CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

GiB

CONTENTS OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Building a better working world

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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Gulf International Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2020, comprising the interim consolidated statement of financial position as at 30 September 2020, the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, the interim consolidated statements of changes in equity and cash flows for the nine-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these condensed interim 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 condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by the CBB.

Ernst + Young

28 October 2020
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

	Note	30.9.20 US$ millions	31.12.19 US$ millions
ASSETS			
Cash and other liquid assets		**7,114.8**	8,085.1
Securities purchased under agreements to resell		**1,070.0**	1,410.0
Placements		**6,207.2**	6,171.4
Trading securities		**116.6**	142.2
Investment securities	7	**4,158.5**	3,828.4
Loans and advances	8	**10,104.4**	9,876.1
Other assets		**876.6**	728.5
Total assets		**29,648.1**	30,241.7
LIABILITIES			
Deposits from banks		**749.6**	929.3
Deposits from customers		**19,483.8**	21,223.3
Securities sold under agreements to repurchase		**175.2**	523.1
Other liabilities		**1,173.8**	767.3
Senior term financing		**4,964.4**	3,502.4
Total liabilities		**26,546.8**	26,945.4
EQUITY			
Share capital		**2,500.0**	2,500.0
Reserves	9	**342.0**	343.5
Retained earnings		**(710.1)**	(547.6)
Equity attributable to the shareholders of the Bank		**2,131.9**	2,295.9
Non-controlling interest		**969.4**	1,000.4
Total equity		**3,101.3**	3,296.3
Total liabilities & equity		**29,648.1**	30,241.7

The consolidated financial statements were approved by the Board of Directors on 28th October 2020 and signed on its behalf by:-

Abdullah bin Hassan Alabdulgader	**Sultan bin Abdul Malek Al-Sheikh**	**Abdulaziz A. Al-Helaissi**
Chairman of the Board	Chairman of the Board Audit Committee	Group Chief Executive Officer

The notes on pages 6 to 17 form part of these condensed interim consolidated financial statements.

Consolidated Statement of Income

	Note	Three months ended 30.9.20 US$ millions	Three months ended 30.9.19 US$ millions	Nine months ended 30.9.20 US$ millions	Nine months ended 30.9.19 US$ millions
Interest income		106.1	212.7	403.4	640.6
Interest expense		48.4	142.5	228.7	430.7
Net interest income		57.7	70.2	174.7	209.9
Fee and commission income	3	14.3	13.8	41.0	46.1
Trading income / (loss)	5	7.4	0.3	(9.1)	15.1
Foreign exchange income	4	3.6	3.7	15.1	9.4
Other income	6	6.0	0.5	12.1	4.2
Total income		89.0	88.5	233.8	284.7
Staff expenses		37.9	38.8	117.5	114.1
Premises expenses		5.8	6.0	16.8	16.5
Other operating expenses		22.8	27.4	65.7	72.4
Total operating expenses		66.5	72.2	200.0	203.0
Net income before provisions and tax		22.5	16.3	33.8	81.7
Provision charge for loans and advances	8	(97.2)	(3.6)	(212.6)	(8.0)
Provision charge for contingent liabilities		-	(2.4)	-	(2.4)
Provision release for investment securities	7	2.5	-	2.6	-
Net (loss) / income before tax		(72.2)	10.3	(176.2)	71.3
Taxation (charge) / release		(0.3)	(1.5)	1.6	(5.2)
Net (loss) / income		(72.5)	8.8	(174.6)	66.1
Attributable to:					
Shareholders of the Bank		(59.9)	6.1	(145.3)	60.5
Non-controlling interest		(12.6)	2.7	(29.3)	5.6
		(72.5)	8.8	(174.6)	66.1

