

Al Baraka Banking Group B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 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 September 2020, comprising of the interim consolidated statement of financial position as at 30 September 2020, the related interim consolidated statement of income for the three and nine months 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 nine-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.



9 November 2020
Manama, Kingdom of Bahrain

Al Baraka Banking Group B.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020 (Reviewed)

		Reviewed 30 September 2020 US\$ '000	Audited 31 December 2019 US\$ '000
	<i>Notes</i>		
ASSETS			
Cash and balances with banks	3	4,797,674	5,386,926
Receivables	4	11,348,207	10,894,937
Mudaraba and Musharaka financing	5	2,587,427	3,228,615
Ijarah Muntahia Bittamleek	6	1,724,745	1,756,756
Investments	7	5,355,022	3,872,538
Property and equipment		443,783	455,031
Other assets	8	657,710	663,728
TOTAL ASSETS		26,914,568	26,258,531
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		6,783,017	6,195,073
Due to banks		1,195,111	1,106,923
Long term financing	9	363,032	379,269
Other liabilities	10	1,228,132	1,098,200
Total liabilities		9,569,292	8,779,465
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		679,431	542,078
Non-financial institutions and individuals		14,508,748	14,613,798
Total equity of investment accountholders	11	15,188,179	15,155,876
OWNERS' EQUITY			
Share capital	14	1,242,879	1,242,879
Treasury shares		(8,295)	(8,308)
Share premium		18,084	18,138
Perpetual tier 1 capital		400,000	400,000
Reserves		176,118	177,254
Cumulative changes in fair values		29,767	29,370
Foreign currency translations	14	(854,541)	(752,068)
Retained earnings		386,127	335,089
Proposed appropriations	14	-	24,858
Equity attributable to parent's shareholders and Sukuk holders		1,390,139	1,467,212
Non-controlling interest		766,958	855,978
Total owners' equity		2,157,097	2,323,190
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		26,914,568	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 nine months ended 30 September 2020 (Reviewed)

	Notes	Three months ended		Nine months ended	
		30 September 2020	30 September 2019	30 September 2020	30 September 2019
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
INCOME					
Net income from jointly financed contracts and investments		316,059	340,686	984,420	1,025,552
Return on equity of investment accountholders before Group's share as a Mudarib		(257,847)	(312,529)	(830,783)	(913,259)
Group's share as a Mudarib		94,057	82,730	299,550	251,811
Return on equity of investment accountholders		(163,790)	(229,799)	(531,233)	(661,448)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmaal)		152,269	110,887	453,187	364,104
Mudarib share for managing off-balance sheet equity of investment accountholders		1,549	1,630	9,452	8,502
Net income from self financed contracts and investments		78,698	58,411	203,684	142,093
Fees and commission income		59,159	55,067	123,853	137,575
Other operating income	15	783	15,348	73,083	63,408
		292,458	241,343	863,259	715,682
Profit paid on long term financing		(5,929)	(6,774)	(24,019)	(38,769)
TOTAL OPERATING INCOME		286,529	234,569	839,240	676,913
OPERATING EXPENSES					
Staff expenses		71,756	80,351	231,423	241,334
Depreciation and amortisation		9,605	12,782	29,322	33,034
Other operating expenses		47,534	43,337	146,272	134,736
TOTAL OPERATING EXPENSES		128,895	136,470	407,017	409,104
NET INCOME FOR THE PERIOD BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		157,634	98,099	432,223	267,809
Net allowance for credit losses / impairment	16	(90,579)	(42,885)	(217,249)	(71,350)
NET INCOME FOR THE PERIOD BEFORE TAXATION		67,055	55,214	214,974	196,459
Taxation		(25,094)	(18,843)	(82,638)	(64,716)
NET INCOME FOR THE PERIOD		41,961	36,371	132,336	131,743
Attributable to:					
Equity holders of the parent		19,873	27,592	66,960	83,754
Non-controlling interest		22,088	8,779	65,376	47,989
		41,961	36,371	132,336	131,743
Basic and diluted earnings per share - US cents	13	1.61	2.24	4.15	5.51



