

Al Baraka Banking Group B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

30 JUNE 2020 (REVIEWED)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Al Baraka Banking Group B.S.C. (the "Bank") and its subsidiaries (together the "Group") as of 30 June 2020, comprising of the interim consolidated statement of financial position as at 30 June 2020, the related interim consolidated statement of income for the six month period then ended and the related interim consolidated statement of cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the six-month period then ended and other explanatory information. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed 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 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.



10 August 2020
Manama, Kingdom of Bahrain

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 (Reviewed)

		<i>Reviewed</i>	<i>Audited</i>
		30 June	31 December
		2020	2019
	<i>Notes</i>	US\$ '000	US\$ '000
ASSETS			
Cash and balances with banks	3	4,504,770	5,386,926
Receivables	4	11,217,471	10,894,937
Mudaraba and Musharaka financing	5	2,161,409	3,228,615
Ijarah Muntahia Bittamleek	6	1,692,916	1,756,756
Investments	7	5,361,594	3,872,538
Property and equipment		442,206	455,031
Other assets	8	746,682	663,728
TOTAL ASSETS		26,127,048	26,258,531
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		6,264,017	6,195,073
Due to banks		1,050,184	1,106,923
Long term financing	9	434,860	379,269
Other liabilities	10	1,299,251	1,098,200
Total liabilities		9,048,312	8,779,465
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		530,152	542,078
Non-financial institutions and individuals		14,385,601	14,613,798
Total equity of investment accountholders	11	14,915,753	15,155,876
OWNERS' EQUITY			
Share capital	14	1,242,879	1,242,879
Treasury shares		(8,371)	(8,308)
Share premium		18,158	18,138
Perpetual tier 1 capital		400,000	400,000
Reserves		176,118	177,254
Cumulative changes in fair values		27,611	29,370
Foreign currency translations	14	(834,318)	(752,068)
Retained earnings		362,665	335,089
Proposed appropriations	14	-	24,858
Equity attributable to parent's shareholders and Sukuk holders		1,384,742	1,467,212
Non-controlling interest		778,241	855,978
Total owners' equity		2,162,983	2,323,190
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		26,127,048	26,258,531



Abdulla Saleh Kamel
Chairman



Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

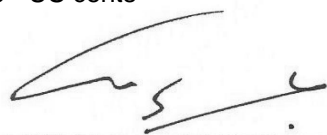
The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June 2020 (Reviewed)

	Notes	Six months ended	
		30 June 2020 US\$ '000	30 June 2019 US\$ '000
INCOME			
Net income from jointly financed contracts and investments		668,361	684,866
Return on equity of investment accountholders before Group's share as a Mudarib		(572,936)	(600,730)
Group's share as a Mudarib		205,493	169,081
Return on equity of investment accountholders		(367,443)	(431,649)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		300,918	253,217
Mudarib share for managing off-balance sheet equity of investment accountholders		7,903	6,872
Net income from self financed contracts and investments		124,986	83,682
Fees and commission income		64,694	82,508
Other operating income	15	72,300	48,060
		570,801	474,339
Profit paid on long term financing		(18,090)	(31,995)
TOTAL OPERATING INCOME		552,711	442,344
OPERATING EXPENSES			
Staff expenses		159,667	160,983
Depreciation and amortisation		19,717	20,252
Other operating expenses		98,738	91,399
TOTAL OPERATING EXPENSES		278,122	272,634
NET INCOME FOR THE PERIOD BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION			
Net allowance for credit losses / impairment	16	274,589	169,710
		(126,670)	(28,465)
NET INCOME FOR THE PERIOD BEFORE TAXATION			
Taxation		147,919	141,245
		(57,544)	(45,873)
NET INCOME FOR THE PERIOD		90,375	95,372
Attributable to:			
Equity holders of the parent		47,087	56,162
Non-controlling interest		43,288	39,210
		90,375	95,372
Basic and diluted earnings per share - US cents	13	2.54	3.27



Abdulla Saleh Kamel
Chairman



Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020 (Reviewed)

