Al Baraka Banking Group B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2021 (REVIEWED)

Building a better working world

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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 31 March 2021, comprising of the interim consolidated statement of financial position as at 31 March 2021, the related interim consolidated statements of income, cash flows, changes in equity and changes in off-balance sheet equity of investment accountholders for the three-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.

Ernst + Young

10 May 2021
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2021 (Reviewed)

	Notes	***Reviewed 31 March 2021 US$ '000***	*Audited 31 December 2020 US$ '000*
ASSETS			
Cash and balances with banks	3	**5,280,736**	5,361,444
Receivables	4	**11,546,400**	11,945,993
Mudaraba and Musharaka financing	5	**3,531,783**	2,854,658
Ijarah Muntahia Bittamleek	6	**1,791,828**	1,747,627
Investments	7	**4,606,528**	5,097,189
Property and equipment		**531,265**	478,572
Other assets	8	**720,497**	764,516
TOTAL ASSETS		**28,009,037**	28,249,999
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY			
LIABILITIES			
Customer current and other accounts		**6,918,529**	7,508,344
Due to banks		**1,825,073**	1,907,206
Long term financing	9	**550,232**	319,364
Other liabilities	10	**1,194,284**	1,062,502
Total liabilities		**10,488,118**	10,797,416
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		**669,677**	538,177
Non-financial institutions and individuals		**14,694,456**	14,692,012
Total equity of investment accountholders	11	**15,364,133**	15,230,189
EQUITY			
Share capital	14	**1,242,879**	1,242,879
Treasury shares		**(17,704)**	(17,462)
Share premium		**18,241**	18,084
Reserves		**184,620**	183,121
Cumulative changes in fair values		**30,912**	32,940
Foreign currency translation reserve	14	**(858,360)**	(800,489)
Retained earnings		**388,919**	364,496
Equity attributable to parent's shareholders		**989,507**	1,023,569
Perpetual tier 1 capital		**400,000**	400,000
Equity attributable to parent's shareholders and Sukuk holders		**1,389,507**	1,423,569
Non-controlling interest		**767,279**	798,825
TOTAL EQUITY		**2,156,786**	2,222,394
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY		**28,009,037**	28,249,999

Abdulla Saleh Kamel
Chairman

Mazin Manna
Member of the Board and Group Chief Executive

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

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 31 March 2021 (Reviewed)

	Notes	Three months ended 31 March 2021 US$ '000	Three months ended 31 March 2020 US$ '000
INCOME			
Net income from jointly financed contracts and investments		**320,183**	345,828
Return on equity of investment accountholders before Group's share as a Mudarib		**(264,937)**	(304,141)
Group's share as a Mudarib		**87,693**	108,697
Return on equity of investment accountholders		**(177,244)**	(195,444)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**142,939**	150,384
Mudarib share for managing off-balance sheet equity of investment accountholders		**145**	2,098
Net income from self financed contracts and investments		**51,789**	67,170
Fees and commission income		**47,134**	33,633
Other operating (loss) / income	15	**(5,185)**	9,774
		236,822	263,059
Profit paid on long term financing		**(7,721)**	(8,176)
TOTAL OPERATING INCOME		**229,101**	254,883
OPERATING EXPENSES			
Staff expenses		**71,938**	89,464
Depreciation and amortisation		**19,483**	9,946
Other operating expenses		**44,221**	54,035
TOTAL OPERATING EXPENSES		**135,642**	153,445
NET INCOME FOR THE PERIOD BEFORE NET ALLOWANCE FOR EXPECTED CREDIT LOSSES / IMPAIRMENT AND TAXATION		**93,459**	101,438
Net allowance for expected credit losses / impairment	16	**(27,526)**	(40,496)
NET INCOME FOR THE PERIOD BEFORE TAXATION		**65,933**	60,942
Taxation		**(24,953)**	(20,878)
NET INCOME FOR THE PERIOD		**40,980**	40,064
Attributable to:			
Equity holders of the parent		**25,585**	24,351
Non-controlling interest		**15,395**	15,713
		40,980	40,064
Basic and diluted earnings per share - US cents	13	**2.11**	1.97

Abdulla Saleh Kamel
Chairman

Mazin Manna
Member of the board and Group Chief Executive

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2021 (Reviewed)

