

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 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 June 2020, comprising of the interim consolidated statement of financial position as at 30 June 2020, the related interim consolidated statement of income for the six month period then ended and the related interim consolidated statement of cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the six-month period then ended and other explanatory information. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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



11 August 2020
Manama, Kingdom of Bahrain

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 (Reviewed)

	Notes	Reviewed 30 June 2020 BD '000	Audited 31 December 2019 BD '000
ASSETS			
Cash and balances with banks and financial institutions		173,704	129,969
Receivables	3	185,873	169,548
Ijara Muntahia Bittamleek and ijara receivables	4	108,594	106,580
Musharaka	5	115,652	89,535
Investments	6	286,272	280,515
Investments in real estate		5,796	5,790
Investment in joint venture		5,531	5,548
Premises and equipment		17,516	17,830
Goodwill		5,038	5,467
Other assets	7	23,970	23,984
TOTAL ASSETS		927,946	834,766
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		39,237	32,585
Current accounts		120,141	104,385
Medium term financing		22,027	14,714
Other liabilities	8	39,184	35,440
Total liabilities		220,589	187,124
Equity of investment accountholders			
Non-financial institutions and individuals		455,738	441,785
Financial institutions		151,648	99,906
Total Equity if Investment Accountholders		607,386	541,691
Subordinated debts		4,792	5,529
Owners' equity			
Share capital		51,445	51,445
Perpetual additional tier 1 capital		41,847	41,847
Reserves		(3,975)	(1,534)
Accumulated losses		(2,753)	(758)
Equity attributable to parent's shareholders		86,564	91,000
Non-controlling interest		8,615	9,422
Total owners' equity		95,179	100,422
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		927,946	834,766
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		191,765	242,212
CONTINGENCIES AND COMMITMENTS	9	109,429	127,165

Saleh Salman Al Kewari
Chairman

Adnan Ahmed Yousif
Deputy Chairman

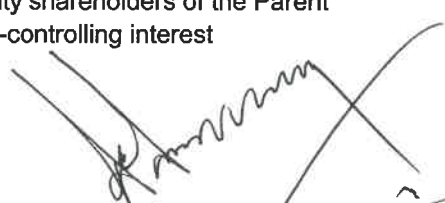


Hamad Abdulla Aloqab
Chief Executive Officer

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 INCOME

For the six months period ended 30 June 2020 (Reviewed)

		<i>Six months ended</i>	
		<i>30 June</i>	
		2020	2019
		BD '000	BD '000
Notes			
INCOME FROM JOINTLY FINANCED ASSETS			
	Financing	18,266	16,980
	Investments	2,001	1,364
Income from jointly financed assets		20,267	18,344
Return on equity of investment accountholders before Group's share as a Mudarib		(18,097)	(14,544)
Group's share as a Mudarib		3,399	2,028
Return on equity of investment accountholders		(14,698)	(12,516)
Group's share as a Mudarib and Rabalmaal		5,569	5,828
INCOME FROM SELF FINANCED ASSETS			
	Financings	2,287	1,527
	Investments	6,472	6,132
Income from self financed assets		8,759	7,659
INCOME FROM BANKING SERVICES AND OTHERS			
	Revenue from banking services	1,496	1,592
	Other income	1,446	959
Group's Mudarib / Agency fee from off-balance sheet equity of investment account holders & wakala pool		197	207
TOTAL OPERATING INCOME		17,467	16,245
OPERATING EXPENSES			
	Staff expenses	(5,989)	(5,802)
	Depreciation	(916)	(1,052)
	Other operating expenses	(5,844)	(5,440)
TOTAL OPERATING EXPENSES		(12,749)	(12,294)
NET OPERATING INCOME		4,718	3,951
	Allowance for impairment - net	(3,597)	(2,296)
	Recoveries from write offs	38	-
NET INCOME BEFORE TAXATION		1,159	1,655
	Taxation	(343)	(152)
INCOME FOR THE PERIOD		816	1,503
Attributable to:			
	Equity shareholders of the Parent	614	1,316
	Non-controlling interest	202	187
		816	1,503
 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 six months period ended 30 June 2020 (Reviewed)

