances with banks and financial institutions	(1)	-	5	4
Placements with financial institutions	(10)	-	-	(10)
Exposures to related parties	-	-	-	-
Total	(11)	-	5	(6)
	30 September 2019 (Reviewed)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total ECL
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balances with banks and financial institutions	(18)	(1)	-	(19)
Placements with financial institutions	(4)	-	-	(4)
Exposures to related parties	-	-	(677)	(677)
Total	(22)	(1)	(677)	(700)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

10 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Bank are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the period are set out below:

	<i>Key management personnel</i>		<i>Shareholders and other related parties</i>	
	<i>Reviewed</i>	<i>Audited</i>	<i>Reviewed</i>	<i>Audited</i>
	<i>30 September</i>	<i>31 December</i>	<i>30 September</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Statement of financial position				
Assets				
Exposures to related parties (refer note 8)	-	-	195,356	194,757
Expected credit losses (refer note 8)	-	-	(195,356)	(194,757)
Liabilities				
Deposits	-	-	50	50
Other liabilities - employees leaving indemnity	32	283	-	-
Assets under management				
Clients' assets under management placed with related parties (refer note 13)	-	-	32,949	32,897
	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>Reviewed</i>	<i>Reviewed</i>	<i>Reviewed</i>	<i>Reviewed</i>
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>

Statement of profit or loss

Fee and commission income	13	-	39	-
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Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of profit or loss is as follows:

	<i>Nine month period ended 30 September</i>	
	<i>Reviewed</i>	<i>Reviewed</i>
	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Salaries and other short-term employee benefits (including termination benefits paid)	584	761
Employee leaving indemnity	5	18
	589	779
Directors' fees	84	75

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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10 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**Guarantee**

The Bank has received a corporate guarantee from its shareholder that is connected to installment sale receivable (refer note 7 and 15), and an additional guarantee was obtained from two associates of that shareholder.

11 SEGMENT RESULTS**Segment information**

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

Financing	- Financing and trade finance
Investing	- Investments in debt securities, equities and private equity funds
Other operating segments	- Corporate advisory and building management etc.

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

Segment information for the period ended 30 September 2020 is as follows:

	<i>Nine-month period ended 30 September 2020 (Reviewed)</i>			
	<i>Financing</i>	<i>Investing</i>	<i>Others</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest income	55	-	-	55
Interest expense	(175)	-	-	(175)
Loss on investment securities	-	(1,324)	-	(1,324)
Fee and commission income	-	-	59	59
Other income	-	-	126	126
Foreign exchange loss	-	-	(251)	(251)
Results from operations	(120)	(1,324)	(66)	(1,510)
Expected credit (losses) reversals	6	-	-	6
Segment (loss) profit	(114)	(1,324)	(66)	(1,504)
Unallocated corporate expenses	-	-	-	(3,425)
Net loss for the period				(4,929)
Segment assets at 30 September 2020	11,975	951	319	13,245
Segment liabilities at 30 September 2020	132,066	-	2,658	134,724

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30 September 2020 (Reviewed)

11 SEGMENT RESULTS (continued)

Segment information for the period ended 30 September 2019 is as follows:

	<i>Nine-month period ended 30 September 2019 (Reviewed)</i>			
	<i>Financing</i> <i>US\$ '000</i>	<i>Investing</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Interest income	197	153	-	350
Interest expense	(293)	-	-	(293)
Gain on investment securities	-	969	-	969
Fee and commission income	-	-	75	75
Other income	-	-	185	185
Foreign exchange loss	-	-	(81)	(81)
Results from operations	(96)	1,122	179	1,205
Expected credit (losses) reversals	700	-	-	700
Segment profit	604	1,122	179	1,905
Unallocated corporate expenses				(3,346)
Net loss for the period				(1,441)
Segment assets as at 31 December 2019	17,372	2,357	885	20,614
Segment liabilities as at 31 December 2019	134,686	-	2,478	137,164

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy (continued)**

The following table shows the fair values of financial assets measured at fair value including their levels in the fair value hierarchy:

<i>Nine-month period ended 30 September 2020 (Reviewed)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investment securities	451	-	500	951	951
<i>31 December 2019 (Audited)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investment securities	460	-	1,897	2,357	2,357

The Group's financial assets and liabilities are stated at their realisable values and at expected settlement amounts. The estimated fair value of the Group's financial assets and liabilities were not significantly different from their respective carrying values.

Movements in level 3 fair value hierarchy of investments:

	<i>Reviewed</i>	<i>Audited</i>
	<i>30 September</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	1,897	2,280
Exits (at cost)	-	(401)
Net fair value movement (refer note 6)	(1,397)	18
	500	1,897

Level 3 investments represent fund investments where the underlying fund managers exercise judgements in valuation of investments.