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 nine months ended 30 September 2020 (Reviewed)

	<i>Nine months ended</i>	
	<i>30 September 2020</i>	<i>30 September 2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
OPERATING ACTIVITIES		
Net income for the period before taxation	214,974	196,459
Adjustments for:		
Depreciation and amortisation	29,322	33,034
Depreciation on Ijarah Muntahia Bittamleek	149,836	150,008
Unrealised gain on equity and debt-type instruments at fair value through statement of income	(13,519)	(14,149)
Gain on disposal of property and equipment	(6,295)	(3,964)
Gain on disposal of investment in real estate	(3,171)	(408)
Gain on disposal of equity-type instruments at fair value through equity	(1,020)	(69)
Gain on disposal of equity and debt-type instruments at fair value through statement of income	(208)	(3,989)
Net allowance for credit losses / impairment	217,249	71,350
Income from associates	(4,865)	(6,466)
Modification loss net of government assistance	(6,370)	-
Operating profit before changes in operating assets and liabilities	575,933	421,806
Net changes in operating assets and liabilities:		
Reserves with central banks	249,812	(124,031)
Receivables	(635,104)	(501,863)
Mudaraba and Musharaka financing	630,958	(499,426)
Ijarah Muntahia Bittamleek	(121,248)	(116,278)
Other assets	(13,581)	(99,442)
Customer current and other accounts	587,948	531,434
Due to banks	88,188	(31,111)
Other liabilities	120,698	227,755
Equity of investment accountholders	33,961	1,411,857
Taxation paid	(86,623)	(83,359)
Net cash from operating activities	1,430,942	1,137,342
INVESTING ACTIVITIES		
Net purchase of investments	(1,465,971)	(548,108)
Net purchase of property and equipment	(5,298)	(66,360)
Net movement in associates	2,359	279
Net disposal of investment in associates	2,605	2,351
Net cash used in investing activities	(1,466,305)	(611,838)
FINANCING ACTIVITIES		
Dividends paid to equity holders of the parent	(24,858)	(37,286)
Net movement in treasury shares	346	130
Profit distributed on perpetual tier 1 capital	(15,750)	(15,750)
Profit distributed on perpetual tier 1 capital issued by subsidiaries	7,229	3,574
Long term financing	(16,238)	(635,045)
Net change in non-controlling interest	(26,377)	(35,256)
Net cash used in financing activities	(75,648)	(719,633)
Foreign currency translation adjustments	(228,425)	(84,390)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(339,436)	(278,519)
Cash and cash equivalents at 1 January	2,926,184	2,917,794
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER (note 19)	2,586,748	2,639,275

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 nine months ended 30 September 2020 (Reviewed)

Equity attributable to parent's shareholders and Sukuk holders														
	Reserves										Non-controlling interest US\$ '000	Total owners' equity US\$ '000		
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Perpetual tier 1 capital US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	Cumulative changes in fair value of investments US\$ '000	Cumulative changes in fair value of property and equipment US\$ '000	Foreign currency translation US\$ '000	Retained earnings US\$ '000			Appropriations US\$ '000	Total US\$ '000
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	-	13	(54)	-	-	-	-	-	-	388	-	347	-	347
Net movement in other reserves	-	-	-	-	-	(1,136)	-	-	-	-	-	(1,136)	(2,042)	(3,178)
Net movement in cumulative changes in fair values	-	-	-	-	-	-	397	-	-	-	-	397	213	610
Foreign currency translations	-	-	-	-	-	-	-	-	(102,473)	-	-	(102,473)	(125,952)	(228,425)
Net income for the period	-	-	-	-	-	-	-	-	-	66,960	-	66,960	65,376	132,336
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(12,712)	(12,712)
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	-	-	-	-	-	-	-	-	-	7,229	-	7,229	(12,706)	(5,477)
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	-	-	-	-	-	-	-	-	-	-	-	-	(408)	(408)
At 30 September 2020	1,242,879	(8,295)	18,084	400,000	176,118	-	5,613	24,154	(854,541)	386,127	-	1,390,139	766,958	2,157,097