Abdullah bin Hassan Alabdulgader
Chairman of the Board

Sultan bin Abdul Malek Al-Sheikh
Chairman of the Board Audit Committee

Abdulaziz A. Al-Helaissi
Group Chief Executive Officer

The notes on pages 6 to 17 form part of these condensed interim consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Three months ended		Nine months ended	
	30.9.20	30.9.19	30.9.20	30.9.19
	US$ millions	US$ millions	US$ millions	US$ millions
Net (loss) / income	(72.5)	8.8	(174.6)	66.1
Other comprehensive (loss) / income:-				
Items that may subsequently be reclassified to consolidated statement of income:-				
Cash flow hedges:-				
- net changes in fair value	-	0.3	(0.1)	2.1
Deferred tax :-				
- net changes in defered tax	-	-	0.4	-
	-	0.3	0.3	2.1
Items that will not be reclassified to consolidated statement of income:-				
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	7.6	(6.7)	(3.5)	17.2
Remeasurement of defined benefit pension fund	(2.4)	(4.2)	(17.2)	(7.2)
	5.2	(10.9)	(20.7)	10.0
Total other comprehensive income / (loss)	5.2	(10.6)	(20.4)	12.1
Total comprehensive (loss) / income	(67.3)	(1.8)	(195.0)	78.2
Attributable to:				
Shareholders of the Bank	(70.8)	(2.6)	(164.0)	77.6
Non-controlling interest	3.5	0.8	(31.0)	0.6
	(67.3)	(1.8)	(195.0)	78.2

The notes on pages 6 to 17 form part of these condensed interim consolidated financial statements.

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the Bank					
	Share capital US$ millions	Reserves US$ millions	Retained earnings US$ millions	Total US$ millions	Non-controlling interest US$ millions	Total US$ millions
At 1st January 2020	**2,500.0**	**343.5**	**(547.6)**	**2,295.9**	**1,000.4**	**3,296.3**
Net loss for the period	-	-	(145.3)	(145.3)	(29.3)	(174.6)
Other comprehensive loss for the period	-	(1.5)	(17.2)	(18.7)	(1.7)	(20.4)
Total comprehensive loss for the period	-	(1.5)	(162.5)	(164.0)	(31.0)	(195.0)
At 30th September 2020	**2,500.0**	**342.0**	**(710.1)**	**2,131.9**	**969.4**	**3,101.3**
At 1st January 2019	2,500.0	361.4	(665.2)	2,196.2	-	2,196.2
Purchase of shares in subsidiary entity by non-controlling interest	-	-	-	-	999.8	999.8
Net income for the period	-	-	60.5	60.5	5.6	66.1
Other comprehensive income / (loss) for the period	-	24.3	(7.2)	17.1	(5.0)	12.1
Total comprehensive income for the period	-	24.3	53.3	77.6	0.6	78.2
Transfer to retained earnings	-	(56.1)	56.1	-	-	-
At 30th September 2019	2,500.0	329.6	(555.8)	2,273.8	1,000.4	3,274.2

The notes on pages 6 to 17 form part of these condensed interim consolidated financial statements.