	<i>Six months ended</i>	
	30 June 2020 US\$ '000	30 June 2019 US\$ '000
OPERATING ACTIVITIES		
Net income for the period before taxation	147,919	141,245
Adjustments for:		
Depreciation and amortisation	19,717	20,252
Depreciation on Ijarah Muntahia Bittamleek	100,384	95,641
Unrealised gain on equity and debt-type instruments at fair value through statement of income	(6,677)	(5,343)
Gain on disposal of property and equipment	(24,772)	(3,083)
Gain on disposal of investment in real estate	(2,954)	(381)
Gain on disposal of equity-type instruments at fair value through equity	(881)	(89)
Gain on disposal of equity and debt-type instruments at fair value through statement of income	(263)	(3,700)
Net allowance for credit losses / impairment	126,670	28,465
Income from associates	(4,410)	(4,522)
Modification loss net of government assistance	(6,370)	-
Operating profit before changes in operating assets and liabilities	348,363	268,485
Net changes in operating assets and liabilities:		
Reserves with central banks	592,535	62,154
Receivables	(435,184)	(165,387)
Mudaraba and Musharaka financing	1,056,098	(719,317)
Ijarah Muntahia Bittamleek	(41,380)	(97,946)
Other assets	(84,902)	(96,896)
Customer current and other accounts	68,948	314,739
Due to banks	(56,739)	10,973
Other liabilities	207,707	69,759
Equity of investment accountholders	(239,055)	792,453
Taxation paid	(68,171)	(65,954)
Net cash from operating activities	1,348,220	373,063
INVESTING ACTIVITIES		
Net purchase of investments	(1,481,767)	(229,867)
Net disposal (purchase) of property and equipment	22,530	(34,595)
Net movement in associates	1,478	(93)
Net disposal (purchase) of investment in associates	2,673	(1,962)
Net cash used in investing activities	(1,455,086)	(266,517)
FINANCING ACTIVITIES		
Dividends paid to equity holders of the parent	(24,858)	(37,286)
Net movement in treasury shares	358	128
Profit distributed on perpetual tier 1 capital	(15,750)	(15,750)
Profit distributed on perpetual tier 1 capital issued by subsidiaries	3,626	1,880
Long term financing	55,591	(664,220)
Net change in non-controlling interest	(19,415)	(30,455)
Net cash used in financing activities	(448)	(745,703)
Foreign currency translation adjustments	(182,332)	(95,619)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(289,646)	(734,776)
Cash and cash equivalents at 1 January	2,926,185	2,917,794
CASH AND CASH EQUIVALENTS AT 30 June (note 19)	2,636,539	2,183,018

The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six months ended 30 June 2020 (Reviewed)

	<i>Equity attributable to parent's shareholders and Sukuk holders</i>													
	<i>Reserves</i>						<i>Cumulative changes in fair value of investments</i>	<i>Cumulative changes in fair value of property and equipment</i>	<i>Foreign currency translation</i>	<i>Retained earnings</i>	<i>Appropriations</i>	<i>Total</i>	<i>Non-controlling interest</i>	<i>Total owners' equity</i>
	<i>Share capital</i>	<i>Treasury shares</i>	<i>Share premium</i>	<i>Perpetual tier 1 capital</i>	<i>Statutory reserve</i>	<i>Other reserves</i>								
At 1 January 2020	1,242,879	(8,308)	18,138	400,000	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,467,212	855,978	2,323,190
Dividends (note 14)	-	-	-	-	-	-	-	-	-	-	(24,858)	(24,858)	-	(24,858)
Net movement in treasury shares	-	(63)	20	-	-	-	-	-	-	402	-	359	-	359
Net movement in other reserves	-	-	-	-	-	(1,136)	-	-	-	-	-	(1,136)	(1,080)	(2,216)
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(1,759)	-	-	-	-	(1,759)	(201)	(1,960)
Foreign currency translations	-	-	-	-	-	-	-	-	(82,250)	-	-	(82,250)	(100,092)	(182,342)
Net income for the period	-	-	-	-	-	-	-	-	-	47,087	-	47,087	43,288	90,375
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(15,618)	(15,618)
Allocation of Zakah	-	-	-	-	-	-	-	-	-	(1,656)	-	(1,656)	-	(1,656)
Profit distribution on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	3,626	-	3,626	(6,353)	(2,727)
Modification loss net of government assistance	-	-	-	-	-	-	-	-	-	(6,370)	-	(6,370)	(552)	(6,922)
Effect of change in ownership	-	-	-	-	-	-	-	-	-	237	-	237	(237)	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	3,108	3,108
At 30 June 2020	1,242,879	(8,371)	18,158	400,000	176,118	-	3,457	24,154	(834,318)	362,665	-	1,384,742	778,241	2,162,983

