alBaraka

DIGITAL TRANSFORMATION
leads to EFFICIENCY

Annual Report 2020

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

The Bank offers innovative products and services based on Islamic Sharia Principles, including Corporate and Retail financing, investments, international trade finance, and managment of short-term liquidity.

Strategic report

Governance

Consolidated Financial Statements

Head Office

Mr. Hamad Abdulla Al Oqab, CEO
Al Baraka Tower, Bahrain Bay
P.O. Box 1882 Manama, Kingdom of Bahrain

Head Office (Bahrain Bay)	Tel: +973 17 535 300	Fax: +973 17 533 993
Muharraq Branch	Tel: +973 17 461 999	Fax: +973 17 324 888
Riffa Branch	Tel: +973 17 768 600	Fax: +973 17 490 003
Seef Mall, Muharraq	Tel: +973 17 358 885	Fax: +973 17 676 361
Ramli Mall, A'ali	Tel: +973 17 646 677	Fax: +973 17 646 676
Galleria Mall	Tel: +973 17 166 600	Fax: +973 17 911 844

Website: www.albaraka.bh

Subsidiaries

1. Al Baraka Bank Pakistan Limited
Ahmed Shuja
Chief Executive Officer
Plot No. 162,
Bangalore Town Block 7 & 8
Shahrah-e-Faisal Karachi, Pakistan
Tel: +9221 34 315 851
+9221 34 307 000
Fax: +9221 34 323 761
+9221 34 546 465

Email: albaraka@albaraka.com.pk
Web: www.albaraka.com.pk

2. Itqan Capital Company
Abdulla Fareed Shaker
Chief Executive Officer
Jeddah, Prince Sultan Road
Hay Al Nahda
Kingdom of Saudi Arabia
P.O. Box 8031
Postal Code 21482
Tel: +966 26 996 888
Fax: +966 26 338 852

You can find more information on our corporate website
www.albaraka.bh

His Majesty
King Hamad Bin Isa Al Khalifa

The King of
The Kingdom of Bahrain

His Royal Highness
Prince Salman Bin Hamad Al Khalifa

Crown Prince and Prime Minister of
The Kingdom of Bahrain

Corporate Profile

The Bank offers innovative products and services based on Islamic Sharia Principles, including Corporate and Retail financing, investments, international trade finance, and managment of short-term liquidity.

Al Baraka Islamic Bank ("AIB" or "the Bank") is one of leading financial institutions in the Islamic banking industry. Throughout its history of more than three decades (since its establishment in 1984), the Bank has played a prominent role in building the infrastructure of the Islamic finance industry. The Bank also played a significant role in promoting Islamic finance and publicizing its merits. The Bank enjoys a good reputation and high standing with the community in the Kingdom of Bahrain and in the GCC, Arab and Islamic World.

AIB offers innovative financial products, including investments, international trade finance, management of short-term liquidity, corporate and consumer financing based on Islamic Sharia Principles. Such financing include Murabaha, Wakala, Istisna, Musharaka, Mudarabah, Salam, and Ijara Muntahia Bittamleek.

The Bank had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of Islamic Fiqh (Jurisprudence), the diverse experience of its executive management team, and the strong and deep financial position of its parent company (Al Baraka Banking Group). Since its inception, AIB is managing funds onbehalf of many large financial institutions and high net worth clients.

In 2010, AIB completed the merger of its branches in Pakistan (whose operations started back in 1991) with Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited ("ABPL"). Thereafter, in 2016, ABPL acquired and merged with Burj Bank Limited leading to the addition of 74 new branches. ABPL carries total assets over 161 billion Pakistani Rupees and a workforce of more than 2,500 professionals in addition to a network of 191 branches in more than 100 cities and towns across the country.

In 2012, the Bank acquired 60% of shares of Itqan Capital (previously Al Tawfeek Financial Group). This share increased to 83.07% in 2015. Itqan Capital is a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. The company engages in asset and portfolio management, as well as custody and research and advisory services.

All products and services offered by the company are in strict compliance with the provisions of Islamic Sharia. The company's paid-up capital is 111 million Saudi Riyals.

AIB is a retail Islamic bank licensed by the Central Bank of Bahrain and registered with Bahrain's Ministry of Industry, Commerce, and Tourism under Commercial Registration No. 14400. The Bank has an authorized capital of 600 million US Dollars and issued and paid-up capital of 136.5 million US Dollars.