Consolidated Statement of Cash Flows

	Nine months ended 30.9.20 US$ millions	Nine months ended 30.9.19 US$ millions
OPERATING ACTIVITIES		
Net (loss) / income before tax	(176.2)	71.3
Adjustments to reconcile net income to net cash flow from operating activities:-		
Provision charge for loans and advances	212.6	8.0
Provision charge for other contingent liabilities	-	2.4
Provision release for investment securities	(2.6)	-
Tax paid	(1.4)	(3.1)
Realised (gains) / losses on debt investment securities	(2.2)	0.9
Amortisation of investment securities	5.3	5.9
Amortisation of senior term financing	0.5	0.4
Net increase in statutory deposits with central banks	(13.3)	(32.4)
Net decrease / (increase) in securities purchased under agreements to resell	340.0	(468.6)
Net (increase) / decrease in placements	(35.8)	738.0
Net decrease / (increase) in trading securities	25.6	(8.5)
Net (increase) / decrease in loans and advances	(440.9)	392.1
Decrease in accrued interest receivable	86.2	34.6
Decrease in accrued interest payable	(101.8)	(31.5)
Net (increase) / decrease in other net assets	(165.3)	313.3
Net decrease in deposits from banks	(179.7)	(1,011.0)
Net (decrease) / increase in deposits from customers	(1,739.5)	2,026.4
Net decrease in securities sold under agreement to repurchase	(347.9)	(495.7)
Net cash (outflow) / inflow from operating activities	(2,536.4)	1,542.5
INVESTING ACTIVITIES		
Purchase of investment securities	(471.5)	(323.1)
Maturity of investment securities	336.6	490.9
Net cash (outflow) / inflow from investing activities	(134.9)	167.8
FINANCING ACTIVITIES		
Issuance of senior term financing	1,760.5	785.5
Maturity of senior term financing	(299.0)	(660.2)
Non-controlling interest capital injection	-	999.8
Net cash inflow from financing activities	1,461.5	1,125.1
(Decrease) / increase in cash and cash equivalents	(1,209.8)	2,835.4
Net foreign exchange difference	226.2	(226.0)
Cash and cash equivalents at 1st January	7,796.6	4,883.2
Cash and cash equivalents at 30th September	6,813.0	7,492.6

Cash and cash equivalents at 30th September 2020 excludes statutory deposits amounting to US$301.9 million (30th September 2019: US$263.4 million).

The notes on pages 6 to 17 form part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

1. Incorporation and registration

The parent company of the Group, Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank and a conventional retail bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (the Group), is principally engaged in the provision of wholesale commercial, asset management and investment banking services, and recently entered a niche segment within retail consumer banking. The Group operates through subsidiaries, branch offices and representative offices located in five countries worldwide. The total number of staff at 30th September 2020 was 1,010.

2. Basis of preparation

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21st June 2020, require the adoption of all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (IFRS), except for:

a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments'. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer note 2.2 for further details; and

b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures, and meeting the government grant requirements, 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 recognized in accordance with the requirements of IAS 20. Please refer note 2.2 for further details.

The condensed consolidated interim financial statements of the Group have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of the condensed interim consolidated financial statements of the Group is hereinafter referred to as 'IAS 34 as modified by CBB'

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

2.2 Novel Coronavirus ("COVID-19")

The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activities globally. This has impacted the global economic to slowdown with uncertainties in the economic environment. As a result, governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Group's management revisited its significant judgments in applying the Group's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Group's management carried out an impact assessment on the overall Group's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these interim condensed consolidated financial statements, 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.

As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

The Group has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and their impact on key credit, liquidity, operational, solvency and performance indicators, in addition to other risk management practices to manage the potential business disruption that the COVID-19 outbreak may have on its operations and financial performance. The Group'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 30th September 2020:

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

2. Basis of preparation (continued)

Novel Coronavirus ("COVID-19") (continued)

- Expected credit losses

For the reporting period ended 30th September 2020, the Group has updated inputs and assumptions used for the determination of expected credit losses ("ECLs") in response to uncertainties caused by COVID 19 and oil prices volatility. ECLs were estimated based on a range of forecast economic conditions as at that date. 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.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used to derive the point-in-time (PIT) probability of default (PD) incorporate the following assumptions for the key markets of the Kingdom of Saudi Arabia and United Arab Emirates: real GDP growth between -1.2% to 0.9% (31 December 2019: 1.4% to 4.4%); and fiscal deficit as a percentage of GDP between -8.1% and -11.8% over the next 12 months (31 December 2019: 0.1% to 14.0%). The aforementioned values of macro-economic factors have been derived by assigning probabilities to the base case, negative case and positive case scenarios in the ratio of 50:25:25, respectively (31 December 2019: 50:35:15). The situation is fast evolving and accordingly any downside scenarios will be reassessed if adverse conditions continue.