The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the six months ended 30 June 2020 (Reviewed)

	Equity attributable to parent's shareholders and Sukuk holders													
	Reserves						Cumulative changes in fair value of investments	Cumulative changes in fair value of property and equipment	Foreign currency translation	Retained earnings	Appropriations	Total	Non-controlling interest	Total owners' equity
	Share capital	Treasury shares	Share premium	Perpetual tier 1 capital	Statutory reserve	Other reserves								
At 1 January 2019	1,242,879	(9,203)	18,829	400,000	165,551	-	4,739	27,190	(861,313)	519,587	37,286	1,545,545	710,442	2,255,987
Dividends (note 14)	-	-	-	-	-	-	-	-	-	-	(37,286)	(37,286)	-	(37,286)
Net movement in treasury shares	-	369	(241)	-	-	-	-	-	-	-	-	128	-	128
Net movement in other reserves	-	-	-	-	-	570	-	-	-	-	-	570	725	1,295
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(104)	-	-	-	-	(104)	56	(48)
Foreign currency translations	-	-	-	-	-	-	-	-	(73,201)	-	-	(73,201)	(22,418)	(95,619)
Net income for the period	-	-	-	-	-	-	-	-	-	56,162	-	56,162	39,210	95,372
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(26,400)	(26,400)
Allocation of Zakah	-	-	-	-	-	-	-	-	-	(2,235)	-	(2,235)	-	(2,235)
Profit distribution on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	1,880	-	1,880	(4,444)	(2,564)
Effect of change in ownership	-	-	-	-	-	-	-	-	-	(3,408)	-	(3,408)	3,408	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	389	389
At 30 June 2019	1,242,879	(8,834)	18,588	400,000	165,551	570	4,635	27,190	(934,514)	556,236	-	1,472,301	700,968	2,173,269

The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

Al Baraka Banking Group B.S.C.

INTERIM STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the six months ended 30 June 2020 (Reviewed)

	Cash US\$ '000	Sales receivable US\$ '000	Mudaraba financing US\$ '000	Investment in real estate US\$ '000	Ijarah Muntahia Bittamleek US\$ '000	Investments US\$ '000	Total US\$ '000
At 1 January 2020	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941
Deposits	85,257	333,062	282,815	35	32,101	8,750	742,020
Withdrawals	(69,253)	(257,848)	(253,317)	(336)	(4,926)	(175,139)	(760,819)
Income net of expenses	-	16,677	1,392	223	3,507	4,146	25,945
Mudarib's share	-	(6,117)	(1,755)	-	-	(31)	(7,903)
Foreign exchange translation	-	(3,879)	-	-	-	(1,189)	(5,068)
At 30 June 2020	72,045	546,256	451,623	46,642	173,684	122,866	1,413,116
At 1 January 2019	30,447	295,001	335,288	48,468	159,134	125,700	994,038
Deposits	214,769	797,383	292,869	1,774	37,684	162,503	1,506,982
Withdrawals	(189,175)	(665,883)	(207,389)	(4,110)	(61,157)	(8,260)	(1,135,974)
Income net of expenses	-	35,776	4,867	588	7,457	6,913	55,601
Mudarib's share	-	(10,665)	(3,147)	-	(116)	(869)	(14,797)
Foreign exchange translation	-	12,749	-	-	-	342	13,091
At 30 June 2019	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941

The attached notes 1 to 21 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

1 ACTIVITIES

Al Baraka Banking Group B.S.C. (the "Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration ("CR") number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain (the "CBB").

The principal activities of the Bank and its subsidiaries (the "Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

These interim condensed consolidated financial statements for the six months period ended 30 June 2020 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting" except as noted below:

During the period, Central Bank of Bahrain (CBB) has mandated below changes to accounting policies vide its circular OG/226/2020 dated 21 June 2020:

- (a) to recognise modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profit, in statement of changes in equity instead of the statement of income as required by FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of FAS 30. Please refer below for further details; and
- (b) to recognize financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in statement of changes in equity, instead of being recognising through statement of income, only to the extent of any modification loss recorded in statement of changes in equity as a result of (a) above, and the balance to be recognized in statement of income. Please refer below "Modification Loss and Government Grant".