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 nine months ended 30 September 2020 (Reviewed)

	Equity attributable to parent's shareholders and Sukuk holders													
	Reserves										Non-controlling interest US\$ '000	Total owners' equity US\$ '000		
	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Perpetual tier 1 capital US\$ '000	Statutory reserve US\$ '000	Other reserves US\$ '000	Cumulative changes in fair value of investments US\$ '000	Cumulative changes in fair value of property and equipment US\$ '000	Foreign currency translation US\$ '000	Retained earnings US\$ '000			Appropriations US\$ '000	Total US\$ '000
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	-	449	(319)	-	-	-	-	-	-	-	-	130	-	130
Net movement in other reserves	-	-	-	-	-	286	-	-	-	-	-	286	563	849
Net movement in cumulative changes in fair values	-	-	-	-	-	-	(2,223)	-	-	-	-	(2,223)	(194)	(2,417)
Foreign currency translations	-	-	-	-	-	-	-	-	(66,481)	-	-	(66,481)	(17,909)	(84,390)
Net income for the period	-	-	-	-	-	-	-	-	-	83,754	-	83,754	47,989	131,743
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(2,235)	-	-	(26,755)	(26,755)
Allocation of Zakah	-	-	-	-	-	-	-	-	-	-	-	(2,235)	-	(2,235)
Profit distribution on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	3,574	-	3,574	(8,888)	(5,314)
Effect of change in ownership	-	-	-	-	-	-	-	-	-	(3,615)	-	(3,615)	3,615	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	386	386
At 30 September 2019	1,242,879	(8,754)	18,510	400,000	165,551	286	2,516	27,190	(927,794)	585,315	-	1,505,699	709,249	2,214,948

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 nine months ended 30 September 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	127,886	262,485	305,260	(1,725)	22,117	12,719	728,742
Withdrawals	(87,606)	(144,224)	(252,825)	(336)	(15,576)	(146,798)	(647,365)
Income net of expenses	-	11,728	2,037	132	5,222	4,141	23,260
Mudarib's share	-	(7,155)	(2,069)	-	(98)	(130)	(9,452)
Foreign exchange translation	-	6,548	-	-	-	(1,189)	5,359
At 30 September 2020	96,321	593,743	474,891	44,791	154,667	155,072	1,519,485
At 1 January 2019	30,447	295,001	335,288	48,468	159,134	125,700	994,038
Deposits	177,659	428,615	267,050	238	14,109	30,317	917,988
Withdrawals	(166,175)	(212,192)	(213,117)	-	(21,807)	(4,407)	(617,698)
Income net of expenses	-	25,561	4,031	-	11,580	2,853	44,025
Mudarib's share	-	(5,699)	(2,244)	-	(130)	(429)	(8,502)
Foreign exchange translation	-	7,930	-	-	-	344	8,274
At 30 September 2019	41,931	539,216	391,008	48,706	162,886	154,378	1,338,125

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 September 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

The interim condensed consolidated financial statements/information of the Group 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 21 June 2020, require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) with two exceptions which are set out below. In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI".

The two exceptions mentioned above are as follows:

- (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) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in statement of changes in owner's equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

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 nine months period ended 30 September 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 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 September 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.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with FAS issued by AAOIFI. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these interim condensed consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

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 (ECL), 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 US\$ 8.8 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 US\$ 301.1 million as part of its support to impacted customers.

Government assistance and subsidies

As per the regulatory directive, financial assistance amounting to US\$ 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.

Liquidity support

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 Group raised US\$ 79.6 million against REPO of investments in Government of Bahrain Sukuk which were matured during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Group****Adoption of FAS 33 Investment in sukuk, shares and similar instruments**

This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held.

The Group's assessment indicates the above accounting standard does not have an impact on the Group's consolidated financial statements.