During the period, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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13 ASSETS UNDER MANAGEMENT

The Bank's clients participated in products offered under its two alternative investment asset classes. Total assets under management ("AUM") in each product category at the consolidated statement of financial position date are as follows:

	Reviewed 30 September 2020 US\$ '000	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>US\$ '000</i>
Other receivables	33,050	32,998
Private equity	2,912	2,950
	35,962	35,948

As of 30 September 2020, assets under management included in other receivables of USD 32,949 thousand (31 December 2019: USD 32,897 thousand) are invested with related counterparties. The investments in the products which are related to the related parties are non-performing at the reporting date. The Bank also holds cash balances of US\$ 101 thousand (31 December 2019: US\$ 101 thousand) relating to these customers which are held in fiduciary capacity in segregated bank account.

Assets under management, relating to private equity, include BMB Technology and Telecommunications Investment Company (under liquidation), a US focused venture capital fund of funds, customer sub-participations in private equity funds managed by the Bank and other client funds managed on a discretionary basis.

14 COMMITMENTS AND CONTINGENT LIABILITIES

The outstanding commitments and contingent liabilities of the Bank are as follows:

	Reviewed 30 September 2020 US\$ '000	<i>Audited</i> <i>31 December</i> <i>2019</i> <i>US\$ '000</i>
Undrawn investment commitments in equity funds	3,588	3,568
Other commitments	2,578	2,578

The commitments mainly include commitments to participate in investments. Undrawn investment commitments comprise contractual commitments to invest in managed equity funds. These amounts are called by fund managers, generally for a period between four and seven years which may be extended at the sole discretion of the funds manager by a further period.

At 30 September 2020, the Bank had undrawn investment commitments to private equity funds of USD 3,588 thousand (31 December 2019: USD 3,568 thousand). Of these, the Bank's proprietary commitments amounted to USD 2,195 thousand (31 December 2019: USD 2,190 thousand) and the balance relates to co-investors of the Bank who have committed to sub-participate along with the Bank. These co-investors have deposited their undrawn commitment balances with the Bank to fund their undrawn investment commitments to the private equity funds. These balances along with other current account balances of these co-investors are held with locally incorporated banks in the Kingdom of Bahrain on account of these co-investors as disclosed in note 5.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

14 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Other commitments represent unclaimed dividend amounts written back by the Bank in 2011. However, as per regulatory requirements, these amounts have been disclosed as a contingent liability. Bahrain Bourse has issued resolution No. 3 for the year 2020 on 29 April 2020 establishing an Investor's Protection Guarantee fund effective as of 30 June 2020. The Bank has formally requested for an exemption to the requirements of this resolution on 30 June 2020 and is awaiting the Bahrain Bourse's final decision on this matter.

The Bank is engaged in litigation cases involving claims made against the Bank by its ex-employees. The Bank, based on the advice of relevant professional advisors, believes that these are adequately provided for and the outcome of these claims will not have a material adverse effect on the consolidated financial position of the Bank. The Bank had filed multiple cases against its executive management members in 2013. Subsequent to the balance sheet date, the court obliged the defendants to pay an amount of US\$ 13,014 thousand to the Bank. The Bank is in the process of initiating the enforcement for this award. No asset or receivable has been recognized by the Bank due to this award.

Further, during 2019, the Bank had recognised a provision of US\$ 1,230 thousand in relation to potential legal claims by such parties that may arise against the Bank. Subsequent to the balance sheet date, the Bank received a foreign court judgement on a civil case relating to a claim involving a foreign party, for which the Bank was not given enough time to engage in.

Moreover, the Bank's current Board and Management that took control of the Bank from 2019, had concerns on certain transactions that took place from 2012 to 2018 with a sanctioned foreign government entity, and the current Board and Management appointed in 2019 a US based Law firm (the "Law Firm") to review certain transactions entered by the Bank from 2012 to 2018 with the sanctioned foreign government entity.

The appointed Law firm stated in its report issued in June 2020, that based on a preliminary high level limited review, the Bank is at risk of being found to have breached sanctions and there is a likelihood of unasserted possible claim or assessment by the relevant enforcement agencies. The Law Firm has further reported that it does not independently analyze all relevant transactions—just a sample—nor does it detail the full scope of the Bank's potential activities related to sanctioned parties or countries, whereby instead, the appointed US law firm have analyzed those records and transaction documents that the Bank provided to them. The Law Firm has also stated that the preliminary assessment does not constitute—and should not be misconstrued as—an independent internal investigation report. The Bank is of the view that the findings are subjective and can be interpreted differently by different law firms. Accordingly, a more detailed review of the underlying facts and transactions, to establish whether an actual breach took place would be required.