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as at 31 December 2019. In addition, results for the six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments through statement of income, equity-type instruments through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The interim condensed consolidated financial statements are presented in United States Dollars ("US\$") being the functional and reporting currency of the Group. All values are rounded to the nearest US\$ thousand ("US\$ '000") unless otherwise indicated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Statement of compliance

The consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions and rules and procedures of the Bahrain Bourse. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist including "Interim Financial Reporting", the Group uses the relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

These interim condensed consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019, except for the above mentioned changes to the accounting policies that have been applied retrospectively as explained in the basis of preparation.

COVID - 19

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. Global equity and commodity markets, in particular the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, expected credit losses, onerous contract etc. In this respect, the key initiatives and their corresponding impacts, in lieu of COVID 19, are given as follows:

Modification Loss

During the current period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to USD 8.6 million arising from the 6 month payment holidays provided to financing customers without charging additional profits has been recognized directly in statement of changes in equity. The modification loss has been calculated as the loss of income on the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays to financing exposures amounting to USD 301.1 million as part of its support to impacted customers.

Government assistance and subsidies

As per the regulatory directive, financial assistance amounting to USD 1.9 million (*representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges*) received from the government, in response to its COVID-19 support measures, have been recognized directly in statement of changes in equity instead of being recognized through profit or loss account.

During the period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, CBB has reduced the regulatory reserve requirements from 5% to 3% and offered free of cost REPO facility. In this regards, the Bank raised USD 79.6 million against REPO of investments in Government of Bahrain Sukuk.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Regulatory compliance

As required by CBB rulebook, the bank is required to compute Group capital adequacy ratio and Head Office solo capital adequacy ratio. The Group capital adequacy ratio, which is of primary importance is above the minimum regulatory threshold of 12.5%. However, at solo level, the Bank breached rule CA 2.2.1A as the solo core equity tier 1 (CET1) ratio has declined below 4.5% which is the minimum regulatory threshold for solo CET 1 as prescribed by the CBB rule book volume 2 - capital adequacy module. There will be no impact of this breach on the business of the Group or any of its operations.

Approval of the Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 August 2020.

3 CASH AND BALANCES WITH BANKS

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Balances with central banks	3,158,825	3,956,830
Balances with other banks	605,700	707,214
Cash and cash in transit	743,906	726,567
Less: allowance for credit losses	(3,661)	(3,685)
	4,504,770	5,386,926

4 RECEIVABLES

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Sales (Murabaha) receivables	11,375,718	10,944,436
Ijarah receivables	120,407	97,919
Salam receivables	242,263	265,926
Istisna'a receivables	168,470	157,738
Less: allowance for credit losses	(689,387)	(571,082)
	11,217,471	10,894,937

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	<i>30 June 2020</i>				<i>Audited</i> 31 December 2019
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Good (1-4)	2,506,256	211,600	-	2,717,856	2,798,537
Satisfactory (5-7)	6,691,369	1,669,201	-	8,360,570	7,865,178
Default (8-10)	-	-	828,432	828,432	802,304
Less: allowance for credit losses	(91,764)	(147,191)	(450,432)	(689,387)	(571,082)
	9,105,861	1,733,610	378,000	11,217,471	10,894,937

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

4 RECEIVABLES (continued)

The below table shows the movement in allowance for credit losses by stage:

	30 June 2020			Audited 31 December 2019	
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000	Total US\$ '000
Balance at 1 January	54,362	115,719	401,001	571,082	566,503
Net remeasurement of loss allowance	33,672	6,154	91,336	131,162	158,287
Recoveries / write-backs	-	-	(18,513)	(18,513)	(46,050)
Allocation from (to) investment risk reserve	8,287	27,509	(16,046)	19,750	5,717
Amounts written off	-	-	(154)	(154)	(113,220)
FX translation / others	(4,557)	(2,191)	(7,192)	(13,940)	(155)
	91,764	147,191	450,432	689,387	571,082

5 MUDARABA AND MUSHARAKA FINANCING

	Audited 30 June 2020 US\$ '000		31 December 2019 US\$ '000	
Mudaraba financing	1,159,952	2,207,515		
Musharaka financing	1,031,453	1,040,725		
Less: allowance for credit losses	(29,996)	(19,625)		
	2,161,409	3,228,615		

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	30 June 2020				Audited 31 December 2019	
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000	Total US\$ '000
Good (1-4)	641,177	67,817	-	708,994	2,221,299	
Satisfactory (5-7)	1,060,987	372,261	-	1,433,248	989,215	
Default (8-10)	-	-	49,163	49,163	37,726	
Less: allowance for credit losses	(4,182)	(8,858)	(16,956)	(29,996)	(19,625)	
	1,697,982	431,220	32,207	2,161,409	3,228,615	