The Group also updated the relevant forward-looking information of the Group's international operations with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

In addition to the assumptions outlined above, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors. However, the Group has also recognised management overlays of US$ 20.9 million based on anticipated changes in the through-the-cycle probability of defaults.

- Government grant - *GIB BSC*

Government assistance amounting to US$ 1.3 million is recorded in the interim consolidated statement of income during the current period as the Bank had no modification losses booked in equity (in line with note 2). Therefore, the Group has not been impacted by the CBB circular OG/226/2020. The Group is in full compliance with IFRS with regards to recording the government assistance. The amount is recorded as a deduction from the related expenses. In addition and being a socially responsible organization, the Bank has contributed US$ 1.2 million as donation to "Fina Khair" national campaign to support the individuals and business entities most affected by the crisis.

- Government grant - *GIB KSA*

In order to compensate all the related costs that the Group is expected to incur under the SAMA and other public authorities program, the Group has received a profit free deposit of US$ 141.8 million from SAMA. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income.

- Accounting for modified financing assets - *GIB KSA*

As part of the deferred payments program, the Group is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs in GIB KSA as per SAMA guidelines. The payment reliefs are considered as short-term liquidity support to address the borrowers' potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months. However in Q2 2020, the Group has extended the tenor of the applicable loans granted with no additional costs to be borne by the customer. In Q3 2020, the Group is required to defer payments for an additional three months from 15 September 2020 to 14 December 2020. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.The impact due to the modification loss was fully compensated by the income recognized from the profit free deposit from SAMA as detailed above.

2.3 Basis of consolidation

The condensed interim consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiaries are companies and other entities, including special purpose entities, which the Bank controls. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary's accounts are derecognised from the consolidated financial statements from the point when the control ceases. All intercompany balances and transactions, including unrealised gains and losses on transactions between Group companies, have been eliminated.

2.4 Accounting policies

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, as set out in the consolidated financial statements for the year ended 31st December 2019, except for the adoption of applicable new accounting standards with effect from 1st January 2020 as referred to below and the changes noted in 2.2 basis of preparation.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

3. Fee and commission income

	Three months ended		Nine months ended	
	30.9.20	30.9.19	**30.9.20**	30.9.19
	US$ millions	US$ millions	**US$ millions**	US$ millions
Fee and commission income				
Commissions on letters of credit and guarantee	**7.2**	7.4	**21.5**	22.9
Investment banking and management fees	**5.4**	4.7	**12.8**	16.5
Loan commitment fees	**1.2**	0.9	**3.9**	3.6
Loan agency fees	**0.2**	0.2	**1.2**	1.2
Retail Banking fees	**0.1**	0.2	**1.0**	0.9
Other fee and commission income	**0.9**	1.0	**2.7**	2.8
Total fee and commission income	**15.0**	14.4	**43.1**	47.9
Fee and commission expense	**(0.7)**	(0.6)	**(2.1)**	(1.8)
Net fee and commission income	**14.3**	13.8	**41.0**	46.1

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

Fee and commission expense principally comprises security custody fees and bank charges and commissions.

4. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

5. Trading income / (loss)

	Three months ended		Nine months ended	
	30.9.20	30.9.19	**30.9.20**	30.9.19
	US$ millions	US$ millions	**US$ millions**	US$ millions
Interest rate derivatives	**(2.1)**	3.1	**2.8**	6.4
Commodity options	**0.1**	-	**0.8**	5.1
Debt securities	**-**	0.1	**-**	3.3
Equity securities	**8.8**	(3.5)	**(3.0)**	0.1
Managed funds	**0.6**	0.6	**(9.7)**	0.2
	7.4	0.3	**(9.1)**	15.1

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

Interest rate derivative and commodity option income principally comprises customer-initiated contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these contracts.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

6. Other income

	Three months ended		Nine months ended	
	30.9.20	30.9.19	**30.9.20**	30.9.19
	US$ millions	US$ millions	**US$ millions**	US$ millions
Recoveries on previously written off assets	**5.1**	-	**5.8**	0.1
Dividends on equity investments classified as FVTOCI	**0.8**	1.1	**3.5**	4.8
Net realised gains / (loss) on investment debt securities	**-**	(0.7)	**2.2**	(0.9)
Sundry income	**0.1**	0.1	**0.6**	0.2
	6.0	0.5	**12.1**	4.2

Recoveries on previously written off assets comprise recoveries on assets that had previously been either written off or transferred to the memorandum records.

