

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
Al Baraka Islamic Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2020 (REVIEWED)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF AL BARAKA ISLAMIC BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Al Baraka Islamic Bank B.S.C.(c) (the "Bank") and its subsidiary ("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 basis of preparation and accounting policies as set out in note 2.






11 November 2020
Manama, Kingdom of Bahrain

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020 (Reviewed)

	Notes	Reviewed 30 September 2020 BD '000	Audited 31 December 2019 BD '000
ASSETS			
Cash and balances with banks and financial institutions		111,899	129,969
Receivables	3	198,127	169,548
Ijara Muntahia Bittamleek and ijara receivables	4	114,986	106,580
Musharaka	5	116,544	89,535
Investments	6	327,680	280,515
Investments in real estate		5,486	5,790
Investment in joint venture		5,520	5,548
Premises and equipment		16,552	17,830
Goodwill		5,109	5,467
Other assets	7	22,871	23,984
TOTAL ASSETS		924,774	834,766
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		11,468	32,585
Current accounts		114,435	104,385
Medium term financing		26,711	14,714
Other liabilities	8	40,836	35,440
Total liabilities		193,450	187,124
Equity of investment accountholders			
Non-financial institutions and individuals		465,996	441,785
Financial institutions		163,914	99,906
Total Equity of Investment Accountholders		629,910	541,691
Subordinated debts		4,479	5,529
Owners' equity			
Share capital		51,445	51,445
Perpetual additional tier 1 capital		41,847	41,847
Reserves		(2,971)	(1,536)
Accumulated losses		(2,329)	(755)
Equity attributable to parent's shareholders		87,992	91,001
Non-controlling interest		8,943	9,421
Total owners' equity		96,935	100,422
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		924,774	834,766
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
		210,599	242,212
CONTINGENCIES AND COMMITMENTS			
		113,945	127,165
			
Saleh Salman Al Kawari Chairman	Adnan Ahmed Yousif Deputy Chairman	Hamad Abdulla Alogab Chief Executive Officer	

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the nine months period ended 30 September 2020 (Reviewed)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2020 BD '000	2019 BD '000	2020 BD '000	2019 BD '000
INCOME FROM JOINTLY FINANCED ASSETS					
Financing	10	6,788	8,228	25,054	25,207
Investments	11	1,540	921	3,540	2,285
Income from jointly financed assets		8,328	9,149	28,594	27,492
Return on equity of investment accountholders before Group's share as a Mudarib		(8,893)	(8,481)	(26,989)	(23,025)
Group's share as a Mudarib		4,031	567	7,430	2,595
Return on equity of investment accountholders Group's share as a Mudarib and Rabalmal		(4,862)	(7,914)	(19,559)	(20,430)
INCOME FROM SELF FINANCED ASSETS		3,466	1,235	9,035	7,062
Financings	10	655	1,035	2,942	2,562
Investments	11	3,978	3,667	10,450	9,800
Income from self financed assets		4,633	4,702	13,392	12,362
INCOME FROM BANKING SERVICES AND OTHERS					
Revenue from banking services	12	700	863	2,195	2,456
Other income	13	389	555	1,835	1,514
Group's Mudarib / Agency fee from off-balance sheet equity of investment account holders & wakala pool		-	600	197	807
TOTAL OPERATING INCOME		9,188	7,955	26,654	24,201
OPERATING EXPENSES					
Staff expenses		(2,782)	(2,903)	(8,770)	(8,705)
Depreciation		(466)	(1,660)	(1,382)	(2,713)
Other operating expenses		(2,938)	(1,649)	(8,782)	(7,089)
TOTAL OPERATING EXPENSES		(6,186)	(6,212)	(18,934)	(18,507)
NET OPERATING INCOME		3,002	1,743	7,720	5,694
Allowance for impairment - net	14	(2,051)	(1,184)	(5,649)	(3,479)
Recoveries from write offs		-	-	38	-
NET INCOME BEFORE TAXATION		951	559	2,109	2,215
Taxation		(410)	(83)	(753)	(234)
INCOME FOR THE PERIOD		541	476	1,356	1,981
Attributable to:					
Equity shareholders of the Parent		429	485	1,041	1,802
Non-controlling interest		112	(9)	315	179
		541	476	1,356	1,981

Saleh Salman Al Kawari
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Hamad Abdulla Aloqab
Chief Executive Officer