	Three months ended	
	31 March 2021 US$ '000	*31 March 2020 US$ '000*
OPERATING ACTIVITIES		
Net income for the period before taxation	**65,933**	60,942
Adjustments for:		
Depreciation and amortisation	**19,483**	9,946
Depreciation on Ijarah Muntahia Bittamleek	**63,447**	55,454
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**(4,057)**	(3,193)
Gain on disposal of property and equipment	**(1,597)**	(1,584)
Gain on disposal of investment in real estate	**-**	(2,948)
Gain on disposal of equity-type instruments at fair value through equity	**(2,409)**	(439)
Gain on disposal of equity and debt-type instruments at fair value through statement of income	**(77)**	(121)
Net allowance for expected credit losses / impairment	**27,526**	40,496
Income from associates	**(1,470)**	(3,334)
Operating profit before changes in operating assets and liabilities	**166,779**	155,219
Net changes in operating assets and liabilities:		
Reserves with central banks	**(90,629)**	351,674
Receivables	**380,143**	(29,366)
Mudaraba and Musharaka financing	**(680,250)**	573,479
Ijarah Muntahia Bittamleek	**(108,288)**	(8,095)
Other assets	**(47,493)**	(34,750)
Customer current and other accounts	**(589,824)**	(247,600)
Due to banks	**197,041**	(211,019)
Other liabilities	**(133,511)**	130,716
Equity of investment accountholders	**133,313**	(174,287)
Taxation paid	**(42,398)**	(27,989)
Net cash (used in) / from operating activities	**(815,117)**	477,982
INVESTING ACTIVITIES		
Net purchase of investments	**494,707**	(749,718)
Net purchase of property and equipment	**23,624**	2,326
Net movement in associates	**905**	675
Net disposal of investment in associates	**1,073**	2,834
Net cash from / (used in) investing activities	**520,309**	(743,883)
FINANCING ACTIVITIES		
Dividends paid to equity holders of the parent	**-**	(24,858)
Net movement in treasury shares	**(85)**	4
Profit distributed on perpetual tier 1 capital issued by subsidiaries	**(147)**	(3,897)
Long term financing	**230,868**	59,724
Net change in non-controlling interest	**(6,395)**	(19,560)
Net cash from financing activities	**224,241**	11,413
Foreign currency translation adjustments	**(100,786)**	(122,128)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(171,353)**	(376,616)
Cash and cash equivalents at 1 January	**2,778,177**	2,926,184
CASH AND CASH EQUIVALENTS AT 31 MARCH (note 19)	**2,606,824**	2,549,568

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 EQUITY

For the three months ended 31 March 2021 (Reviewed)

	Equity attributable to parent's shareholders and Sukuk holders												
				Reserves									
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium 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 reserve US$ '000*	*Retained earnings US$ '000*	*Total US$ '000*	*Perpetual tier 1 capital US$ '000*	*Non-controlling interest US$ '000*	*Total equity US$ '000*
At 1 January 2021	1,242,879	(17,462)	18,084	182,776	345	8,786	24,154	(800,489)	364,496	1,023,569	400,000	798,825	2,222,394
Net movement in treasury shares	-	(242)	157	-	-	-	-	-	-	(85)	-	-	(85)
Net movement in other reserves	-	-	-	-	1,499	-	-	-	-	1,499	-	2,774	4,273
Net movement in cumulative changes in fair values	-	-	-	-	-	(2,028)	-	-	-	(2,028)	-	(405)	(2,433)
Foreign currency translations	-	-	-	-	-	-	-	(57,871)	-	(57,871)	-	(42,915)	(100,786)
Net income for the period	-	-	-	-	-	-	-	-	25,585	25,585	-	15,395	40,980
Allocation of Zakah	-	-	-	-	-	-	-	-	(1,015)	(1,015)	-	-	(1,015)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	(147)	(147)	-	(6,353)	(6,500)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(42)	(42)
At 31 March 2021	**1,242,879**	**(17,704)**	**18,241**	**182,776**	**1,844**	**6,758**	**24,154**	**(858,360)**	**388,919**	**989,507**	**400,000**	**767,279**	**2,156,786**

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 EQUITY

For the three months ended 31 March 2021 (Reviewed)