7. Investment securities

7.1 Composition

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	30.09.20		31.12.19	
	US$ millions	**%**	US$ millions	%
AAA to A- / Aaa to A3	**3,352.0**	**83.5**	3,209.6	87.2
BBB+ to BBB- / Baa1 to Baa3	**318.1**	**7.9**	158.3	4.3
BB+ to B+ / Ba1 to B1	**345.9**	**8.6**	313.8	8.5
Total debt securities	**4,016.0**	**100.0**	3,681.7	100.0
Equity investments	**142.5**		146.7	
	4,158.5		3,828.4	

Investment securities principally comprised investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Investment securities rated BB+ to B+ / Ba1 to B1 at 30th September 2020 and 31st December 2019 principally comprised GCC sovereign debt securities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

7. Investment securities (continued)

7.2 Provisions for impairment

The movements in the provisions for credit impairment of investment securities were as follows:-

	Collective provisions		Specific provisions	2020	Collective provisions		Specific provisions	2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	3.6	0.7	-	4.3	4.5	-	-	4.5
Transfer to stage 2	-	-	-	-	(0.7)	0.7	-	-
Net remeasurement of loss allowance	(1.9)	(0.7)	-	(2.6)	-	-	-	-
At 30th September	1.7	-	-	1.7	3.8	0.7	-	4.5

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and including forward-looking information.

8. Loans and advances

8.1 Composition

	30.9.20	31.12.19
	US$ millions	US$ millions
Gross loans and advances	10,736.1	10,295.7
Provisions for impairment	(631.7)	(419.6)
Net loans and advances	10,104.4	9,876.1

8.2 Provisions for impairment

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses under IFRS 9. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

Stage 3 provisions reflect credit-impaired provisions based on the difference between the net carrying amount and the recoverable amount of the loan.

	Collective provisions		Specific provisions	2020	Collective provisions		Specific provisions	2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	34.2	97.1	288.3	419.6	30.5	110.1	623.3	763.9
Transfer to stage 1	0.3	(0.3)	-	-	0.1	(0.1)	-	-
Transfer to stage 2	(2.0)	2.0	-	-	(1.5)	1.5	-	-
Transfer to stage 3	(0.5)	(75.1)	75.6	-	-	-	-	-
Amounts utilised	-	-	(0.3)	(0.3)	-	-	(2.0)	(2.0)
Exchange rate movements	-	-	(0.2)	(0.2)	-	-	(0.6)	(0.6)
Net remeasurement of loss allowance	35.5	22.9	154.2	212.6	3.5	4.2	0.3	8.0
At 30th September	67.5	46.6	517.6	631.7	32.6	115.7	621.0	769.3

Total provisions at 30th September 2020 included US$50.8 million of provisions in relation to credit-related contingent exposures (31st December 2019: US$53.1 million).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