The below table shows the movement in allowance for credit losses by stage:

	30 June 2020			Audited 31 December 2019	
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000	Total US\$ '000
Balance at 1 January	2,497	2,408	14,720	19,625	19,908
Net remeasurement of loss allowance	1,540	6,686	3,013	11,239	2,058
Recoveries / write-backs	-	-	(131)	(131)	(319)
Allocation from (to) investment risk reserve	317	(4)	13	326	101
Amounts written off	-	-	-	-	(565)
FX translation / others	(172)	(232)	(659)	(1,063)	(1,558)
	4,182	8,858	16,956	29,996	19,625

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

6 IJARAH MUNTAHIA BITTAMLEEK

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	30 June 2020				Audited 31 December
	Stage 1	Stage 2	Stage 3	Total	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	431,080	7,029	-	438,109	466,750
Satisfactory (5-7)	968,972	306,928	-	1,275,900	1,307,793
Default (8-10)	-	-	-	-	-
Less: allowance for credit losses	(2,865)	(18,228)	-	(21,093)	(17,787)
	1,397,187	295,729	-	1,692,916	1,756,756

The below table shows the movement in allowance for credit losses by stage:

	30 June 2020			Audited 31 December
	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	4,626	13,161	-	17,787
Net remeasurement of loss allowance	(1,444)	6,280	-	4,836
Recoveries / write-backs	-	-	-	-
FX translation / others	(317)	(1,213)	-	(1,530)
	2,865	18,228	-	21,093

7 INVESTMENTS

	Reviewed 30 June 2020	Audited 31 December 2019
	US\$ '000	US\$ '000
Equity and debt-type instruments at fair value through statement of income (7.1)	256,928	291,611
Equity-type instruments at fair value through equity (7.2)	78,757	94,446
Debt-type instruments at amortised cost (7.3)	4,789,036	3,235,903
	5,124,721	3,621,960
Investment in real estate (7.4)	191,967	206,108
Investment in associates	44,906	44,470
	5,361,594	3,872,538

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

7 INVESTMENTS (continued)

7.1 Equity and debt-type instruments at fair value through statement of income

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Quoted investments		
Debt instruments	1,405	2,939
Equity securities	251,707	284,855
Unquoted investments		
Debt instruments	195	-
Equity securities	3,621	3,817
	256,928	291,611

7.2 Equity-type instruments at fair value through equity

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Quoted investments		
Equity securities	33,094	39,139
Managed funds	8,026	8,282
	41,120	47,421
Unquoted investments		
Equity securities	32,071	37,621
Managed funds	12,863	16,214
	44,934	53,835
Impairment	(7,297)	(6,810)
	78,757	94,446

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

7 INVESTMENTS (continued)

7.3 Debt-type instruments at amortised cost

	<i>Reviewed</i> 30 June 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Quoted investments		
Sukuk and similar items	2,992,209	2,352,528
	2,992,209	2,352,528
Unquoted investments		
Sukuk and similar items	1,805,321	891,175
Less: allowance for credit losses	(8,494)	(7,800)
	4,789,036	3,235,903

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in Sukuk and similar items held at amortised cost have fair values amounting to US\$ 4,789 million (31 December 2019: US\$ 3,519 million).

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	<i>30 June 2020</i>				<i>Audited</i> 31 December 2019
	<i>Stage 1</i> US\$ '000	<i>Stage 2</i> US\$ '000	<i>Stage 3</i> US\$ '000	<i>Total</i> US\$ '000	<i>Total</i> US\$ '000
Good (1-4)	4,317,866	-	-	4,317,866	2,700,451
Satisfactory (5-7)	433,461	43,638	-	477,099	540,687
Default (8-10)	-	-	2,565	2,565	2,565
Less: allowance for credit losses	(4,079)	(1,850)	(2,565)	(8,494)	(7,800)
	4,747,248	41,788	-	4,789,036	3,235,903

The below table shows the movement in allowance for credit losses by stage:

	<i>30 June 2020</i>			<i>Audited</i> 31 December 2019
	<i>Stage 1: 12-month ECL</i> US\$ '000	<i>Stage 2: Lifetime ECL not credit-impaired</i> US\$ '000	<i>Stage 3: Lifetime ECL credit-impaired</i> US\$ '000	<i>Total</i> US\$ '000
Balance at 1 January	4,650	585	2,565	7,800
Net remeasurement of loss allowance	(611)	245	-	(366)
Allocation (to) from investment risk reserve	87	1,020	-	1,107
Amounts written off	-	-	-	-
FX translation / others	(47)	-	-	(47)
	4,079	1,850	2,565	8,494
	4,079	1,850	2,565	8,494

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

7 INVESTMENTS (continued)

7.4 Investment in real estate

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Land	122,196	125,452
Buildings	69,771	80,656
	191,967	206,108

The following is a reconciliation between the carrying amounts of investment in real estate at the beginning and end of the period / year:

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Beginning balance of the period / year	206,108	215,530
Acquisition	2,172	15,584
Net (loss) gain from fair value adjustments	(451)	6,075
Disposal	(1,964)	(82)
Transfer	-	(27,178)
Foreign exchange translation - net	(13,898)	(3,821)
	(14,141)	(9,422)
	191,967	206,108

8 OTHER ASSETS

	<i>Reviewed</i> 30 June 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Bills receivable	223,969	199,615
Goodwill and intangible assets	70,903	75,082
Collateral pending sale	198,519	220,610
Prepayments	73,669	30,177
Deferred taxation	62,715	62,850
Good faith qard fund	76,763	68,622
Others	61,970	29,953
	768,508	686,909
Less: allowance for credit losses	(21,826)	(23,181)
	746,682	663,728

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

9 LONG TERM FINANCING

	<i>Reviewed</i> 30 June 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Murabaha financing	153,567	99,841
Subordinated financing obtained by a subsidiary	281,293	279,428
	434,860	379,269

10 OTHER LIABILITIES

	<i>Reviewed</i> 30 June 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Payables	667,892	517,130
Cash margins	231,427	224,177
Managers' cheques	118,314	94,500
Current taxation	59,336	74,885
Deferred taxation	11,485	6,698
Accrued expenses	79,320	97,931
Charity fund	34,077	36,645
Others	73,879	23,097
Allowance for credit losses on unfunded exposures	23,521	23,137
	1,299,251	1,098,200

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS

	<i>Reviewed</i> 30 June 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Equity of investment accountholders	14,850,532	15,063,854
Profit equalisation reserve	3,103	7,400
Investment risk reserve	55,945	77,199
Cumulative changes in fair value attributable to equity of investment accountholders - net	6,173	7,423
	14,915,753	15,155,876

12 COMMITMENTS AND CONTINGENCIES

	<i>Reviewed</i> 30 June 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Letters of credit	616,592	635,669
Guarantees	1,803,242	2,027,755
Acceptances	82,087	111,075
Undrawn commitments	747,010	874,750
Sharia'a compliant promise contracts	664,325	84,641
	3,913,256	3,733,890

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the period attributable to equity holders of the parent by the number of shares outstanding during the period as follows:

	<i>Six months ended</i>	
	30 June 2020 US\$ '000	<i>30 June 2019 US\$ '000</i>
Net income attributable to the equity holders of the parent for the period - US\$ '000	47,087	56,162
Less: Profit distributed on perpetual tier 1 capital	(15,750)	(15,750)
Net income attributable to the shareholders equity	31,337	40,412
Weighted number of shares outstanding at beginning of the period (in thousands)	1,242,879	1,242,879
Treasury shares effect (in thousands)	(8,371)	(8,905)
Weighted number of shares outstanding at end of the period - (in thousands)	1,234,508	1,233,974
Earnings per share - US cents	2.54	3.27

14 OWNERS' EQUITY

	<i>Reviewed 30 June 2020 US\$ '000</i>	<i>Audited 31 December 2019 US\$ '000</i>
Share capital		
Authorised: Ordinary shares 2,500,000,000 (2019: 2,500,000,000) of US\$ 1 each	2,500,000	2,500,000
Issued and fully paid up: 1,242,879,755 (2019: 1,242,879,755) shares of US\$1 each	1,242,879	1,242,879

Appropriations

At the Annual General Meeting held on 20 March 2020 (2019: 20 March 2019), the shareholders of the Group resolved to distribute US\$ 24,858 thousand (2019: US\$ 37,286 thousand) as cash dividends.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

14 OWNERS' EQUITY (continued)

Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table summarises the subsidiary wise foreign currency translation loss balance.