	Equity attributable to parent's shareholders and Sukuk holders													
				Reserves										
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium 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 reserve US$ '000*	*Retained earnings US$ '000*	*Appropriations US$ '000*	*Total US$ '000*	*Perpetual tier 1 capital US$ '000*	*Non-controlling interest US$ '000*	*Total equity US$ '000*
At 1 January 2020	1,242,879	(8,308)	18,138	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,067,212	400,000	855,978	2,323,190
Dividends (note 14)	-	-	-	-	-	-	-	-	-	(24,858)	(24,858)	-	-	(24,858)
Net movement in treasury shares	-	125	(121)	-	-	-	-	-	-	-	4	-	-	4
Net movement in other reserves	-	-	-	-	(1,107)	-	-	-	-	-	(1,107)	-	(576)	(1,683)
Net movement in cumulative changes in fair values	-	-	-	-	-	(1,219)	-	-	-	-	(1,219)	-	(694)	(1,913)
Foreign currency translations	-	-	-	-	-	-	-	(50,745)	-	-	(50,745)	-	(71,382)	(122,127)
Net income for the period	-	-	-	-	-	-	-	-	24,351	-	24,351	-	15,713	40,064
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(13,204)	(13,204)
Allocation of Zakah	-	-	-	-	-	-	-	-	(1,656)	-	(1,656)	-	-	(1,656)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	(3,897)	-	(3,897)	-	(6,353)	(10,250)
Modification loss	-	-	-	-	-	-	-	-	(8,130)		(8,130)	-	(705)	(8,835)
Effect of change in ownership	-	-	-	-	-	-	-	-	252	-	252	-	(252)	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
At 31 March 2020	1,242,879	(8,183)	18,017	176,118	29	3,997	24,154	(802,813)	346,009	-	1,000,207	400,000	778,522	2,178,729

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

For the three months ended 31 March 2021 (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 2021	72,556	569,572	503,823	48,099	160,352	227,508	1,581,910
Transfer on adoption of FAS 31	-	(15,001)	(68,433)	-	-	-	(83,434)
Deposits	46,891	151,370	30,705	-	19,362	4,380	252,708
Withdrawals	(17,430)	(253,799)	(374,700)	-	(17,705)	(17,262)	(680,896)
Income net of expenses	-	6,177	549	-	3,722	2,286	12,734
Mudarib's share	-	(99)	-	-	(44)	(2)	(145)
Foreign exchange translation	-	(13,825)	-	-	-	(8,725)	(22,550)
At 31 March 2021	**102,017**	**444,395**	**91,944**	**48,099**	**165,687**	**208,185**	**1,060,327**
At 1 January 2020	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941
Deposits	41,555	223,630	245,288	482	8,588	155,822	675,365
Withdrawals	(9,659)	(216,755)	(252,049)	(3,709)	(4,660)	(14,938)	(501,770)
Income net of expenses	-	6,814	740	1,307	4,639	1,393	14,893
Mudarib's share	-	(1,060)	(974)	-	(34)	(30)	(2,098)
Foreign exchange translation	-	(5,684)	-	-	-	(1,189)	(6,873)
At 31 March 2020	87,937	471,306	415,493	44,800	151,535	427,387	1,598,458

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

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.

On 30 November 2020, the shareholders of the Bank resolved in an extra-ordinary meeting to change the license of the Bank from Wholesale Banking to “Investment Business Firm - Category 1” subject to approval by the CBB. Furthermore, the shareholders also resolved to change the name of the Bank from Al Baraka Banking Group B.S.C. to Al Baraka Group B.S.C. subject to the approval of Ministry of Industry, Commerce and Tourism (“MOICT”). The change in the name and the license are still in process and have not yet been approved and the Bank’s CR is not yet updated to reflect these changes.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

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$") being the functional currency of the Bank. All values are rounded to the nearest US$ thousand ("US$ '000") unless otherwise indicated.

Statement of compliance

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 CBB circulars issued 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) recognition of modification losses amounted to US$ 8.8 million 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 profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of FAS issued by AAOIFI.

(b) recognition of financial assistance amounted to US$ 1.9 million 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 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Statement of compliance (continued)
FAS issued by AAOIFI along with the two exceptions is referred to as "FAS issued by AAOIFI as modified by the CBB" and has been applied retrospectively and did not result in any change to the financial information reported for the comparative period. The interim condensed consolidated financial statements of the Group have been prepared in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting' using FAS issued by AAOIFI as modified by the CBB framework.

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 2020. In addition, results for the three months period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

These interim condensed consolidated financial statements are consistent with those used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 except for the changes due to adoption of new and amended standards as set out below.

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 particulars 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 Group. 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.

New standards, interpretations and amendments adopted by the Group

Adoption of FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard is effective beginning on or after 1 January 2021, with early adoption permitted. The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

In case of a pass-through investment approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS. The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions described below:

- The instrument is transferable; or
- The investment is made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or
- The role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Adoption of FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)
In case of wakala venture approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet. An agent may maintain multi-level investment arrangements. Under such arrangement, the Group is reinvesting Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The Group has adopted the standard with effect from the current year.