9. Reserves

	Share premium US$ millions	Compulsory reserve US$ millions	Voluntary reserve US$ millions	Cash flow hedge reserve US$ millions	Investment securities revaluation reserve US$ millions	Deferred tax and other reserve US$ millions	Total US$ millions
At 1st January 2020	**7.6**	**230.6**	**168.1**	**0.1**	**(62.9)**	**-**	**343.5**
Net fair value gains on cash flow hedges	-	-	-	(0.1)	-	-	(0.1)
Net fair value loss on equity investments classified as FVTOCI	-	-	-	-	(1.8)	-	(1.8)
Movement during the period	-	-	-	-	-	0.4	0.4
Net (decrease) / increase	-	-	-	(0.1)	(1.8)	0.4	(1.5)
At 30th September 2020	**7.6**	**230.6**	**168.1**	**-**	**(64.7)**	**0.4**	**342.0**
At 1st January 2019	7.6	225.8	163.3	(1.9)	(33.4)	-	361.4
Net fair value losses on cash flow hedges	-	-	-	2.1	-	-	2.1
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	21.8	-	21.8
Transfers to retained earnings	-	-	-	-	(56.1)	-	(56.1)
Movement during the period	-	-	-	-	-	0.4	0.4
Net (decrease) / increase	-	-	-	2.1	(34.3)	0.4	(31.8)
At 30th September 2019	7.6	225.8	163.3	0.2	(67.7)	0.4	329.6

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For the nine months ended 30th September 2020

10. Derivatives and foreign exchange instruments

The notional amounts of derivatives and foreign exchange instruments were as follows:-

	Trading US$ millions	Hedging US$ millions	30.9.20 Total US$ millions	31.12.19 Total US$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	5,777.5	-	5,777.5	7,332.3
Interest rate contracts:-				
Interest rate swaps	6,296.1	9,522.1	15,818.2	20,316.1
Cross currency swaps	115.4	-	115.4	153.9
Futures	22.5	-	22.5	-
Options, caps and floors purchased	2,159.4	-	2,159.4	1,984.5
Options, caps and floors written	2,159.4	-	2,159.4	1,984.5
	10,752.8	9,522.1	20,274.9	24,439.0
Equity and commodity contracts:-				
Options and swaps purchased	224.4	-	224.4	83.8
Options and swaps written	224.4	-	224.4	83.8
	448.8	-	448.8	167.6
	16,979.1	9,522.1	26,501.2	31,938.9

There is no credit risk in respect of options written as they represent obligations of the Group.

At 30th September 2020, the Value-at-Risk of the foreign exchange, interest rate and equity and commodity trading contracts analysed in the table above was US$0.4 million, nil and nil respectively (31st December 2019: US$0.3 million, nil and nil respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve month historical observation period of unweighted data from the DataMetrics data set.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

11. Credit-related financial instruments

	30.9.20 Notional principal amount US$ millions	31.12.19 Notional principal amount US$ millions
Direct credit substitutes	**482.6**	406.1
Transaction-related contingent items	**2,298.3**	2,233.8
Short-term self-liquidating trade-related contingent items	**602.4**	583.4
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**1,667.4**	1,658.1
	5,050.7	4,881.4

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 30th September 2020, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$420.6 million (31st December 2019: US$362.3 million).

12. Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

12.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

12.2 Investment securities

The fair values of equity investment securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3). The fair values of debt investment securities are based on quoted market prices (level 1) and approximate the carrying values.

12.3 Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

12.4 Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 30th September 2020 approximate the carrying values.

12.5 Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

12. Fair value of financial instruments (continued)

12.6 Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

12.7 Valuation basis

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1)	Valuation based on observable market data (level 2)	Other valuation techniques (level 3)
	US$ millions	US$ millions	US$ millions
At 30th September 2020			
Financial assets:			
Trading securities	**108.4**	**0.2**	**8.0**
Investment securities - equities	**107.8**	**-**	**34.7**
Derivative financial instruments	**-**	**464.0**	**-**
Financial liabilities:			
Derivative financial instruments	**-**	**721.5**	**-**
At 31st December 2019			
Financial assets:			
Trading securities	130.7	0.3	11.2
Investment securities - equities	111.2	-	35.5
Derivative financial instruments	-	231.5	-
Financial liabilities:			
Derivative financial instruments	-	290.1	-

Quoted prices include prices obtained from lead managers, brokers and dealers. Investment securities valued based on other valuation techniques comprise private equity investments that have been valued based on price / earnings and price / book ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the period ended 30th September 2020, the value of financial assets whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US$4.0 million (30th September 2019: decrease of US$3.2 million), principally comprising changes in assigned valuations as recognised in other comprehensive income.