The Bank's current Management has disclosed the findings to its regulator, has also initiated the corrective actions that were suggested by the appointed Law Firm, where appropriate. The Bank is not aware of any claims, proceedings or regulatory actions that has been filed against the Bank by any regulatory agency relating to these transactions till the date of approval of these interim condensed consolidated financial statements. The probability of inaccuracy in any estimate of the amount or range of potential loss by the Bank is not slight, and therefore the Bank is unable to reliably quantify an amount of potential claim or a range of potential claims. Consequently, due to this fact, no provision on possible obligations has been recognized in these interim condensed consolidated financial statements.

Further, back in 2013, the CBB had directed the Bank to take actions on funds that were received from the sanctioned financial institution, which included:

- Ceasing the authority of CEO at that time and having him to step down from his position.
- File criminal and civil proceedings against the potentially involved individuals.
- Apply necessary changes to the financials of the Bank to reflect the impacts of the funds received.
- To further investigate and take necessary corrective actions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2020 (Reviewed)

15 SUBSEQUENT EVENTS

Placements with financial institutions include gross principal amounts of USD 13.1 million receivable from a locally incorporated wholesale Islamic bank that has defaulted on its obligations under an Unrestricted Wakala Agreement (first defaulted transaction was on 28 January 2019). The Bank filed a case against the defaulting locally incorporated wholesale Islamic bank at the Bahrain Chamber of Dispute Resolution (“BCDR”) at the Kingdom of Bahrain, to recover these amounts. Subsequent to the balance sheet date, the BCDR issued an award in favor of the Bank thereby ordering the defaulting locally incorporated wholesale Islamic bank to repay an amount of USD 15.1 million, representing the principal amount of USD 13.1 million including accrued profits and the related case costs. Currently, the recovery of the amounts in default is in the enforcement stage, wherein the Bank aims to recover the amount through the enforcement of the BCDR award at the Court of Execution at the Kingdom of Bahrain.

Further, as mentioned in note 7, the Bank had filed a legal case against this counterparty and its guarantors in 2020 at Bahrain Chamber of Dispute Resolution (BCDR), whereby subsequent to the balance sheet date, the judgment was issued in favor of the Bank for an amount of USD 4,121 thousand including accrued interest and the case related costs in 2021. During 2022, the Bank has agreed on the settlement terms in relation to the BCDR judgement against the above mentioned guarantors and recovered total of USD 2,600 thousand.

In addition to the above, there were updates in cases filed by or against the Bank which have been disclosed in note 14.

**(The attached supplementary Public Disclosure does not form part of
the interim condensed consolidated financial statements)**

30 September 2020 (Unreviewed)

Supplementary Public Disclosure on Financial Impact of COVID-19

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

Impact on profit or loss

Due to the stressed liquidity position of the Bank, the Bank's income generation is very limited and mainly consists of interest earned from interbank placements and fee and commission income earned by providing banking services to its customers. This limited income generation of the Bank was not materially impacted by COVID-19.

The Bank received a government grant/support of US\$ 205 thousand on stand-alone basis (US\$ 200 thousand on consolidated basis) relating to reimbursement of Bahraini staff salaries. This government grant/support was netted off against the related expenses.

Impact on the financial position

As of the date of this public disclosure, we are not aware of any material impact on the Bank's assets or liabilities due to COVID-19. The Bank has certain illiquid investments in managed private equity funds. The net assets values of these funds might get impacted in future due to the impact of COVID-19 on the performance of underlying investee companies. However, it is not possible to quantify the impact of this, if any, at this stage.

The Bank has applied stressing to some of the inputs to its Expected Credit Loss Model (ECL Model) to consider impact of COVID 19. As a result of this, there was no material increase in the ECL for the period ended 30 September 2020 as most of the assets of the Bank subject to ECL are nostro balances and interbank placements which are short term in nature. As of the date of this public disclosure, we are not aware of any material impact from COVID-19 on the defaulting parties which the Bank is trying to recover its overdue assets from. However, such defaulting parties might be impacted which can impact the recovery. However, the provisioning level is assessed to be adequate at this time.

Impact on Going concern and liquidity position

COVID-19 did not have any impact on the going concern and liquidity position of the Bank. The Bank's interim financial statements for the nine-month period ended 30 September 2020 have not been prepared on going concern basis due to the reasons stated in note 2 to these financial statements.