From the principal perspective, the Group opted to use Wakala venture approach instead of pass-through approach given the difficulties for the principal to identify in which assets the funds are invested in, and hence, the investment is accounted for applying the equity method of accounting.

The Group provides funds to other financial institutions under this Wakala venture arrangement where the Group is acting as principal. Those Wakala funds are mainly invested in money market placements.

From agent perspective, a multi-level investment arrangement is maintained, whereby the Group invests funds under the investment agency into unrestricted investment arrangements, under a separate contract and accounted for accordingly based on the relevant accounting standard.

The adoption of the above accounting standard did not have a material impact on the profit or loss or equity. However, the standard affects the classification of the Bank's Wakala based contracts previously accounted for as part of on-balance sheet liabilities or off-balance sheet equity of investment accountholders.

As a result of this, the Group has accounted for all wakala contracts as follows:

- Contracts falling within the definition of Restricted Investment Account ("RIA") were classified as off-balance sheet equity of investment accountholders as being done before the adoption of this standard;

- Other wakala contracts are classified as either on-balance sheet or off-balance sheet depending on the relevant terms of the contract and whether the Group has invested such funds into secondary contracts through multi-level arrangement.

Further, based on the directions of CBB, all Wakala contracts (except RIA) managed within Bahrain, either directly by the Bank or its Bahrain based banking subsidiary, have been invested into secondary contract under multi-level arrangement and have been recorded on-balance sheet as either other liabilities, due to banks or (on balance-sheet) equity of investment accountholders. This resulted in:

- Wakala balances amounting to US$ 83,434 thousand outstanding as at 31 December 2020 previously classified as off-balance sheet equity of investment accountholders being reclassified to due to banks (with an equivalent increase in total assets; sales receivable and Murabaha financing increased by USD 15,001 thousand and USD 68,433 thousand respectively) with effect from 1 January 2021 upon formalization of multi-level arrangement; and

- Wakala balances (other than RIA) amounting to US$ 279,174 thousand and outstanding as at 31 December 2020 reclassified from other liabilities to due to banks.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Adoption of FAS 32 Ijarah
This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard is effective beginning 1 January 2021, with early adoption permitted.

Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its Ijarah into a) operating Ijarah b) Ijara Muntahia Biltamleek with expected transfer of ownership after the end of the Ijarah term – either through sale or gift; and c) Ijarah Muntahia Biltamleek with gradual transfer – with gradual transfer of ownership during the Ijarah term including Diminishing Musharaka Ijarah.

The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net Ijarah liability, duly comprising of a) gross Ijarah liability and b) deferred Ijarah cost (shown as contra-liability). Further, the net Ijarah liability should be netted-off against the advance rental's payments made prior to the commencement of lease term.

The Group recognises lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets. In accordance with the FAS 32, the Group has recognised the right-of-use assets and corresponding lease liability on 1 January 2021 in the interim consolidated financial statements.

a) Right-of-use asset
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subjects to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Receivables and other assets" in the interim consolidated statement of financial position.

b) Ijarah liability
At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement date, the amount of Ijarah liability is increased to reflect return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the payment of Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under "Other liabilities" in the interim consolidated statement of financial position.

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 characteristics and business model of institution under which the investments are made, managed and held. This standard supersedes FAS 25 "Investment in Sukuk" and is effective for financial years beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorized as one of the below investment categories depending on it nature:

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Adoption of FAS 33 Investment in sukuk, shares and similar instruments (continued)

- Monetary Debt-type instrument;
- Non-monetary Debt-type instrument;
- Equity-type instrument; and
- Other investment instruments.

Classification
Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Group's business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Group make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

Recognition and initial measurement
All investment shall be initially recognized at their fair value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the interim consolidated statement of income when incurred. A regular way purchase or sale of investments shall be recognized upon the transfer of control to investor.

Subsequent measurement

a) Investments at amortised cost
Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the interim consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement
Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the interim consolidated statement of income.

c) Investments at fair value through equity
Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "cumulative changes in fair value equity of investments". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Group (continued)

Adoption of FAS 33 Investment in sukuk, shares and similar instruments (continued)

Subsequent measurement (continued)

c) Investments at fair value through equity (continued)

Reclassification
When, and only when, the Group changes its business model for managing investments, it shall reclassify all affected financial assets prospectively from the reclassification date. In case of reclassification, the Group shall not restate any previously recognized gains, losses (including impairment gains or losses) or returns/ profits.

The Group has adopted the standard retrospectively and the adoption of the above accounting standard did not have a material impact on the interim condensed consolidated financial statements.