No transfers out of the level 3 measurement classification occurred during the period ended 30th September 2020. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended 30th September 2019.

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

13. Segmental information

For financial reporting purposes, the Group is organised into four main operating segments:-

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.

- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding

- Asset management and investment banking: the provision of asset and fund management services, and of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

- Head office and support units: income arising on the investment of the Group's net free capital funds and expenses incurred by support units, including the investment in the retail banking strategy prior to the launch of all planned retail banking products and services.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these condensed interim consolidated financial statements. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for head office and support units comprise senior and subordinated term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

The business segment analysis is as follows:-

13. Segmental information (continued)

	Wholesale banking US$ millions	Treasury US$ millions	Asset management and investment banking US$ millions	Head office and support units US$ millions	Total US$ millions
Nine months ended 30th September 2020					
Net interest income	**90.8**	**44.5**	**-**	**39.4**	**174.7**
Total income	**124.0**	**59.7**	**5.0**	**45.1**	**233.8**
Segment result	**(130.8)**	**51.0**	**(9.1)**	**(87.3)**	**(176.2)**
Taxation charge					**1.6**
Net loss after tax					**(174.6)**
Nine months ended 30th September 2019					
Net interest income	108.3	58.8	-	42.8	209.9
Total income	137.1	75.0	19.8	52.8	284.7
Segment result	117.2	66.4	3.9	(116.2)	71.3
Taxation charge					(5.2)
Net income after tax					66.1
At 30th September 2020					
Segment assets	**9,989.1**	**18,879.1**	**54.8**	**725.1**	**29,648.1**
Segment liabilities	**3,673.1**	**16,410.1**	**-**	**6,463.6**	**26,546.8**
Total equity					**3,101.3**
Total liabilities and equity					**29,648.1**
At 31st December 2019					
Segment assets	9,925.8	19,648.1	48.6	619.2	30,241.7
Segment liabilities	2,905.4	18,764.7	-	5,275.3	26,945.4
Total equity					3,296.3
Total liabilities and equity					30,241.7

14. Related party transactions

The Group is owned by the six Gulf Cooperative Council (GCC) governments, with the Public Investment Fund holding a majority (97.2 per cent) controlling stake. The Public Investment Fund is an investment body of the Kingdom of Saudi Arabia. At 30th September 2020, the Group reported deposits and their related interest expense of US$1,819.6 million and US$9.9 million respectively (2019: US$1,850.7 million and US$15.4 million respectively).

The Group transacts with various entities controlled, jointly controlled or significantly influenced by the six GCC governments, these transactions are conducted in the ordinary course of the Group’s business.

The Group's other related party transactions are limited to the compensation of its directors and executive officers.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th September 2020

15. Subsequent events

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. The extent and duration of its business and economic impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these condensed interim consolidated financial statements. These developments could impact our future consolidated financial results, valuations, cash flows and financial condition.

16. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

17. Liquidity ratios

The Group is also required to comply with Basel 3 liquidity ratio requirements as stipulated by its lead regulator, the Central Bank of Bahrain (CBB), which became effective during 2019. These requirements relate to maintaining a minimum 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) which was revised down to 80% until 31st December 2020. The LCR is calculated as a ratio of the stock of High Quality Liquid Assets (HQLA) to the net outflows over the next 30 calendar days. The NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. At 30th September 2020, the Group's LCR and NSFR were 200.8% and 163.5% respectively, (31st December 2019: 163.8% and 163.3% respectively).