	Equity attributable to shareholders of the Parent											
	Share capital BD '000	Perpetual Additional Tier1 capital BD '000	Reserves					Foreign exchange BD '000	Retained earnings / (accumulated losses) BD '000	Total BD '000	Non- controlling interest BD '000	Total owners' equity BD '000
			Statutory BD '000	General BD '000	Employee defined benefit plan BD '000	Cumulative changes in fair value BD '000	Revaluation of premises and equipment 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	-	-	-	-	-	(616)	-	-	-	(616)	10	(606)
Foreign currency translation reserve	-	-	-	-	-	-	-	(1,830)	-	(1,830)	(1,020)	(2,850)
Recognition of modification loss (note 2)	-	-	-	-	-	-	-	-	(3,331)	(3,331)	-	(3,331)
Recognition of government grant (note 2)	-	-	-	-	-	-	-	-	722	722	-	722
Movement in actuarial gain and losses	-	-	-	-	5	-	-	-	-	5	1	6
Net income for the period	-	-	-	-	-	-	-	-	614	614	202	816
Balance at 30 June 2020	51,445	41,847	8,757	3,275	(17)	(1,071)	-	(14,919)	(2,753)	86,564	8,615	95,179
Balance at 1 January 2019	46,167	41,470	8,558	3,275	(12)	390	269	(10,674)	(8,210)	81,233	10,807	92,040
Cumulative changes in fair value	-	-	-	-	-	19	-	-	-	19	14	33
Foreign currency translation reserve	-	-	-	-	-	-	-	(3,106)	-	(3,106)	(1,687)	(4,793)
Remeasurement gains on defined benefit plan	-	-	-	-	2	-	-	-	-	2	1	3
Issuance of perpetual tier 1 capital	-	11,310	-	-	-	-	-	-	-	11,310	-	11,310
Written off of perpetual tier 1 capital	-	(5,655)	-	-	-	-	-	-	5,655	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	1,316	1,316	187	1,503
Balance at 30 June 2019	46,167	47,125	8,558	3,275	(10)	409	269	(13,780)	(1,239)	90,774	9,322	100,096

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 six months period ended 30 June 2020 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	2020	2019
	BD '000	BD '000
OPERATING ACTIVITIES		
Net income before taxation	1,159	1,655
Adjustments for :		
Depreciation	916	1,053
Provision for impairment - net	3,597	2,295
Gain on sale of premises and equipment	(61)	(5)
Gain on sale of investments	(1,055)	(1,010)
Share of gain from investment in joint venture	16	(14)
Amortization of modification loss	(3,331)	-
Operating profit before changes in operating assets and liabilities	1,241	3,974
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	28,491	(2,929)
Receivables	9,529	13,685
Ijara Muntahia Bittamleek and ijara receivables	(2,642)	2,789
Musharaka	(27,218)	15,829
Other assets	(92)	(5)
Other liabilities	3,725	(120)
Due to banks and financial institutions	6,651	(532)
Current accounts	15,756	(7,457)
Equity of investment accountholders	65,695	47,784
Tax paid	(235)	-
Net cash from operating activities	100,901	73,018
INVESTING ACTIVITIES		
Purchase of investments	(108,439)	(102,418)
Sale / redemption of investments	102,708	62,855
Net sale of premises and equipment	(541)	140
Net cash used in investing activities	(6,272)	(39,423)
FINANCING ACTIVITIES		
Subordinated debts	(738)	(943)
Medium term financing	7,313	(126)
Receipt of government grant	721	-
Net cash from / (used in) financing activities	7,296	(1,069)
Foreign currency translation adjustments	(2,421)	(3,987)
INCREASE IN CASH AND CASH EQUIVALENTS	99,504	28,540
Cash and cash equivalents at 1 January	74,136	103,701
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	173,640	132,241
For the purpose of the interim statement of cash flows, cash and cash equivalents comprise the following:		
Cash in hand	15,016	15,029
Balances with central banks in unrestricted account	54,349	4,246
Balances with other banks and financial institutions	72,622	22,721
Receivables - international commodities	31,653	90,245
	173,640	132,241