Adoption of FAS 34 Financial Reporting for Sukuk - holders

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

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. Management believes that 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 9 November 2020.

3 CASH AND BALANCES WITH BANKS

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Balances with central banks	3,482,030	3,956,830
Balances with other banks	540,707	707,214
Cash and cash in transit	778,626	726,567
Less: allowance for credit losses	(3,689)	(3,685)
	4,797,674	5,386,926

4 RECEIVABLES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Sales (Murabaha) receivables	11,539,680	10,944,436
Ijarah receivables	143,920	97,919
Salam receivables	215,672	265,926
Istisna'a receivables	172,451	157,738
Less: allowance for credit losses	(723,516)	(571,082)
	11,348,207	10,894,937

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

4 RECEIVABLES (continued)

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.

	Reviewed 30 September 2020				Audited 31 December 2019
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Good (1-4)	2,665,744	149,273	-	2,815,017	2,798,537
Satisfactory (5-7)	6,662,855	1,682,802	-	8,345,657	7,865,178
Default (8-10)	-	-	911,049	911,049	802,304
Less: allowance for credit losses	(71,386)	(187,403)	(464,727)	(723,516)	(571,082)
	9,257,213	1,644,672	446,322	11,348,207	10,894,937

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

	Reviewed 30 September 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	17,729	43,659	151,868	213,256	158,287
Recoveries / write-backs	-	-	(31,423)	(31,423)	(46,050)
Allocation from (to) investment risk reserve	7,472	34,432	(19,291)	22,613	5,717
Amounts written off	-	-	(167)	(167)	(113,220)
FX translation / others	(8,177)	(6,407)	(37,261)	(51,845)	(155)
	71,386	187,403	464,727	723,516	571,082

5 MUDARABA AND MUSHARAKA FINANCING

	Reviewed 30 September 2020 US\$ '000	Audited 31 December 2019 US\$ '000
Mudaraba financing	1,609,730	2,207,515
Musharaka financing	1,007,761	1,040,725
Less: allowance for credit losses	(30,064)	(19,625)
	2,587,427	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.

	Reviewed 30 September 2020				Audited 31 December 2019
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Good (1-4)	497,360	98,449	-	595,809	2,221,299
Satisfactory (5-7)	1,553,739	425,580	-	1,979,319	989,215
Default (8-10)	-	-	42,363	42,363	37,726
Less: allowance for credit losses	(4,339)	(8,886)	(16,839)	(30,064)	(19,625)
	2,046,760	515,143	25,524	2,587,427	3,228,615

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

5 MUDARABA AND MUSHARAKA FINANCING (continued)

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

	Reviewed 30 September 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	1,692	6,494	2,289	10,475	2,058
Recoveries / write-backs	-	-	(246)	(246)	(319)
Allocation from (to) investment risk reserve	399	(6)	(5)	388	101
Amounts written off	-	-	-	-	(565)
FX translation / others	(249)	(10)	81	(178)	(1,558)
	4,339	8,886	16,839	30,064	19,625

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.

	Reviewed 30 September 2020			Audited 31 December 2019	
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Good (1-4)	431,707	6,722	-	438,429	466,750
Satisfactory (5-7)	1,012,766	293,204	-	1,305,970	1,307,793
Default (8-10)	-	-	-	-	-
Less: allowance for credit losses	(2,950)	(16,704)	-	(19,654)	(17,787)
	1,441,523	283,222	-	1,724,745	1,756,756

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

	Reviewed 30 September 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	4,625	13,162	-	17,787	18,586
Net remeasurement of loss allowance	(1,245)	4,668	-	3,423	(588)
FX translation / others	(430)	(1,126)	-	(1,556)	(211)
	2,950	16,704	-	19,654	17,787

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

7 INVESTMENTS

	<i>Reviewed</i> 30 September 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Equity and debt-type instruments at fair value through statement of income (7.1)	239,737	291,611
Equity-type instruments at fair value through equity (7.2)	97,997	94,446
Debt-type instruments at amortised cost (7.3)	4,789,161	3,235,903
	5,126,895	3,621,960
Investment in real estate (7.4)	184,069	206,108
Investment in associates	44,058	44,470
	5,355,022	3,872,538