Subsidiary	Currency	Reviewed	Audited
		30 June	31 December
		2020	2019
		US\$ '000	US\$ '000
Banque Al Baraka D'Algerie	Algerian Dinar	65,632	57,159
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	34,100	30,006
Al Baraka Bank Egypt	Egyptian Pound	123,835	121,363
Al Baraka Turk Participation Bank	Turkish Lira	411,733	373,936
Al Baraka Bank Limited	South African Rand	25,064	18,593
Al Baraka Bank Sudan	Sudanese Pound	91,078	85,822
Al Baraka Bank Tunis	Tunisian Dinar	32,023	31,437
Al Baraka Bank Syria	Syrian Pound	50,480	33,534
BTI Bank	Moroccan Dirham	373	218
		834,318	752,068

15 OTHER OPERATING INCOME

	<i>Six months ended</i>	
	30 June	30 June
	2020	2019
	US\$ '000	US\$ '000
Foreign exchange gain*	47,528	41,796
Gain on sale of property and equipment	24,772	6,264
	72,300	48,060

* An amount of US\$ 28 million (2019: US\$ 18 million) is related to unrealised foreign currency revaluation gain from subsidiaries.

16 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	<i>Six months ended</i>	
	30 June	30 June
	2020	2019
	US\$ '000	US\$ '000
Cash and balances with banks	(16)	188
Receivables	112,649	18,782
Mudaraba and Musharaka financing	11,108	1,424
Ijarah Muntahia Bittamleek	4,836	1,205
Investments	709	8,147
Other assets	(931)	(285)
Other liabilities	(1,685)	(996)
	126,670	28,465

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

17 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	<i>Associated companies</i>	<i>Major shareholders</i>	<i>Directors and key management personnel</i>	<i>Other related parties</i>	<i>Six months ended</i>	
					<i>30 June 2020</i>	<i>30 June 2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from jointly financed contracts and investments	1,468	-	28	-	1,496	1,373
Net (loss)/income from self financed contracts and investments	-	-	-	-	-	(1,531)
Return on equity of investment accountholders	195	1,693	318	-	2,206	1,180
Fees and commission income	229	-	-	-	229	252

The significant balances with related parties were as follows:

	<i>Associated companies</i>	<i>Major shareholders</i>	<i>Directors and key management personnel</i>	<i>Other related parties</i>	<i>30 June</i>	<i>Audited</i>
					<i>2020</i>	<i>31 December 2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Assets						
Receivables	3,758	-	153	-	3,911	2,441
Mudaraba and Musharaka financing	-	-	1,425	-	1,425	1,656
Investments	18,709	-	-	155	18,864	15,783
Ijarah Muntahia Bittamleek	-	-	21	-	21	62
Other assets	2,387	-	467	139	2,993	2,154
Liabilities						
Customer current and other accounts	5,366	2,201	1,394	4	8,965	34,534
Due to banks	38	-	-	-	38	7
Other liabilities	-	3,953	16	-	3,969	8
Equity of investment accountholders	12,146	18,842	18,785	-	49,773	24,347
Off-balance sheet equity of investment accountholders	16,695	12,810	6,913	-	36,418	47,366

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

18 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

- Middle East
- North Africa
- Europe
- Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's interim condensed consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segments are presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment accountholders were as follows:

Segment	30 June 2020			Audited 31 December 2019		
	Assets	Liabilities	Equity of investment accountholders	Assets	Liabilities	Equity of investment accountholders
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Middle East	13,176,275	3,185,419	8,680,194	13,147,200	3,183,416	8,602,235
North Africa	2,600,763	1,373,329	947,090	2,711,726	1,412,977	992,650
Europe	8,518,692	3,917,799	4,176,267	8,509,482	3,654,755	4,361,686
Others	1,831,318	571,766	1,112,202	1,890,123	528,317	1,199,305
	26,127,048	9,048,313	14,915,753	26,258,531	8,779,465	15,155,876

Segment operating income, net operating income and net income were as follows:

Segment	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Total operating income	Net operating income	Net income	Total operating income	Net operating income	Net income
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Middle East	296,585	170,910	60,543	221,360	104,441	54,470
North Africa	62,032	27,265	14,660	72,865	42,452	24,107
Europe	147,380	59,165	6,760	104,255	10,080	9,807
Others	46,714	17,249	8,412	43,864	12,737	6,988
	552,711	274,589	90,375	442,344	169,710	95,372

19 CASH AND CASH EQUIVALENTS

	Six months ended	
	30 June 2020	30 June 2019
	US\$ '000	US\$ '000
Balances with central banks excluding mandatory reserve	1,286,933	1,188,217
Balances with other banks	605,700	313,744
Cash and cash in transit	743,906	681,057
	2,636,539	2,183,018

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

20 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 30 June 2020 is 252%.