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 six months period ended 30 June 2020 (Reviewed)

	Balance at 1 January 2020 BD '000	Write offs BD '000	Net deposits/ withdrawals BD '000	Gross income BD '000	Mudarib's/ agency fee BD '000	Balance at 30 June 2020 BD '000
Wakala Bi Al-Istithmar Pool						
Receivables	59,057	-	(59,079)	202	(179)	1
Investments	1,755	-	(1,756)	12	(11)	-
On balance sheet jointly financed assets	66,879	-	63,957	1,660	(415)	132,081
	127,691	-	3,122	1,874	(605)	132,082
Others						
Receivables	53,632	-	295	652	(6)	54,573
Investments	60,889	-	(55,779)	-	-	5,110
	114,521	-	(55,484)	652	(6)	59,683
	242,212	-	(52,362)	2,526	(611)	191,765
Wakala Bi Al-Istithmar Pool						
On Balance sheet equity of Investment Accountholders	122,813	-	(25,341)	5,003	(2,980)	99,495
Receivables	-	-	55,518	225	(184)	55,559
Investments	-	-	2,892	18	(17)	2,893
	-	-	58,410	243	(201)	58,452
	122,813	-	33,069	5,246	(3,181)	157,947
Others						
Receivables	29,118	-	(3,391)	155	(7)	25,875
Investments	3,590	(525)	7,297	-	-	10,362
	32,708	(525)	3,906	155	(7)	36,237
	155,521	(525)	36,975	5,401	(3,188)	194,184

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

1 INCORPORATION AND PRINCIPAL ACTIVITY

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 seven 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 August 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The condensed consolidated interim 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 where the Board of Directors decides to support such from shareholder funds, 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 condensed consolidated interim 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 six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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 condensed consolidated interim 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

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

At 30 June 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</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>No. of branches/ offices at 30 June 2020</i>
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%	2004	Pakistan	192

*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

At 30 June 2020 (Reviewed)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.6 Regulatory non-compliance

CBB rule book volume 2 - Capital Adequacy Mc

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 June 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	-	31,657	31,657	-	4,374	4,374
Salam financing	-	21,115	21,115	-	36,254	36,254
Istisna'a financing	-	41,038	41,038	-	42,789	42,789
Murabaha financing	756	94,134	94,890	756	85,463	86,219
Bills receivables and other financing	-	23,112	23,112	-	27,375	27,375
Gross receivable	756	211,056	211,812	756	196,255	197,011
Deferred profits	(20)	(5,367)	(5,387)	(20)	(7,564)	(7,584)
	736	205,689	206,425	736	188,691	189,427
Less: Allowance for credit losses	(140)	(20,412)	(20,552)	(140)	(19,739)	(19,879)
Net receivables	596	185,277	185,873	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 June 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)	61,535	3,014	-	64,549	73,349	403	-	73,752
Satisfactory (5-7)	59,168	56,058	-	115,226	35,141	53,578	-	88,719
Default (8-10)	-	-	26,650	26,650	-	-	26,956	26,956
	120,703	59,072	26,650	206,425	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

At 30 June 2020 (Reviewed)

3 RECEIVABLES (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	350	3,852	15,677	19,879	28,270
Changes during the year:					
- transferred to Stage 1: 12 month ECL	-	1	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(5)	6	(1)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(32)	33	-	-
Net remeasurement of loss allowance	257	19	1,211	1,487	6,294
Recoveries / write-backs	-	-	(63)	(63)	(797)
	251	(6)	1,179	1,424	5,497
Reclassification to Wakala Pool	69	100	-	169	(169)
Amounts written off during the year	-	-	-	-	(12,654)
FX translation	(12)	(23)	(885)	(920)	(1,065)
Closing Balance	658	3,923	15,971	20,552	19,879

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	30 June 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	11,131	83,818	94,949	10,463	83,463	93,926
Ijara income receivables	2,813	14,343	17,156	3,780	11,839	15,619
	13,944	98,161	112,105	14,243	95,302	109,545
Less: Allowance for credit losses	(156)	(3,355)	(3,511)	(45)	(2,920)	(2,965)
	13,788	94,806	108,594	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 June 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)	93,632	168	-	93,800	89,401	31	-	89,432
Satisfactory (5-7)	521	6,384	-	6,905	610	8,997	-	9,607
Default (8-10)	-	-	11,400	11,400	-	-	10,506	10,506
	94,153	6,552	11,400	112,105	90,011	9,028	10,506	109,545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

4 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

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 Ijara Muntahia Bittamleek.