FAS 35 Risk Reserves
This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 “Impairment, Credit Losses and Onerous Commitments”. Both standards FAS 35 and FAS 30 together supersede the earlier FAS 11 “Provisions and Reserves”. This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

The Group has adopted the standard retrospetively and the adoption of the above accounting standard did not have a material impact on the interim condensed consolidated financial statements.

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 as mangement has already initiated the process of change in license as disclosed in note 1.

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 May 2021.

3 CASH AND BALANCES WITH BANKS

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Balances with central banks	**4,118,749**	4,027,943
Balances with other banks	**309,846**	497,408
Cash and cash in transit	**855,862**	839,830
Less: allowance for expected credit losses	**(3,721)**	(3,737)
	5,280,736	5,361,444

4 RECEIVABLES

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Sales (Murabaha) receivables	**11,693,379**	12,126,087
Ijarah receivables	**151,575**	150,787
Salam receivables	**249,635**	225,550
Istisna'a receivables	**196,379**	198,804
Less: allowance for expected credit losses	**(744,568)**	(755,235)
	11,546,400	11,945,993

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 31 March 2021				*Audited 31 December 2020*
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***	*Total US$ '000*
Good (1-4)	**2,771,639**	**214,268**	**-**	**2,985,907**	3,044,885
Satisfactory (5-7)	**6,510,283**	**1,897,604**	**-**	**8,407,887**	8,721,514
Default (8-10)	**-**	**-**	**897,174**	**897,174**	934,829
Less: allowance for expected credit losses	**(62,925)**	**(190,630)**	**(491,013)**	**(744,568)**	(755,235)
	9,218,997	**1,921,242**	**406,161**	**11,546,400**	11,945,993

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

	Reviewed For the three months period ended 31 March 2021				*Audited For the year ended 31 December 2020*
	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	**73,192**	**179,520**	**502,523**	**755,235**	571,082
Net remeasurement of loss allowance	**(16,925)**	**16,672**	**34,129**	**33,876**	260,845
Recoveries / write-backs	**-**	**-**	**(14,427)**	**(14,427)**	(57,534)
Allocation from (to) investment risk reserve	**939**	**(9,229)**	**13,296**	**5,006**	19,680
Amounts written off	**-**	**-**	**(14,177)**	**(14,177)**	(13,185)
FX translation / others	**5,719**	**3,667**	**(30,331)**	**(20,945)**	(25,653)
	62,925	**190,630**	**491,013**	**744,568**	755,235

5 MUDARABA AND MUSHARAKA FINANCING

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Mudaraba financing	**2,432,948**	1,784,183
Musharaka financing	**1,137,788**	1,106,881
Less: allowance for expected credit losses	**(38,953)**	(36,406)
	3,531,783	2,854,658

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 31 March 2021				*Audited 31 December 2020*
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***	*Total US$ '000*
Good (1-4)	**1,278,354**	**162,386**	**-**	**1,440,740**	1,358,919
Satisfactory (5-7)	**1,887,907**	**199,975**	**-**	**2,087,882**	1,489,984
Default (8-10)	**-**	**-**	**42,114**	**42,114**	42,161
Less: allowance for expected credit losses	**(11,747)**	**(9,231)**	**(17,975)**	**(38,953)**	(36,406)
	3,154,514	**353,130**	**24,139**	**3,531,783**	2,854,658

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

	Reviewed For the three months period ended 31 March 2021				*Audited For the year ended 31 December 2020*
	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	**12,269**	**9,383**	**14,753**	**36,405**	19,625
Net remeasurement of loss allowance	**221**	**(226)**	**3,354**	**3,349**	17,361
Recoveries / write-backs	**-**	**-**	**(221)**	**(221)**	(482)
Allocation from (to) investment risk reserve	**(58)**	**(11)**	**18**	**(51)**	341
Amounts written off	**-**	**-**	**-**	**-**	-
FX translation / others	**(685)**	**85**	**71**	**(529)**	(439)
	11,747	**9,231**	**17,975**	**38,953**	36,406

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 31 March 2021				Audited 31 December 2020
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**	Total US$ '000
Good (1-4)	**474,297**	**5,269**	**-**	**479,566**	453,911
Satisfactory (5-7)	**1,084,552**	**251,751**	**-**	**1,336,303**	1,317,515
Default (8-10)	**-**	**-**	**19**	**19**	51
Less: allowance for expected credit losses	**(2,683)**	**(21,373)**	**(4)**	**(24,060)**	(23,850)
	1,556,166	**235,647**	**15**	**1,791,828**	1,747,627