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

	<i>Reviewed</i> 30 September 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Quoted investments		
Debt instruments	1,193	2,939
Equity securities	224,129	284,855
Unquoted investments		
Debt instruments	262	-
Equity securities	14,153	3,817
	239,737	291,611

7.2 Equity-type instruments at fair value through statement of equity

	<i>Reviewed</i> 30 September 2020 <i>US\$ '000</i>	<i>Audited</i> 31 December 2019 <i>US\$ '000</i>
Quoted investments		
Equity securities	35,899	39,139
Managed funds	8,012	8,282
	43,911	47,421
Unquoted investments		
Equity securities	27,593	37,621
Managed funds	33,057	16,214
	60,650	53,835
Provision for impairment	(6,564)	(6,810)
	97,997	94,446

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

7 INVESTMENTS (continued)

7.3 Debt-type instruments at amortised cost

	Reviewed 30 September 2020 US\$ '000	Audited 31 December 2019 US\$ '000
Quoted investments		
Sukuk and similar items	3,141,234	2,352,528
	3,141,234	2,352,528
Unquoted investments		
Sukuk and similar items	1,656,253	891,175
Less: allowance for credit losses	(8,326)	(7,800)
	4,789,161	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\$ 5,009 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.

	Reviewed 30 September 2020				Audited 31 December 2019
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Good (1-4)	4,226,323	-	-	4,226,323	2,700,451
Satisfactory (5-7)	523,210	45,389	-	568,599	540,687
Default (8-10)	-	-	2,565	2,565	2,565
Less: allowance for credit losses	(4,715)	(1,046)	(2,565)	(8,326)	(7,800)
	4,744,818	44,343	-	4,789,161	3,235,903

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

	Reviewed 30 September 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	4,650	585	2,565	7,800	11,602
Net remeasurement of loss allowance	(200)	240	-	40	2,322
Allocation (to) from investment risk reserve	34	221	-	255	(4,045)
Amounts written off	-	-	-	-	(2,302)
FX translation / others	231	-	-	231	223
	4,715	1,046	2,565	8,326	7,800

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

7 INVESTMENTS (continued)

7.4 Investment in real estate

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Land	121,179	125,452
Buildings	62,890	80,656
	184,069	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 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Beginning balance of the period / year	206,108	215,530
Acquisition	1,565	15,584
Net gain from fair value adjustments	217	6,075
Disposal	(21,555)	(82)
Transfer	-	(27,178)
Foreign exchange translation - net	(2,266)	(3,821)
	(22,039)	(9,422)
	184,069	206,108

8 OTHER ASSETS

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Bills receivable	182,273	199,615
Goodwill and intangible assets	71,269	75,082
Collateral pending sale	181,925	220,610
Prepayments	26,601	30,177
Deferred taxation	62,306	62,850
Good faith qard fund	113,672	68,622
Others	53,289	29,953
	691,335	686,909
Less: allowance for credit losses	(33,625)	(23,181)
	657,710	663,728

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

9 LONG TERM FINANCING

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Murabaha financing	75,581	99,841
Subordinated financing obtained by a subsidiary	287,451	279,428
	363,032	379,269

10 OTHER LIABILITIES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Payables	618,178	517,130
Cash margins	215,750	224,177
Managers' cheques	110,264	94,500
Current taxation	67,821	74,885
Deferred taxation	9,233	6,698
Accrued expenses	80,176	97,931
Charity fund	31,297	36,645
Others	63,096	23,097
Allowance for credit losses on unfunded exposures	32,317	23,137
	1,228,132	1,098,200

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Equity of investment accountholders	15,119,441	15,063,854
Profit equalisation reserve	4,257	7,400
Investment risk reserve	58,404	77,199
Cumulative changes in fair value attributable to equity of investment accountholders - net	6,077	7,423
	15,188,179	15,155,876