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the nine months period ended 30 September 2020 (Reviewed)

	Equity attributable to shareholders of the Parent											
	Reserves										Non-controlling interest	Total owners' equity
	Share capital	Perpetual Additional Tier1 capital	Statutory	General	Employee defined benefit plan	Cumulative changes in fair value	Revaluation of premises and equipment	Foreign exchange	Retained earnings / (accumulated losses)	Total		
BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	
Balance at 1 January 2020	51,445	41,847	8,757	3,275	(22)	(455)	-	(13,089)	(758)	91,000	9,422	100,422
Cumulative changes in fair value	-	-	-	-	-	64	-	-	-	64	41	105
Foreign currency translation reserve	-	-	-	-	-	-	-	(1,506)	-	(1,506)	(836)	(2,342)
Recognition of modification loss (note 2)	-	-	-	-	-	-	-	-	(3,333)	(3,333)	-	(3,333)
Recognition of government grant (note 2)	-	-	-	-	-	-	-	-	722	722	-	722
Movement in actuarial gain and losses	-	-	-	-	5	-	-	-	-	5	1	6
Net income for the period	-	-	-	-	-	-	-	-	1,040	1,040	315	1,355
Balance at 30 September 2020	51,445	41,847	8,757	3,275	(17)	(391)	-	(14,595)	(2,329)	87,992	8,943	96,935
Balance at 1 January 2019	46,167	41,470	8,557	3,275	(12)	390	269	(10,674)	(8,210)	81,232	10,807	92,039
Cumulative changes in fair value	-	-	-	-	-	(838)	-	-	-	(838)	(5)	(843)
Foreign currency translation reserve	-	-	-	-	-	-	-	(2,627)	-	(2,627)	(1,428)	(4,055)
Issuance of share capital	5,278	-	-	-	-	-	-	-	-	5,278	-	5,278
Issuance of perpetual tier 1 capital	-	11,310	-	-	-	-	-	-	-	11,310	-	11,310
Written off of perpetual tier 1 capital	-	(5,655)	-	-	-	-	-	-	5,655	-	-	-
Redemption of perpetual AT-1 capital	-	(5,278)	-	-	-	-	-	-	-	(5,278)	-	(5,278)
Movement in actuarial gain and losses	-	-	-	-	1	-	-	-	-	1	1	2
Net income for the period	-	-	-	-	-	-	-	-	1,802	1,802	179	1,981
Balance at 30 September 2019	51,445	41,847	8,557	3,275	(11)	(448)	269	(13,301)	(753)	90,880	9,554	100,434

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months period ended 30 September 2020 (Reviewed)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2020	2019
	BD '000	BD '000
OPERATING ACTIVITIES		
Net income before taxation	2,109	2,215
Adjustments for :		
Depreciation	1,382	2,713
Provision for impairment - net	5,649	3,479
Gain on sale of premises and equipment	(63)	(5)
Gain on sale of investments	(2,990)	(2,109)
Share of loss/ (income) from investment in joint venture	28	(14)
Fair value loss on investment properties	309	-
Amortization of modification loss	(3,331)	-
Operating profit before changes in operating assets and liabilities	3,093	6,279
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	29,924	(14,233)
Receivables	15,706	36,690
Ijara Muntahia Bittamleek and ijara receivables	(9,030)	1,297
Musharaka	(28,562)	9,296
Other assets	659	4,530
Other liabilities	5,319	(379)
Due to banks and financial institutions	(21,117)	(4,209)
Current accounts	10,051	22,569
Equity of investment accountholders	88,216	(38,886)
Tax paid	(322)	(126)
Net cash from operating activities	93,937	22,828
INVESTING ACTIVITIES		
Purchase of investments	(238,800)	(161,157)
Sale / redemption of investments	194,630	107,209
Net sale of premises and equipment	(41)	(6,847)
Net cash used in investing activities	(44,211)	(60,795)
FINANCING ACTIVITIES		
Subordinated debts	(1,050)	(1,297)
Medium term financing	11,997	76
Receipt of government grant	722	-
Net cash from / (used in) financing activities	11,669	(1,221)
Foreign currency translation adjustments	(1,978)	(3,375)
INCREASE IN CASH AND CASH EQUIVALENTS	59,417	(42,563)
Cash and cash equivalents at 1 January	74,136	103,701
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	133,553	61,138
For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:		
Cash in hand	15,943	13,675
Balances with central banks in unrestricted account	4,253	5,905
Balances with other banks and financial institutions	61,418	41,558
Receivables - international commodities	51,939	-
	133,553	61,138