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

	Reviewed For the three months period ended 31 March 2021				Audited For the year ended 31 December 2020
	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	**2,405**	**21,436**	**9**	**23,850**	17,787
Net remeasurement of loss allowance	**345**	**296**	**-**	**641**	8,098
FX translation / others	**(67)**	**(359)**	**(5)**	**(431)**	(2,035)
	2,683	**21,373**	**4**	**24,060**	23,850

7 INVESTMENTS

	Reviewed 31 March 2021 US$ '000	Audited 31 December 2020 US$ '000
Equity and debt-type instruments at fair value through statement of income (7.1)	**115,328**	234,405
Equity-type instruments at fair value through equity (7.2)	**72,985**	107,971
Debt-type instruments at amortised cost (7.3)	**4,202,643**	4,533,589
	4,390,956	4,875,965
Investment in real estate (7.4)	**170,581**	176,136
Investment in associates	**44,991**	45,088
	4,606,528	5,097,189

7 INVESTMENTS (continued)

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

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Quoted investments		
Debt instruments	**-**	6,697
Equity securities	**88,733**	222,179
Unquoted investments		
Equity securities	**26,595**	5,529
	115,328	234,405

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

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Quoted investments		
Equity securities	**40,751**	50,336
Managed funds	**7,045**	7,857
	47,796	58,193
Unquoted investments		
Equity securities	**28,259**	21,255
Managed funds	**4,240**	35,942
	32,499	57,197
Provision for impairment	**(7,310)**	(7,419)
	72,985	107,971

7 INVESTMENTS (continued)

7.3 Debt-type instruments at amortised cost

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Quoted investments		
Sukuk and similar items	**3,289,023**	3,229,798
	3,289,023	3,229,798
Unquoted investments		
Sukuk and similar items	**921,735**	1,312,047
Less: allowance for expected credit losses	**(8,115)**	(8,256)
	4,202,643	4,533,589

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$ 4,483 million (31 December 2020: US$ 4,671 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 31 March 2021				*Audited 31 December 2020*
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***	*Total US$ '000*
Good (1-4)	**3,616,541**	**-**	**-**	**3,616,541**	3,959,071
Satisfactory (5-7)	**530,378**	**61,274**	**-**	**591,652**	580,209
Default (8-10)	**-**	**-**	**2,565**	**2,565**	2,565
Less: allowance for expected credit losses	**(4,722)**	**(828)**	**(2,565)**	**(8,115)**	(8,256)
	4,142,197	**60,446**	**-**	**4,202,643**	4,533,589

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

	Reviewed For the three months period ended 31 March 2021				*Audited For the year ended 31 December 2020*
	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	**4,490**	**1,201**	**2,565**	**8,256**	7,800
Net remeasurement of loss allowance	**334**	**(159)**	**-**	**175**	208
Allocation (to) from investment risk reserve	**(44)**	**(206)**	**-**	**(250)**	180
FX translation / others	**(58)**	**(8)**	**-**	**(66)**	68
	4,722	**828**	**2,565**	**8,115**	8,256

7 INVESTMENTS (continued)

7.4 Investment in real estate

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Land	**112,547**	118,267
Buildings	**58,034**	57,869
	170,581	176,136

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

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Beginning balance of the period / year	**176,136**	206,108
Acquisition	**1,936**	3,729
Net loss from fair value adjustments	**(226)**	(4,063)
Disposal	**(1,524)**	(26,531)
Foreign exchange translation - net	**(5,741)**	(3,107)
	(5,555)	(29,972)
	170,581	176,136

8 OTHER ASSETS

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Bills receivable	**181,175**	297,067
Goodwill and intangible assets	**77,796**	75,788
Collateral pending sale	**170,164**	176,126
Prepayments	**111,394**	115,012
Deferred taxation	**64,259**	60,284
Good faith qard fund	**43,424**	25,606
Others	**96,385**	39,684
	744,597	789,567
Less: allowance for expected credit losses	**(24,100)**	(25,051)
	720,497	764,516

9 LONG TERM FINANCING

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Murabaha financing	**261,051**	35,787
Subordinated financing obtained by a subsidiary	**289,181**	283,577
	550,232	319,364

10 OTHER LIABILITIES

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Payables	**369,983**	335,437
Ijarah liability (10.1)	**87,740**	-
Cash margins	**245,310**	236,028
Managers' cheques	**123,697**	102,106
Current taxation	**70,450**	80,612
Deferred taxation	**8,059**	11,368
Accrued expenses	**81,744**	99,712
Charity fund	**28,490**	30,077
Others	**96,353**	80,646
Allowance for expected credit losses on unfunded exposures	**82,458**	86,516
	1,194,284	1,062,502