12 COMMITMENTS AND CONTINGENCIES

	<i>Reviewed</i> 30 September 2020 US\$ '000	<i>Audited</i> 31 December 2019 US\$ '000
Letters of credit	548,811	635,669
Guarantees	1,703,057	2,027,755
Acceptances	87,800	111,075
Undrawn commitments	734,438	874,750
Sharia'a compliant promise contracts	646,233	84,641
	3,720,339	3,733,890

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 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>Three months ended</i>		<i>Nine months ended</i>	
	30 September	30 September	30 September	30 September
	2020	2019	2020	2019
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net income attributable to the equity holders of the parent for the period - US\$ '000	19,873	27,592	66,960	83,754
Less: Profit distributed on perpetual tier 1 capital	-	-	(15,750)	(15,750)
Net income attributable to the shareholders equity	19,873	27,592	51,210	68,004
Weighted number of shares outstanding at beginning of the period (in thousands)	1,242,879	1,242,879	1,242,879	1,242,879
Treasury shares effect (in thousands)	(8,250)	(8,791)	(8,362)	(8,867)
Weighted number of shares outstanding at end of the period - (in thousands)	1,234,629	1,234,088	1,234,517	1,234,012
Earnings per share - US cents	1.61	2.24	4.15	5.51

14 OWNERS' EQUITY

	<i>Reviewed</i>	<i>Audited</i>
	30 September	31 December
	2020	2019
	US\$ '000	US\$ '000
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.

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 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 30 September 2020 US\$ '000	Audited 31 December 2019 US\$ '000
Banque Al Baraka D'Algerie	Algerian Dinar	66,500	57,159
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	33,676	30,006
Al Baraka Bank Egypt	Egyptian Pound	118,490	121,363
Al Baraka Turk Participation Bank	Turkish Lira	439,701	373,936
Al Baraka Bank Limited	South African Rand	24,433	18,593
Al Baraka Bank Sudan	Sudanese Pound	91,118	85,822
Al Baraka Bank Tunis	Tunisian Dinar	30,350	31,437
Al Baraka Bank Syria	Syrian Pound	50,480	33,534
BTI Bank	Moroccan Dirham	(207)	218
		854,541	752,068

15 OTHER OPERATING INCOME

	Nine months ended	
	30 September 2020 US\$ '000	30 September 2019 US\$ '000
Foreign exchange gain*	66,789	54,225
Gain on sale of property and equipment	6,294	9,183
	73,083	63,408

* An amount of US\$ 31 million (2019: US\$ 18 million) is related to unrealised foreign currency revaluation gain from subsidiaries.

16 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	Nine months ended	
	30 September 2020 US\$ '000	30 September 2019 US\$ '000
Cash and balances with banks	8	124
Receivables	181,833	67,164
Mudaraba and Musharaka financing	10,229	1,331
Ijarah Muntahia Bittamleek	3,423	(1,043)
Investments	251	3,072
Other assets	11,032	(1,218)
Other liabilities	10,473	1,920
	217,249	71,350

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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:

	Associated companies US\$ '000	Major shareholders US\$ '000	Directors and key management personnel US\$ '000	Other related parties US\$ '000	Nine months ended	
					30 September 2020 US\$ '000	30 September 2019 US\$ '000
Net income from jointly financed contracts and investments	2,215	-	22	-	2,237	2,694
Net loss from self financed contracts and investments	-	-	-	-	-	(1,591)
Return on equity of investment accountholders	209	2,359	491	-	3,059	1,430
Fees and commission income	3,343	-	-	-	3,343	2,252

The significant balances with related parties were as follows:

	Associated companies US\$ '000	Major shareholders US\$ '000	Directors and key management personnel US\$ '000	Other related parties US\$ '000	Reviewed 30 September 2020 US\$ '000	Audited 31 December 2019 US\$ '000
Assets						
Receivables	4,456	-	169	-	4,625	2,441
Mudaraba and Musharaka financing	-	-	1,298	-	1,298	1,656
Investments	17,047	-	-	-	17,047	15,783
Ijarah Muntahia Bittamleek	-	-	-	-	-	62
Other assets	1,026	-	446	141	1,613	2,154
Liabilities						
Customer current and other accounts	4,012	2,799	2,157	4	8,972	34,534
Due to banks	13	471	-	-	484	7
Other liabilities	-	-	-	-	-	8
Equity of investment accountholders	12,345	1,637	17,074	-	31,056	24,347
Off-balance sheet equity of investment accountholders	14,528	9,096	1,086	-	24,710	47,366

Al Baraka Banking Group B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 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 September 2020			Audited 31 December 2019		
	Assets US\$ '000	Liabilities US\$ '000	Equity of investment accountholders US\$ '000	Assets US\$ '000	Liabilities US\$ '000	Equity of investment accountholders US\$ '000
Middle East	13,677,031	3,226,031	9,104,286	13,147,200	3,183,416	8,602,235
North Africa	2,586,348	1,377,768	915,825	2,711,726	1,412,977	992,650
Europe	8,644,089	4,332,658	3,949,406	8,509,482	3,654,755	4,361,686
Others	2,007,100	632,835	1,218,662	1,890,123	528,317	1,199,305
	26,914,568	9,569,292	15,188,179	26,258,531	8,779,465	15,155,876

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

Segment	Nine months ended 30 September 2020			Nine months ended 30 September 2019		
	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000
Middle East	419,325	240,578	90,924	357,559	181,789	104,697
North Africa	92,182	44,575	24,198	106,277	59,484	37,795
Europe	252,843	118,133	2,879	151,272	11,816	(19,811)
Others	74,890	28,937	14,335	61,805	14,720	9,062
	839,240	432,223	132,336	676,913	267,809	131,743

19 CASH AND CASH EQUIVALENTS

	Nine months ended	
	30 September 2020 US\$ '000	30 September 2019 US\$ '000
Balances with central banks excluding mandatory reserve	1,267,415	1,220,104
Balances with other banks	540,707	716,324
Cash and cash in transit	778,626	702,847
	2,586,748	2,639,275

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 September 2020 is 258%.

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	1,772,559	-	-	274,443	2,047,002
Other Capital Instruments					
Retail deposits and deposits from small business customers:					
Stable deposits	-	3,332,607	263,302	307,788	3,723,902
Less: stable deposits	-	6,311,339	1,824,748	822,688	8,145,167
Wholesale funding:					
Operational deposits	-	7,023	-	-	3,512
Other wholesale funding	-	3,470,191	455,163	163,398	1,520,445
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	961,659	160,417	131,486	131,486
Total ASF	1,772,559	14,082,819	2,703,630	1,699,803	15,571,514
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	3,462,116	1,621,151	-	-	37,696
Deposits held at other financial institutions for operational purposes	-	56,622	-	-	28,311
Performing financing and Sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 and unsecured performing financing financial institutions	-	499,187	149	72,503	147,455

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

20 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors)				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 guidelines	-	3,269,732	2,025,056	-	2,647,394
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	1,435,462	933,050
Securities/Sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	29,711	-	12,183	25,211
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	1,891,029	-	2,528	160,790	2,045,652
OBS items	3,535,736	-	-	-	176,787
Total RSF	8,888,881	5,476,403	2,027,733	1,680,938	6,041,556
NSFR (%)	20%	257%	133%	101%	258%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 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 September 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. Asset-Liability Committee (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 September 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 September 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 September 2020

**(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 September 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, ECL, 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 ECL 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		
	Consolidated	Statement of	Consolidated
	Income	Financial	Owner's
	Statement	Position	Equity
	US \$ '000	US \$ '000	US \$ '000
Modification loss	-	(8,836)	(8,836)
Amortization of modification loss	8,836	8,836	8,836
Government grant	-	-	1,914
Concessionary REPO (matured during the period)	-	79,576	-
Average reduction in reserves	-	10,837	-
ECLs attributable to COVID-19	(128,468)	(128,468)	(128,468)