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	65	213	2,687	2,965	5,658
Changes during the year:					
- transferred to Stage 1: 12 month ECL	9	(2)	(8)	(1)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1)	127	(127)	(1)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(29)	30	-	-
Net remeasurement of loss allowance	128	(38)	541	631	757
Recoveries / write-backs	-	-	(2)	(2)	(157)
Allowances for credit losses	135	58	434	627	600
Amounts written off during the year	-	-	-	-	(3,163)
FX translation	-	(2)	(79)	(81)	(130)
Closing Balance	200	269	3,042	3,511	2,965

5 MUSHARAKA

	30 June 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	3,446	115,995	119,441	15,055	77,398	92,453
Less: Allowance for credit losses	-	(3,789)	(3,789)	-	(2,918)	(2,918)
	3,446	112,206	115,652	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 June 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)	96,914	7,587	-	104,501	78,743	869	-	79,612
Satisfactory (5-7)	4,925	5,969	-	10,894	5,638	3,155	-	8,793
Default (8-10)	-	-	4,046	4,046	-	-	4,048	4,048
	101,839	13,556	4,046	119,441	84,381	4,024	4,048	92,453

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

5 MUSHARAKA (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	421	578	1,919	2,918	2,871
Changes during the year:					
- transferred to Stage 1: 12 month ECL	(69)	69	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	-	-	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	430	505	215	1,150	460
Recoveries / write-backs	-	-	(50)	(50)	(116)
Allowances for credit losses	361	574	165	1,100	344
FX translation	(33)	(45)	(151)	(229)	(297)
Closing Balance	749	1,107	1,933	3,789	2,918

6 INVESTMENTS

	30 June 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	-	74	74	-	77	77
	-	74	74	-	77	77
ii) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	10,007	115	10,122	10,800	126	10,926
Unquoted						
Unlisted equity shares	23,877	117	23,994	23,877	127	24,004
Managed funds	377	-	377	377	-	377
Real estate funds	617	1,649	2,266	617	-	617
	34,878	1,881	36,759	35,671	253	35,924
Less: Provision for impairment	(2,149)	(167)	(2,316)	(2,009)	(182)	(2,191)
Total equity investments	32,729	1,714	34,443	33,662	71	33,733

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

6 INVESTMENTS (continued)

	30 June 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	208,973	3,250	212,223	105,290	10,236	115,526
Unquoted						
Sukuk	-	39,827	39,827	45,816	85,476	131,292
	208,973	43,077	252,050	151,106	95,712	246,818
Less: Allowance for credit losses	(252)	(43)	(295)	(90)	(23)	(113)
Total debt-type investments	208,721	43,034	251,755	151,016	95,689	246,705
Total investments	241,450	44,822	286,272	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 June 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)	89,954	-	-	89,954	64,776	-	-	64,776
Satisfactory (5-7)	149,414	12,682	-	162,096	182,042	-	-	182,042
Default (8-10)	-	-	-	-	-	-	-	-
	239,368	12,682	-	252,050	246,818	-	-	246,818

Included in quoted equity type instruments, BD 8.7 million (2019: BD 9.7 million) of investments 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 251.8 million (2019: BD 246.7 million) have a fair value amounting to BD 254.1 million (2019: BD 251.7 million).

Investments stated at a carrying amount of BD 128.1 million (2019: BD 112.6 million) are placed in custody of a financial institution to secure a financing line.