The NSFR (as a percentage) must be calculated as follows:

Item	<u>Unweighted Values (i.e. before applying relevant factors)</u>				Total weighted value US\$ '000
	No specified maturity US\$ '000	Less than 6 months US\$ '000	More than 6 months and less than one year US\$ '000	Over one year US\$ '000	
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	1,755,909	-	-	234,985	1,990,894
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits	-	3,511,587	298,707	168,829	3,788,609
Less stable deposits	-	5,045,486	2,719,204	468,489	7,456,710
Wholesale funding:					
Operational deposits	-	131,232	-	-	65,616
Other wholesale funding	-	3,269,777	937,648	169,000	1,723,198
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	945,712	160,365	98,550	98,550
Total ASF	1,755,909	12,903,794	4,115,924	1,139,853	15,123,577
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	3,025,667	1,157,550	-	-	30,163
Deposits held at other financial institutions for operational purposes	-	47,672	-	-	23,836
Performing financing and sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level and unsecured performing financial institutions	-	624,082	3,032	74,135	169,263

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

20 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	<i>Unweighted Values (i.e. before applying relevant factors)</i>				Total weighted value US\$ '000
	No specified maturity US\$ '000	Less than 6 months US\$ '000	More than 6 months and less than one year US\$ '000	Over one year US\$ '000	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:					
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio	-	3,001,773	2,386,771	-	2,694,272
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio	-	-	-	1,384,027	899,617
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	5,812	2,599	1,016	864
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets					
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	1,803,224	-	2,533	184,663	1,854,727
OBS items	3,784,809	-	-	-	189,240
Total RSF	8,613,700	4,836,889	2,394,935	1,643,841	5,861,982
NSFR (%)	20%	267%	172%	69%	258%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

21 FINANCIAL RISK MANAGEMENT

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

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, manufacturing, tourism, leisure, airlines transportation, retailers, contracting, real estate and wholesale trading. Also the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

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

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR). The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL). In this regards, the ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly.

Liquidity Risk

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of ICR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021, and to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

21 FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carry out granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding. Further information on the regulatory liquidity and capital ratios as at 30 June 2020 have been disclosed in financial statements.

Operational risk

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes and the use of internal audit to prevent and detect risks. While these risks cannot be completely eliminated, the operational risk department has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment. As of 30 June 2020, the Group did not have any significant issues relating to operational risks.

Al Baraka Banking Group B.S.C.

SUPPLEMENTARY FINANCIAL INFORMATION

At 30 June 2020 (Unreviewed)

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

Al Baraka Banking Group B.S.C.

SUPPLEMENTARY DISCLOSURES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

At 30 June 2020

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. Global equity and commodity markets, in particular the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, expected credit losses, onerous contract etc.

The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications and offset such slowdown in economies. More specifically, the Central Bank of Bahrain and government has introduced following fiscal stimulus package:

- Payment holiday for 6 months to eligible customers free of any additional profit;
- Concessionary repo to eligible banks free of cost or zero percent profit rate;
- Reduction of cash reserve ratio as 5% to 3% of subjective liabilities;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Allowing to addback any additional impact on "Owners' Equity", from modification loss and expected credit loss net of any subsidy/ grant, to equity for the determination of capital adequacy ratio during the financial year 2020 and 2021. Thereafter, such amount will be amortized over period of three year on an equal basis.
- Support provided to local business in the form of subsidy in utility bills and staff salaries for a period of three months.

A summary of major financial impacts on the Group are given as follows:

	Net Impacts on Group's		
	Consolidated	Consolidate	Consolidate
	Income	Statement of	Owner's
	Statement	Financial	Equity
	US \$ '000	US \$ '000	US \$ '000
Modification loss	-	(8,835)	(8,835)
Amortization of Modification Loss	5,890	5,890	5,890
Government Grant	-	-	1,914
Concessionary REPO	-	79,576	-
Average Reduction In Reserves	-	10,837	-
ECLs attributable to COVID 19	(37,889)	(37,889)	(37,889)