AIB is one of the banking units of ABG (which is a Bahraini Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai). The Group offers retail banking, corporate banking, investment banking, and treasury services, strictly in accordance with the principles of the Islamic Sharia. The authorized capital of ABG is 1.5 billion US Dollars, while total equity amounts to around 2.3 billion Dollars. ABG has a wide geographical presence in the form of subsidiary banking units and representative offices in 16 countries, which in turn provide their Sharia compliant banking products and services through more than 600 branches. These banking units are Al Baraka Islamic Bank Bahrain, Jordan Islamic Bank, Al Baraka Bank Pakistan Limited, Al Baraka Bank Algeria, Al Baraka Bank Sudan, Al Baraka Bank Ltd South Africa, Al Baraka Bank Lebanon, Al Baraka Bank Tunis, Al Baraka Bank Egypt, Al Baraka Turk Participation Bank and its branches in Iraq, Al Baraka Bank Syria, BTI Bank Morocco, and a representative office in both Indonesia and Libya

Vision and Mission

Our Vision

We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community.

Our Mission

To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success.

Values Partnership

Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

Driven

We have the energy and perseverance it will take to make an impact in our customers' lives and for the greater good of society.

Neighbourly

We value and respect the communities we serve. Our doors are always open; our customers always experience a warm hearted, hospitable welcome and accommodating service.

Peace of mind

Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards.

Social Contribution

By banking with us, our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.

Board of Directors

Saleh Salman Al Kawari
Chairman

Adnan Ahmed Yousif
Vice Chairman

Abdullatif Abdulrahim Janahi
Board Member

Yousef Ali Bin Fadil
Board Member

Abdulrahman Abdulla Mohamed
Board Member

Dr. Khalid Abdulla Ateeq
Board Member

Abdulrahman Abdulla Al Sayed
Board Member

Abdulrazzaq Abdulkhaleq Abdulla
Board Member

Adnan Abdulla Al Bassam
Board Member

Shari'a Supervisory Board

Shaikh Essam Mohammed Ishaq
Chairman

Shaikh Judge Waleed Abdulmonem Al-Mahmood
Board Member

Shaikh Dr. Nizam Mohammed Yaqoobi
Board Member

Financial Highlight

Total Assets
(USD Million)

USD 2,652

2020	2,652
2019	2,214
2018	2,180
2017	2,297
2016	2,385

Financing
(USD Million)

USD 1,229

2020	1,229
2019	970
2018	1,269
2017	1,377
2016	1,370

Customer Deposits
(USD Million)

USD 2,191

2020	2,191
2019	1,714
2018	1,805
2017	1,921
2016	2,041

Total Equity
(USD Million)

USD 267

2020	267
2019	266
2018	244
2017	192
2016	207

Directors Report

SALEH SALMAN AL KAWARI
Chairman

In the name of Allah, the most beneficent, the most merciful. Prayers and peace be upon the last Apostle and Messenger, Prophet Mouhamad (Peace be upon him) and his family and companions.

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual report of Al Baraka Islamic Bank and its subsidiaries (the "Group") for the year ended 31 December 2020.

Economic Review

The year 2020 was extraordinary year in all means. COVID-19 pandemic caused severe loss of lives and is tipping millions into extreme poverty, income have fallen substantially and created systematic risk across the World. United Nations expected the World economy to decline by 4.3% during 2020 due to strict lockdown measures imposed in many countries, making a quick recovery more unlikely. Although the global economy is emerging from the collapse triggered by the pandemic, the recovery is projected to be subdued. Global economic output is expected to expand 4% in 2021, however still more than 5% below its pre-pandemic trend. Moreover, there is a material risk that setbacks in containing the pandemic or other adverse events derail the recovery. The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation, levels of which have reached historic highs making the global economy particularly vulnerable to financial market stress. The pandemic is likely to steepen the long-expected slowdown in potential growth over the next decade, undermining prospects for poverty reduction. Global cooperation is critical in addressing key priorities, such as limiting the spread of the virus; providing relief for vulnerable populations; overcoming vaccine-related challenges.

The subdued outlook for oil prices is expected to limit GCC governments' ability to provide fiscal support. Regional fiscal buffers (excluding UAE and Qatar) were already weakened heading into oil and COVID shocks and budgets have come under further pressure this year amid loss of the dominant oil and gas revenue. Several governments, including Oman and Saudi Arabia, look eager to streamline their finances, implying more restrictive fiscal policies in 2021-2022. This will weigh on demand and keep inflation low, other governments are well positioned to capitalize on lower borrowing costs to fuel recovery even if oil prices stay lower for longer period.

Bahrain's economy registered real GDP growth in Q3 2020 of 1.4% after having contracted during the first two quarters of

Total Assets

USD 2.65BN

Total Financing

USD 1.07BN

the year because of the COVID-19 pandemic and the low oil prices, with most of the non-oil sectors showing clear signs of partial normalization during the quarter. This was the result of the leadership of His Majesty King Hamad Bin Isa Al Khalifa and the direction of His Royal Highness Prince Salman Bin Hamad Al Khalifa the Crown Prince and Prime Minister, which saw the announcement of an unprecedented stimulus package of policy measures, with a value to date exceeding BHD 4.5bn, to directly support citizens, residents and businesses in the Kingdom.