10.1 Ijarah liability

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Gross ijarah liability	**126,038**	-
Deferred cost on ijarah liability	**(38,298)**	-
	87,740	-

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Equity of investment accountholders	**15,294,490**	15,152,840
Profit equalisation reserve	**5,630**	6,345
Investment risk reserve	**57,990**	65,202
Cumulative changes in fair value attributable to equity of investment accountholders - net	**6,023**	5,802
	15,364,133	15,230,189

12 COMMITMENTS AND CONTINGENCIES

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Letters of credit	**767,957**	645,083
Guarantees	**1,781,198**	1,832,887
Acceptances	**93,948**	104,947
Undrawn commitments	**880,042**	890,708
Sharia'a compliant promise contracts	**621,273**	869,261
	4,144,418	4,342,886

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:

	Three months ended	
	31 March 2021 US$ '000	*31 March 2020 US$ '000*
Net income attributable to the equity holders of the parent for the period - US$ '000	**25,585**	24,351
Less: Profit distributed on perpetual tier 1 capital	**-**	-
Net income attributable to the shareholders	**25,585**	24,351
Weighted number of shares outstanding without the effect of treasury shares (in thousands)	**1,242,879**	1,242,879
Treasury shares effect (in thousands)	**(32,522)**	(7,965)
Weighted number of shares outstanding (in thousands)	**1,210,357**	1,234,914
Earnings per share - US cents	**2.11**	1.97

14 EQUITY

	Reviewed 31 March 2021 US$ '000	*Audited 31 December 2020 US$ '000*
Share capital		
Authorised:		
Ordinary shares 2,500,000,000 (2020: 2,500,000,000) of US$ 1 each	**2,500,000**	2,500,000
Issued and fully paid up:		
1,242,879,755 (2020: 1,242,879,755) shares of US$1 each	**1,242,879**	1,242,879

14 EQUITY (continued)

Foreign currency translation reserve

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 31 March 2021 US$ '000***	*Audited 31 December 2020 US$ '000*
Banque Al Baraka D'Algerie	Algerian Dinar	**70,278**	68,594
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**28,885**	31,499
Al Baraka Bank Egypt	Egyptian Pound	**117,760**	117,960
Al Baraka Turk Participation Bank	Turkish Lira	**412,164**	392,992
Al Baraka Bank Limited	South African Rand	**20,369**	19,637
Al Baraka Bank Sudan	Sudanese Pound	**127,814**	91,312
Al Baraka Bank Tunis	Tunisian Dinar	**31,051**	28,677
Al Baraka Bank Syria	Syrian Pound	**50,480**	50,480
BTI Bank	Moroccan Dirham	**(441)**	(662)
		858,360	800,489

15 OTHER OPERATING INCOME

	Three months ended	
	31 March 2021 US$ '000	*31 March 2020 US$ '000*
Foreign exchange (loss) / gain	**(6,782)**	8,190
Gain on sale of property and equipment	**1,597**	1,584
	(5,185)	9,774

16 NET ALLOWANCE FOR EXPECTED CREDIT LOSSES / IMPAIRMENT

	Three months ended	
	31 March 2021 US$ '000	*31 March 2020 US$ '000*
Cash and balances with banks	**(13)**	(13)
Receivables	**19,449**	34,235
Mudaraba and Musharaka financing	**3,128**	5,495
Ijarah Muntahia Bittamleek	**641**	2,994
Investments	**187**	(462)
Other assets	**(770)**	(1,396)
Other liabilities	**4,904**	(357)
	27,526	40,496

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 transactions 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	Three months ended 31 March 2021 US$ '000	Three months ended 31 March 2020 US$ '000
Net income from jointly financed contracts and investments	730	118	10	-	858	771
Return on equity of investment accountholders	188	539	284	-	1,011	1,430
Fees and commission income	88	6	-	-	94	121

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 31 March 2021 US$ '000	Audited 31 December 2020 US$ '000
Assets						
Receivables	7,592	7,541	152	-	15,285	6,040
Mudaraba and Musharaka financing	-	-	1,643	-	1,643	1,717
Investments	14,578	824	-	-	15,402	16,808
Ijarah Muntahia Bittamleek	-	-	-	-	-	-
Other assets	105	-	342	-	447	573
Liabilities						
Customer current and other accounts	6,726	1,752	6,369	19	14,866	13,052
Due to banks	8	188	-	-	196	579
Other liabilities	-	4	-	52	56	49
Equity of investment accountholders	-	1,823	15,191	-	17,014	28,954
Off-balance sheet equity of investment accountholders	14,245	9,067	1,481	-	24,793	24,779

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 mutually agreed terms.