Investments having a face value of BD 30 million (2019: Nil) are pledged with Central Bank of Bahrain ("CBB") against the borrowing from CBB.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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	112	-	-	112	1,020
Changes during the year:					
- transferred to Stage 1: 12 month ECL ECL not credit-impaired	- (9)	- 9	- -	- -	- -
Net remeasurement of loss allowance	101	83	-	184	(40)
Allowances for credit losses	92	92	-	184	(40)
Amounts written off during the year	(1)	-	-	(1)	(867)
Closing Balance	203	92	-	295	113

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

At 30 June 2020 (Reviewed)

7 OTHER ASSETS

	<i>Reviewed</i> 30 June 2020 BD '000	<i>Audited</i> 31 December 2019 BD '000
Deferred tax	7,923	8,640
Collaterals pending sale	5,231	5,613
Advance against capital expenditure	1,372	1,521
Accounts receivable	7,394	3,997
Prepayments	1,254	728
Advance tax	449	563
Income receivable	406	612
Others	833	3,279
	24,862	24,953
Less: Provision for impairment	(892)	(969)
	23,970	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.

8 OTHER LIABILITIES

	<i>Reviewed</i> 30 June 2020 BD '000	<i>Audited</i> 31 December 2019 BD '000
Margins received	14,551	14,193
Accounts payable	5,004	5,439
Bills payable	10,449	7,849
Security deposit against Ijara Muntahia Bittamleek	950	1,284
Provision for employees benefits	2,478	2,157
Allowance for expected credit losses-unfunded facilities	142	290
Charity fund	158	236
Others	5,452	3,992
	39,184	35,440

9 CONTINGENCIES AND COMMITMENTS

	<i>Reviewed</i> 30 June 2020 BD '000	<i>Audited</i> 31 December 2019 BD '000
Letters of credit	34,730	24,005
Foreign exchange contracts	49,610	64,947
Guarantees	20,002	21,301
Acceptances	4,556	16,337
Taxation	517	561
Others	14	14
	109,429	127,165

At 30 June 2020 (Reviewed)

10 INCOME FROM FINANCINGS

	<i>Six months ended 30 June</i>	
	2020	2019
	BD '000	BD '000
Income from receivables	11,155	9,371
Income from musharakas	6,489	6,191
Income from ijarah muntahia bittamleek	2,909	2,945
	20,553	18,507

	<i>Six months ended 30 June</i>	
	2020	2019
	BD '000	BD '000
Income from jointly financed financings	18,266	16,980
Income from self financed financings	2,287	1,527
	20,553	18,507

11 INCOME FROM INVESTMENTS

	<i>Six months ended 30 June</i>	
	2020	2019
	BD '000	BD '000
Yield, coupon or return on investments	7,412	6,474
Gain on sale of investments	1,055	1,010
Rental income	6	12
	8,473	7,496

Income from jointly financed investments	2,001	1,364
Income from self financed investments	6,472	6,132
	8,473	7,496

12 REVENUE FROM BANKING SERVICES

	<i>Six months ended 30 June</i>	
	2020	2019
	BD '000	BD '000
Fees and commissions	1,162	1,157
Letters of credit and acceptances	268	326
Guarantees	66	110
	1,496	1,593

13 OTHER INCOME

	<i>Six months ended 30 June</i>	
	2020	2019
	BD '000	BD '000
Foreign exchange gain - net	1,250	714
Others	196	245
	1,446	959

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

14 ALLOWANCE FOR IMPAIRMENT - NET

	<i>Six months ended</i>	
	<i>30 June</i>	
	2020	2019
	BD '000	BD '000
Receivables	(1,425)	1,237
Ijara Muntahia Bittamleek and ijara receivables	(630)	302
Musharaka	(1,100)	314
Investments - debt type	(184)	17
Investments - equity type	(233)	547
Off balance sheet items	(25)	(122)
	(3,597)	2,295