SUPPLEMENTARY DISCLOSURES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The Coronavirus (COVID-19) outbreak was declared a pandemic in early March by the World Health Organization (WHO) and has evolved globally. This has resulted in uncertainties and global economic slowdown. This disruption has negatively impacted capital markets, restricted credit markets and increased liquidity concerns. Various measures have been taken by Authorities to contain the spread of COVID-19 including internal quarantine measures to restrict travel. The pandemic and the related measures had some impact on the Group. The Group has activated its business continuity plan, including enabling 75% of its workforce to work from home using the Group's agile technology infrastructure. The Group's operations has not witnessed any business interruption throughout the pandemic. The Group has also revised its risk management practices to contain the potential business disruption on its operations and financial performance.

The regulators where GIB Group operates, including the Central Bank of Bahrain (CBB), Saudi Monetary Agency (SAMA) and the Central Bank of UAE (CBUAE), have announced various measures to combat the effects of COVID-19 to ease liquidity conditions and stimulate the economy.

Loans and advances

The Group has implemented various loan modification programs and other forms of support to its customers, including offering loan payment deferrals. As at 30th September 2020, 43 clients have been enrolled by the Bank for deferral of payments over periods ranging from 3-12 months. Aggregate of installment amounts being deferred is US$ 441.8 million, which amounts to around 4.1% of the gross exposure. More information on the accounting for loan modifications is available in Note 2.3 - Novel Coronavirus ("Covid-19").

Investment securities

The Group maintains a US$4,158.5.0 million portfolio of investment securities, of which 96.6% are held at amortised cost. Since the beginning of the year the fair value of the investment securities portfolio and associated interest rate hedging derivatives was reduced by US$ 86.7 million, driven by the widening of credit spreads triggered by the COVID-19 pandemic. The majority (91.4%) of the debt securities portfolio are investment grade and above, with 83.5% rated A- or higher. There has been no defaults within the portfolio in the past 6 months and all repayments have been received on schedule.

Liquidity and Capital Adequacy

The Group has elevated its long-term liquidity levels to pre-empt potential liquidity stress events that could occur as a result of the COVID19. During the past nine months, the Group also increased its senior term financing by US$1,462.0 million to US$ 4,964.4 million. As at 30th September 2020, cash and liquid assets and placements comprised 45.0% of total assets. The Group's LCR and NSFR ratios were 200.8% and 163.5% respectively compared to the set minimum ratio of 100% as stipulated by the CBB for both, which was revised down to 80% until 31st December 2020.

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

The Group's total capital adequacy has dropped to 16.9% (31st December 2019:18.4%) due to specific provisions booked during the period. The Group maintains a healthy capital adequacy compared to the set minimum ratio of 12.0% as stipulated by the CBB.

Performance

The Group's financial performance has been impacted by the global COVID-19 pandemic. Year-on-year decreases were recorded in net interest income (2020: $174.7 million, 2019: $209.9 million) representing a decrease of 16.8% in net interest income. This decrease may be attributable to the global and local interest rate cuts. The Group has also further augmented its provisions by booking US$ 210.0 million during the period compared to US$ 10.4 million in the prior year.

The Group has incurred additional an US$ 2.0 million of exceptional expenses in support of its operation during the COVID-19 pandemic.

Other comprehensive income was also impacted by the revaluation of the Group's investments portfolio at lower fair market values.

A summary of the financial impact of the regulatory measures at the Group 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
	US$ millions	US$ millions	US$ millions
Modification loss at GIB KSA	(7.0)	(7.0)	-
Government grants at GIB KSA	7.0	7.0	-
ECL attributable to COVID-19	(50.0)	(50.0)	-
	(50.0)	(50.0)	-

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14th July 2020. This information should not be considered as an indication of the annual financial performance or relied upon for any other purposes. Given the uncertainty of the COVID-19 as highlighted at the beginning of this supplementary disclosure, the above impact reflects the current situation. Change in circumstances will render the above information being out-of-date.

This information does not represent a full comprehensive assessment of COVID-19 impact on the Group and has not been subject to a formal review by the external auditors.