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

Al Baraka Islamic Bank B.S.C. (c)

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

For the nine months period ended 30 September 2020 (Reviewed)

	<i>Balance at 1 January 2020</i>	<i>Write offs</i>	<i>Net deposits/ withdrawals</i>	<i>Gross income</i>	<i>Mudarib's/ agency fee</i>	<i>Balance at 30 September 2020</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Wakala Bi Al-Istithmar Pool						
Receivables	59,057	-	(59,079)	202	(180)	-
Investments	1,755	-	(1,756)	12	(11)	-
On balance sheet jointly financed assets	66,879	-	79,346	2,914	(1,167)	147,972
	127,691	-	18,511	3,128	(1,358)	147,972
Others						
Receivables	53,632	-	(272)	652	(6)	54,006
Investments	60,889	-	(52,268)	-	-	8,621
	114,521	-	(52,540)	652	(6)	62,627
	242,212	-	(34,029)	3,780	(1,364)	210,599
Wakala Bi Al-Istithmar Pool						
Receivables	-	-	82,109	923	(642)	82,390
Investments	-	-	2,900	92	(64)	2,928
On Balance sheet equity of Investment Accountholders	122,813	-	(79,674)	6,135	(3,418)	45,856
	122,813	-	5,335	7,150	(4,124)	131,174
Others						
Receivables	29,118	-	32,957	626	(101)	62,600
Investments	3,590	(525)	7,930	-	-	10,995
	32,708	(525)	40,887	626	(101)	73,595
	155,521	(525)	46,222	7,776	(4,225)	204,769

The attached explanatory notes 1 to 19 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Banking license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain. The Bank is 92% (2019: 92%) owned by Al Baraka Banking Group B.S.C. (the "Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were approved by the Board of Directors on 11 November 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 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) recognition of 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 owner's 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 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.

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 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

Statement of compliance

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.

2.2 COVID - 19

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

2.2.1 Modification Loss

During the 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 BD 3.3 million arising due to the 6 month payment holidays provided to financing customers without charging additional profits has been recognized directly 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 BD 113.5 million as part of its support to impacted customers.

2.2.2 Government Grant

Based on the regulatory directive issued by the CBB, financial assistance amounting to BD 722 thousand received from the government, in response to its COVID-19 support measures, have been recognized directly in equity instead of being recognized through profit or loss account.

2.2.3 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 Bank raised BD 30 million against REPO of investments in Government of Bahrain Sukuk which were matured during the period.

2.3 Accounting convention

The interim condensed consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity-type instruments through equity, equity-type instruments through profit or loss and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The interim condensed consolidated financial statements are presented in Bahraini Dinars, being the reporting currency of the Group. All values are rounded off to the nearest Bahraini Dinar (BD) thousand unless otherwise indicated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiary after elimination of inter company transactions and balances.

The following is the principle subsidiary of the Bank, which is consolidated in these interim condensed consolidated financial statements:

	<i>Ownership for 2020 / 2019 incorporation</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>No. of branches/ offices at 30 September 2020</i>
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%	2004	Pakistan	188

*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

Investment in Itqan Capital

The Bank has ownership interest of 83.07% with Itqan Capital (the "Company"). The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and / or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

2.5 New standards, interpretations and amendments adopted by the Group

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

2.5.2 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.

The Bank's assessment indicates the above accounting standard does not have an impact on the Bank's consolidated financial statements as the Bank does not have any sukuk issued.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 Regulatory non-compliance

CBB rule book volume 2 - Capital Adequacy Module

The Bank breached rule LR-2.5.2A as the consolidated shareholders' equity is below minimum capital requirement of BD 100 million (USD 265.252 million). Rule LR-2.5.2A requires all bahraini islamic retail bank licensees to maintain a minimum total shareholders' equity of BD 100 million.