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 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets	543,190	452,667	384,756	382,099	927,946	834,766
Liabilities, equity of investment accountholders and Subordinated debts	481,294	383,576	351,473	350,768	832,767	734,344
	<i>Middle East</i>	<i>Other Asian Countries</i>	<i>Total</i>			
	<i>Six months ended</i>		<i>Six months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>		<i>30 June</i>	
	2020	2019	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Total operating income	8,125	7,853	9,342	8,392	17,467	16,245
Total expenses	(6,515)	(5,786)	(6,234)	(6,508)	(12,749)	(12,294)
Provision for impairment - net	(1,291)	(1,022)	(2,268)	(1,274)	(3,559)	(2,296)
Taxation	-	-	(343)	(152)	(343)	(152)
Net income for the period	319	1,046	497	457	816	1,503

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 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	5	35	1,880	2,076	1,885	2,111
Receivables	-	-	5,024	73	5,024	73
Ijara Muntahia Bittamleek and ijara receivables	-	-	8	32	8	32
Musharaka	-	-	527	612	527	612
Investments	6,477	6,922	29,450	29,640	35,927	36,562
Other assets	4,224	2,957	52	38	4,276	2,995
	10,706	9,914	36,941	32,471	47,647	42,385
Liabilities:						
Due to banks and financial institutions	-	2,532	-	2,108	-	4,640
Current accounts	4,757	55	1,323	10,606	6,080	10,661
Other liabilities	2	2	462	181	464	183
	4,759	2,589	1,785	12,895	6,544	15,484
Equity of investment accountholders	9,649	2,529	27,961	48,182	37,610	50,711
OFF-BALANCE SHEET ITEMS:						
Equity of investment accountholders	8,174	57,824	49,070	52,745	57,244	110,569
Contingencies and commitments	-	-	3,976	1,022	3,976	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	-	-	103	78	103	78
Income from jointly financed, other financings and investments	-	-	7	172	7	172
Other income	60	61	9	17	69	78
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	-	7	42	-	42	7
	60	68	161	267	221	335
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	19	14	119	864	138	878
Other expenses	66	60	440	348	506	408
	85	74	559	1,212	644	1,286

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

16 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel is as follows:

	<i>Six months ended</i>	
	<i>30 June</i>	
	2020	2019
	BD '000	BD '000
Salaries	804	877
Other benefits	386	408
	1,190	1,285

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 June 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 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 30 June 2020 is 177.86%.

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

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):					
Capital:	74,966	-	-	5,183	80,148
Regulatory Capital	74,966	-	-	5,183	80,148
Other Capital Instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:	-	298,969	21,887	12,304	304,428
Stable deposits	-	66,805	262	45	63,758
Less stable deposits	-	232,164	21,625	12,259	240,669
Wholesale funding:	-	262,887	104,890	5,608	113,502
Operational deposits	-	-	-	-	-
Other wholesale funding	-	262,887	104,890	5,608	113,502
Other liabilities:	-	-	-	42,776	42,776
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	42,776	42,776
Total ASF	74,966	561,856	126,777	65,871	540,854
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	11,753
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing financing and sukuk/securities:	-	112,104	-	16,513	33,328
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	-	112,104	-	16,513	33,328

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
At 30 June 2020 (Reviewed)

18 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	62,260	16,481	-	78,741
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:	-	-	955	51,599	42,715
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	26,748	17,387
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	955	24,851	25,328
Other assets:	46,568	-	-	-	46,568
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	14,794	-	-	-	14,794
OBS items	170,223	-	-	-	8,511
Total RSF	299,258	112,104	955	68,112	225,342
NSFR (%)					240.01%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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 preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of regulatory authorities. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR). The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL). In this regards, the ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECI 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%;
- Aggregate of modification loss and incremental ECI provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2020 (Reviewed)

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 June 2020 have been disclosed in financial statements.

Operational risk

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

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

SUPPLEMENTARY FINANCIAL INFORMATION

At 30 June 2020

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

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

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 the 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	Consolidated	Consolidated
	income	statement	Statement
	statement	of financial	of Owner's
	BD 000	position	Changes in
		BD 000	Equity
			BD 000
Modification loss	-	(3,331)	(3,331)
Amortization of Modification Loss	2,221	2,221	2,221
Government Grant	-	-	722
Concessionary REPO	-	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.