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

	Reviewed 31 March 2021			*Audited 31 December 2020*		
	Assets US$ '000	***Liabilities US$ '000***	***Equity of investment accountholders US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*Equity of investment accountholders US$ '000*
Segment						
Middle East	**14,335,443**	**3,711,614**	**9,267,639**	13,891,840	3,430,814	9,130,834
North Africa	**2,654,574**	**1,443,482**	**922,086**	2,631,510	1,446,142	899,172
Europe	**8,980,555**	**4,702,210**	**3,910,976**	9,256,366	4,965,210	3,870,198
Others	**2,038,465**	**630,812**	**1,263,432**	2,470,283	955,250	1,329,985
	28,009,037	**10,488,118**	**15,364,133**	28,249,999	10,797,416	15,230,189

Segment operating income, net income before ECL, impairment and tax and net income were as follows:

	Three months ended 31 March 2021			*Three months ended 31 March 2020*		
	Total operating income US$ '000	***Net income before ECL, impairment and tax US$ '000***	***Net income US$ '000***	*Total operating income US$ '000*	*Net income before ECL, impairment and tax US$ '000*	*Net income US$ '000*
Segment						
Middle East	**125,464**	**66,279**	**32,410**	121,792	50,553	24,132
North Africa	**25,224**	**11,408**	**9,314**	31,747	13,192	6,945
Europe	**49,885**	**767**	**(6,001)**	76,552	28,719	2,624
Others	**28,528**	**15,005**	**5,257**	24,792	8,974	6,363
	229,101	**93,459**	**40,980**	254,883	101,438	40,064

19 CASH AND CASH EQUIVALENTS

	Three months ended	
	31 March 2021 US$ '000	*31 March 2020 US$ '000*
Balances with central banks excluding mandatory reserve	**1,441,116**	946,165
Balances with other banks	**309,846**	712,238
Cash and cash in transit	**855,862**	891,165
	2,606,824	2,549,568

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 80%. The Group's consolidated NSFR ratio as of 31st of March 2021 is 225%.

The NSFR (as a percentage) is as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity*	*Less than 6 months*	*More than 6 months and less han one year*	*Over one year*	*Total weighted value*
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	2,088,749	-	-	-	2,088,749
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits	-	-	-	-	-
from small business customers:	-	-	-	-	-
Stable deposits	-	3,086,903	233,573	68,959	3,223,410
Less stable deposits	-	6,176,682	1,881,559	849,651	8,102,067
	-	-	-	-	-
Wholesale funding:	-	-	-	-	-
Operational deposits	-	-	13,993	-	6,996
Other wholesale funding	-	3,482,356	584,359	322,298	1,876,100
	-	-	-	-	-
Other liabilities:	-	-	-	-	-
NSFR Shari'a-compliant	-	-	-	-	-
hedging contract liabilities	-	-	-	-	-
All other liabilities not included	-	-	-	-	-
in the above categories	-	1,285,364	68,144	115,266	115,266
Total ASF	2,088,749	14,031,305	2,781,628	1,356,174	15,412,588
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	4,040,859	2,006,131	-	-	40,627
Deposits held at other financial institutions for operational purposes	-	67,107	-	-	33,553
Performing financing and sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	25,447	-	62,828	65,372
Performing financing to financial institutions secured by non-level 1 and unsecured performing financing financial institutions	-	556,712	164,606	331,974	497,784

20 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	*Unweighted Values (i.e. before applying relevant factors)* No specified maturity	Less than 6 months	More than 6 months and less han one year	Over one year	*Total weighted value*
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	-	3,464,373	1,979,828	-	2,722,101
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	1,450,632	942,911
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	17,794	6,027	39,962	45,879
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	2,207,327	115	63,197	102,767	2,334,650
OBS items	3,610,846	-	-	-	180,542
Total RSF	9,859,032	6,137,679	2,213,658	1,988,163	6,863,419
NSFR (%)					225%

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 2020 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 pre-emptive 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 at 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 had an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holiday to eligible customers with and without additional profit;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR 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 thereby 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.

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 carryout granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding.

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 31 March 2021, the Group did not have any significant issues relating to operational risks.

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

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 particulars 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 in 2020;
- Concessionary repo to eligible banks free of cost or zero percent profit rate in 2020;
- Reduction of cash reserve ratio from 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 “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 a 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.