3 RECEIVABLES

	30 September 2020			Audited 31 December 2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Commodities and wakala placement with FIs	-	51,939	51,939	-	4,374	4,374
Salam financing	-	18,737	18,737	-	36,254	36,254
Istisna'a financing	-	41,476	41,476	-	42,789	42,789
Murabaha financing	645	90,673	91,318	756	85,463	86,219
Bills receivables and other financing	-	22,376	22,376	-	27,375	27,375
Gross receivable	645	225,201	225,846	756	196,255	197,011
Deferred profits	(20)	(5,140)	(5,160)	(20)	(7,564)	(7,584)
	625	220,061	220,686	736	188,691	189,427
Less: Allowance for credit losses	(140)	(22,419)	(22,559)	(140)	(19,739)	(19,879)
Net receivables	485	197,642	198,127	596	168,952	169,548

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. The amounts presented are gross of credit losses allowances.

	30 September 2020				Audited 31 December 2019			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total US '000
Good (1-4)	47,923	5,350	-	53,273	73,349	403	-	73,752
Satisfactory (5-7)	80,965	59,522	-	140,487	35,141	53,578	-	88,719
Default (8-10)	-	-	26,926	26,926	-	-	26,956	26,956
	128,888	64,872	26,926	220,686	108,490	53,981	26,956	189,427

The modification loss amounted to BD 0.9 million was recorded on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such receivables.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

3 RECEIVABLES (continued)

An analysis of the changes in ECL allowances, is as follows:

	30 September 2020			Audited 31 December 2019	
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000	Total BD '000
Balance at 1 January	350	3,852	15,678	19,880	28,270
Changes during the year:					
- transferred to Stage 1: 12 month ECL	-	-	-	-	
- transferred to Stage 2: Lifetime ECL not credit-impaired	(2)	4	(2)	-	
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(32)	33	-	
Net remeasurement of loss allowance	116	1,150	2,161	3,427	6,294
Recoveries / write-backs	-	-	(147)	(147)	(797)
	113	1,122	2,045	3,280	5,497
Reclassification from Wakala Pool	69	100	-	169	(169)
Amounts written off during the year	-	-	-	-	(12,654)
FX translation	(10)	(20)	(740)	(770)	(1,065)
Closing Balance	522	5,054	16,983	22,559	19,879

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	30 September 2020			Audited 31 December 2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Ijara Muntahia Bittamleek	5,322	89,450	94,772	10,463	83,463	93,926
Ijara income receivables	8,805	14,930	23,735	3,780	11,839	15,619
	14,127	104,380	118,507	14,243	95,302	109,545
Less: Allowance for credit losses	(118)	(3,403)	(3,521)	(45)	(2,920)	(2,965)
	14,009	100,977	114,986	14,198	92,382	106,580

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. The amounts presented are gross of credit losses allowances.

	30 September 2020				Audited 31 December 2019			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Good (1-4)	102,581	91	-	102,672	89,401	31	-	89,432
Satisfactory (5-7)	2,001	2,699	-	4,700	610	8,997	-	9,607
Default (8-10)	-	-	11,135	11,135	-	-	10,506	10,506
	104,582	2,790	11,135	118,507	90,011	9,028	10,506	109,545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

The modification loss amounted to BD 2 million was recorded on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such Ijara Muntahia Bittamleek.

An analysis of the changes in ECL allowances, is as follows:

	30 September 2020			Audited 31 December 2019	
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000	Total BD '000
Balance at 1 January	65	212	2,687	2,964	5,658
Changes during the year:					
- transferred to Stage 1: 12 month ECL	21	(7)	(14)	-	
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1)	138	(137)	-	
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(29)	30	-	
Net remeasurement of loss allowance	244	(210)	607	641	757
Recoveries / write-backs	-	-	(15)	(15)	(157)
Allowances for credit losses	263	(108)	471	626	600
Amounts written off during the year	-	-	-	-	(3,163)
FX translation	-	-	(69)	(69)	(130)
Closing Balance	328	104	3,089	3,521	2,965

5 MUSHARAKA

	30 September 2020			Audited 31 December 2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
Musharaka	12,231	108,592	120,823	15,055	77,398	92,453
Less: Allowance for credit losses	-	(4,279)	(4,279)	-	(2,918)	(2,918)
	12,231	104,313	116,544	15,055	74,480	89,535

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. The amounts presented are gross of credit losses allowances.

	30 September 2020				Audited 31 December 2019			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Good (1-4)	64,240	32,928	-	97,168	78,743	869	-	79,612
Satisfactory (5-7)	5,607	14,115	-	19,722	5,638	3,155	-	8,793
Default (8-10)	-	-	3,933	3,933	-	-	4,048	4,048
	69,847	47,043	3,933	120,823	84,381	4,024	4,048	92,453

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

5 MUSHARAKA (continued)

An analysis of the changes in ECL allowances, is as follows:

Audited 31
December
2019

	30 September 2020			Total BD '000	Total BD '000
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000		
Balance at 1 January	421	578	1,919	2,918	2,870
Changes during the year:					
- transferred to Stage 2: Lifetime	(97)	97	-	-	-
Net remeasurement of loss allowance	332	987	302	1,621	460
Recoveries / write-backs	-	-	(69)	(69)	(116)
Allowances for credit losses	235	1,084	233	1,552	344
FX translation	(28)	(38)	(125)	(191)	(296)
Closing Balance	628	1,624	2,027	4,279	2,918

6 INVESTMENTS

	30 September 2020			Audited 31 December 2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000

i) Equity-type instruments at fair value through statement of income

Quoted

Listed equity
shares

	-	99	99	-	77	77
	-	99	99	-	77	77

ii) Equity-type instruments at fair value through equity

Quoted

Listed equity shares

	10,386	127	10,513	10,800	126	10,926
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Unquoted

Unlisted equity shares

	23,877	119	23,996	23,877	127	24,004
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Managed funds

	377	-	377	377	-	377
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Real estate funds

	617	1,643	2,260	617	-	617
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	35,257	1,889	37,146	35,671	253	35,924
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Less: Provision for
impairment

	(1,856)	(170)	(2,026)	(2,009)	(182)	(2,191)
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Total equity investme

	33,401	1,719	35,120	33,662	71	33,733
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

6 INVESTMENTS (continued)

	30 September 2020			Audited 31 December 2019		
	Self financed BD '000	Jointly financed BD '000	Total BD '000	Self financed BD '000	Jointly financed BD '000	Total BD '000
iii) Debt-type instruments at amortised cost						
Quoted						
Sukuk	220,077	32,837	252,914	105,290	10,236	115,526
Unquoted						
Sukuk	-	39,827	39,827	45,816	85,476	131,292
	220,077	72,664	292,741	151,106	95,712	246,818
Less: Allowance for credit losses	(239)	(41)	(280)	(90)	(23)	(113)
Total debt-type investments	219,838	72,623	292,461	151,016	95,689	246,705
Total investments	253,239	74,441	327,680	184,678	95,837	280,515

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. The amounts presented are gross of credit losses allowances.

	30 September 2020				Audited 31 December 2019			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Good (1-4)	102,327	-	-	102,327	64,776	-	-	64,776
Satisfactory (5-7)	177,084	13,330	-	190,414	182,042	-	-	182,042
Default (8-10)	-	-	-	-	-	-	-	-
	279,411	13,330	-	292,741	246,818	-	-	246,818

Included in quoted equity type instruments, BD 9 million (2019: BD 9.7 million) of investments that are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to BD 25.7 million (2019: BD 24.1 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to BD 292.5 million (2019: BD 246.7 million) have a fair value amounting to BD 291.9 million (2019: BD 251.7 million).

Investments stated at a carrying amount of BD 160.5 million (2019: BD 112.6 million) are placed in custody of a financial institution to secure a financing line.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

6 INVESTMENTS (continued)

An analysis of the changes in ECL allowances, is as follows:

	2020			2019	
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000	Total BD '000
Balance at 1 January	111	-	-	111	1,020
Changes during the year:					
- transferred to Stage 1: 12 month ECL ECL not credit-impaired	-	-	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(3)	3	-	-	-
Net remeasurement of loss allowance	83	86	-	169	(39)
Allowances for credit losses	80	89	-	169	(39)
Amounts written off during the year	-	-	-	-	(868)
Closing Balance	191	89	-	280	113

7 OTHER ASSETS

	Reviewed 30 September 2020 BD '000	Audited 31 December 2019 BD '000
Deferred tax	7,774	8,640
Collaterals pending sale	5,295	5,613
Advance against capital expenditure	2,743	1,521
Accounts receivable	5,716	3,997
Prepayments	890	728
Advance tax	394	563
Income receivable	156	612
Others	829	3,279
	23,797	24,953
Less: Provision for impairment	(926)	(969)
	22,871	23,984

Note 7.1

The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

8 OTHER LIABILITIES

	<i>Reviewed</i> 30 September 2020 BD '000	<i>Audited</i> 31 December 2019 BD '000
Margins received	15,318	14,193
Accounts payable	4,401	5,439
Bills payable	12,548	7,849
Security deposit against Ijara Muntahia Bittamleek	843	1,284
Provision for employees benefits	2,081	2,157
Allowance for expected credit losses-unfunded facilities	195	290
Charity fund	186	236
Others	5,264	3,992
	40,836	35,440

9 CONTINGENCIES AND COMMITMENTS

	<i>Reviewed</i> 30 September 2020 BD '000	<i>Audited</i> 31 December 2019 BD '000
Letters of credit	34,505	24,005
Foreign exchange contracts	52,265	64,947
Guarantees	22,755	21,301
Acceptances	3,877	16,337
Taxation	525	561
Others	18	14
	113,945	127,165

10 INCOME FROM FINANCINGS

	<i>Nine months ended</i> 30 September	
	2020 BD '000	2019 BD '000
Income from receivables	14,203	13,693
Income from musharakas	9,512	9,588
Income from ijarah muntahia bittamleek	4,281	4,488
	27,996	27,769
	<i>Nine months ended</i> 30 September	
	2020 BD '000	2019 BD '000
Income from jointly financed financings	25,054	25,207
Income from self financed financings	2,942	2,562
	27,996	27,769

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

11 INCOME FROM INVESTMENTS

	<i>Nine months ended 30 September</i>	
	2020	2019
	BD '000	BD '000
Yield, coupon or return on investments	11,289	9,964
Gain on sale of investments	2,990	2,109
Rental income	20	12
Fair value loss on investment properties	(309)	-
	13,990	12,085
Income from jointly financed investments	3,540	2,285
Income from self financed investments	10,450	9,800
	13,990	12,085

12 REVENUE FROM BANKING SERVICES

	<i>Nine months ended 30 September</i>	
	2020	2019
	BD '000	BD '000
Fees and commissions	1,680	1,715
Letters of credit and acceptances	406	604
Guarantees	109	137
	2,195	2,456

13 OTHER INCOME

	<i>Nine months ended 30 September</i>	
	2020	2019
	BD '000	BD '000
Foreign exchange gain - net	1,578	1,229
Others	257	285
	1,835	1,514

14 ALLOWANCE FOR IMPAIRMENT - NET

	<i>Nine months ended 30 September</i>	
	2020	2019
	BD '000	BD '000
Receivables	3,280	2,004
Ijara Muntahia Bittamleek and ijara receivables	626	577
Musharaka	1,552	231
Investments - debt type	169	(118)
Investments - equity type	(76)	627
Off balance sheet items	78	158
Other assets	20	-
	5,649	3,479

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

15 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 two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

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. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	30 September 2020	<i>31 December 2019</i>	30 September 2020	<i>31 December 2019</i>	30 September 2020	<i>31 December 2019</i>
	BD '000	<i>BD '000</i>	BD '000	<i>BD '000</i>	BD '000	<i>BD '000</i>
Assets	524,405	452,667	400,369	382,099	924,774	834,766
Liabilities, equity of investment accountholders and Subordinated debts	461,625	383,576	366,214	350,768	827,839	734,344
	<i>Middle East</i>		<i>Other Asian Countries</i>		<i>Total</i>	
	<i>Nine months ended</i>		<i>Nine months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>		<i>30 September</i>	
	2020	<i>2019</i>	2020	<i>2019</i>	2020	<i>2019</i>
	BD '000	<i>BD '000</i>	BD '000	<i>BD '000</i>	BD '000	<i>BD '000</i>
Total operating income	12,709	12,277	13,945	11,924	26,654	24,201
Total expenses	(9,527)	(8,850)	(9,407)	(9,657)	(18,934)	(18,507)
Provision for impairment - net	(2,595)	(1,885)	(3,016)	(1,594)	(5,611)	(3,479)
Taxation	-	-	(753)	(234)	(753)	(234)
Net income for the period	587	1,542	769	439	1,356	1,981

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS

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

The significant balances with related parties were as follows:

	Shareholders		Other Related Parties		Total	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019	30 September 2020	31 December 2019
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets:						
Cash and balances with banks and financial institutions	2	35	1,882	2,076	1,884	2,111
Receivables	-	-	5,577	73	5,577	73
Ijara Muntahia Bittamleek and ijara receivables	-	-	-	32	-	32
Musharaka	-	-	489	612	489	612
Investments	6,873	6,922	29,604	29,640	36,477	36,562
Other assets	2,807	2,957	440	38	3,247	2,995
	9,682	9,914	37,992	32,471	47,674	42,385
Liabilities:						
Current accounts	3,556	2,587	1,746	12,714	5,302	15,301
Other liabilities	2	2	2,007	181	2,009	183
	3,558	2,589	3,753	12,895	7,311	15,484
Equity of investment accountholders	2,648	2,529	28,749	48,182	31,397	50,711
OFF-BALANCE SHEET ITEMS:						
Equity of investment accountholders	11,685	57,824	48,858	52,745	60,543	110,569
Contingencies and commitments	195	-	4,351	1,022	4,546	1,022

The transactions with the related parties included in the statement of income are as follows:

	Shareholders		Other Related Parties		Total	
	2020	2019	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Income						
Income from jointly financed sales	-	-	192	78	192	78
Income from jointly financed, other financings and investments	-	-	25	189	25	189
Other income	90	90	-	-	90	90
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	6	7	35	-	41	7
	96	97	252	267	348	364
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	20	14	267	864	287	878
Other expenses	99	90	527	348	626	438
	119	104	794	1,212	913	1,316

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS (continued)**Compensation of key management personnel is as follows:**

	<i>Nine months ended 30 September</i>	
	2020	2019
	BD '000	BD '000
Salaries	1,158	909
Other benefits	516	529
	1,674	1,438

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

18 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 December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 30 September 2020 is 178.35%.

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

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
Available Stable Funding (ASF):					
Capital:	72,900	-	-	72,900	77,472
Regulatory Capital	72,900	-	-	-	72,900
Other Capital Instruments	-	-	-	72,900	4,572
Retail deposits and deposits from small business customers:	-	330,260	20,994	11,203	328,414
Stable deposits	-	21,630	2	-	20,551
Less stable deposits	-	308,630	20,992	11,203	307,863
Wholesale funding:	-	335,007	58,869	8,150	101,795
Operational deposits	-	-	-	-	-
Other wholesale funding	-	335,007	58,869	8,150	101,795
Other liabilities:	-	-	-	44,670	44,670
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	44,670	44,670
Total ASF	72,900	665,267	79,863	136,923	552,351
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	250,233	-	-	-	14,086
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
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 HQLA and unsecured performing financing to financial institutions	-	67,258	-	16,628	26,717

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2020 (Reviewed)

18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '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:	-	112,207	41,274	190,738	76,740
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	43,098	28,013
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	953	25,286	25,638
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	67,673	-	-	-	67,673
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	64,890	-	-	-	64,890
OBS items	118,686	-	-	-	5,935
Total RSF	501,482	179,465	42,227	275,750	309,692
NSFR (%)					178.35%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2020 (Reviewed)

19 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 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 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

As at 30 September 2020 (Reviewed)

19 FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. AICO 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. 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 Islamic Bank B.S.C. (c)

SUPPLEMENTARY FINANCIAL INFORMATION

At 30 September 2020

**The attached financial information does not form part
of the interim condensed consolidated financial
statements**

SUPPLEMENTARY DISCLOSURES TO THE CONDENSED CONSOLIDATED INTERIM 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 particular the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, expected credit losses, onerous contract etc.

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

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

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

	Net Impacts on Group's		
	Consolidated income statement BD '000	Consolidated statement of financial position BD '000	Consolidated Statement of Changes in Owner's Equity BD '000
Modification loss	-	(3,331)	(3,331)
Amortization of Modification Loss	3,331	3,331	3,331
Government Grant	-	-	1,914
Concessionary REPO(matured during the period)	-	30,000	-
Average Reduction In Reserves	-	4,086	-
ECLs attributable to COVID 19	(1,062)	(1,062)	(1,062)

In lieu of spread of such pandemic, the overall business activities were deeply affected during the current financial period. In this regards, the volume of business activities was significantly reduced both on assets and liability side. Further, due to reduction in consumer spending and travelling, the credit cards, funds transfer and other core banking services were also deeply affected. Furthermore, the trade finance operations were extremely slowdown due to massive reduction in business activity in this segment.

This information has not been subject to a formal review by external auditors.