Similar to regional and global authorities, Bahrain's government and the Central Bank of Bahrain have announced various support measures to counter possible adverse implications and offset such slowdown in local economy through the introduction of a fiscal stimulus package during 2020. This included payment holiday for 6 months to eligible customers (free of any additional profit); concessionary repo to eligible local banks with zero profit rate; reduction of statutory cash reserve ratio from 5% to 3%; reduction of liquidity coverage ratio and net stable funding ratio minimum requirements from 100% to 80%; subsidy in utility bills and staff salaries for a period of three months; in addition to other regulatory and reporting relaxations.

Improvement in Pakistan's inflation outlook was the exception as the real, fiscal, and external factors deteriorated. Both production and retail activities came near to a standstill towards the end of the year and led to a significant contraction in economic activity. The severity of the COVID-19 on Pakistan's economy is significant and real GDP is provisionally estimated to record a negative growth of 0.4% by the end of 2020. As expected in most other countries, this contraction in Pakistan's GDP is due to a decline in output of industrial and services sectors. Post lockdowns, the industrial sector's performance continued to improve during third quarter of 2020 because of gradual improvements in large-scale manufacturing. While recovery in food and fertilizers helped, improved growth in exportable subsectors such as textiles, leather, and cement generated much of the momentum.

Performance Review

In such a testing times, the Group have given foremost priority to its most valuable resource (human capital) and taken initiatives to safeguard its employees from such catastrophe. In this regard, the Group made a significant investment in technologies to support its people while working from home and encouraged those with chronic diseases to work for home. The Group have also relocated staff to ensure social distancing and followed best practices to sanitize the work place. All these measures have been taken in line with the public awareness campaign to combat Coronavirus COVID-19. Simultaneously, the Group ensured uninterrupted supply of core banking services to our esteemed customers and strict prudential measures were followed to maintain sufficient liquidity levels and minimize the impact on assets base. Further, the Group is actively monitoring the progress and impact of such outbreak on its operations such as possible loss of revenues, expected credit losses, etc.

Due to the spread of the pandemic, overall business activities were deeply affected during the year, the volume of business activities was significantly reduced. Further, due to reduction in consumer spending and travelling, credit cards, funds transfer and other core banking services were also affected. Furthermore, trade finance operations were minimized due to massive reduction in business activity in this segment.

In spite of all these challenges, Alhamdulillah, the Group managed to maintain its journey towards achieving its strategic objectives. Despite of highly non-conducive business environment, total assets have steadily grown up by 20% (including the reclassification of Wakala assets on-balance sheet) to reach USD 2,652mn in 2020 as compared with USD 2,214mn reported in 2019. Financing assets have also grown up by 11% to reach USD 1,068mn in 2020 as compared with USD 958mn reported in 2019. Customer deposits have also increased by 28% to reach USD 2,191mn in 2020 as compared with USD 1,714mn reported last year.

Directors Report (continued)

Operating Income

USD 102.3MN

Net Income

USD 7.6MN

The Group's operating income have grown up by 15%, i.e. from USD 88.9mn in 2019 to USD 102.3mn in 2020. In addition and as part of our commitment towards consolidation and rationalization of business activities, operating expenses incurred during 2020 have grown up by only 3% as compared to last year despite of challenges posed by consumer price inflation, imposition of indirect taxes and rise in prices of utilities in domestic markets. Due to prevailing market conditions, the Group adopted a prudent and conservative approach and continued to increase coverage against identified and expected credit losses. In this regard, the Group has provided USD 21.3mn additional provisions during 2020 as compared with USD 15.4mn during 2019. As a result of the above, the Group reported net profit of USD 7.6mn for the year ended 31 December 2020 as compared with USD 5.1mn reported in 2019. The numbers reflects, the majority of key performance indicators and quality of operations were moved in a positive direction.

Credit Rating

The Islamic International Rating Agency has maintained Al Baraka Islamic Bank's international scale investment grade credit rating of BB (long term)/A3 (short term) and a national scale rating of BBB+ (long term)/A3 (short term).

At the same time, Al Baraka Bank Pakistan Limited has sustained local currency long-term/short-term rating of A/A1 with a stable outlook, as assigned by Pakistan Credit Rating Agency. While the VIS Credit Rating Company Limited reaffirmed short term/ long term credit rating of A+/A-1 with a stable outlook.

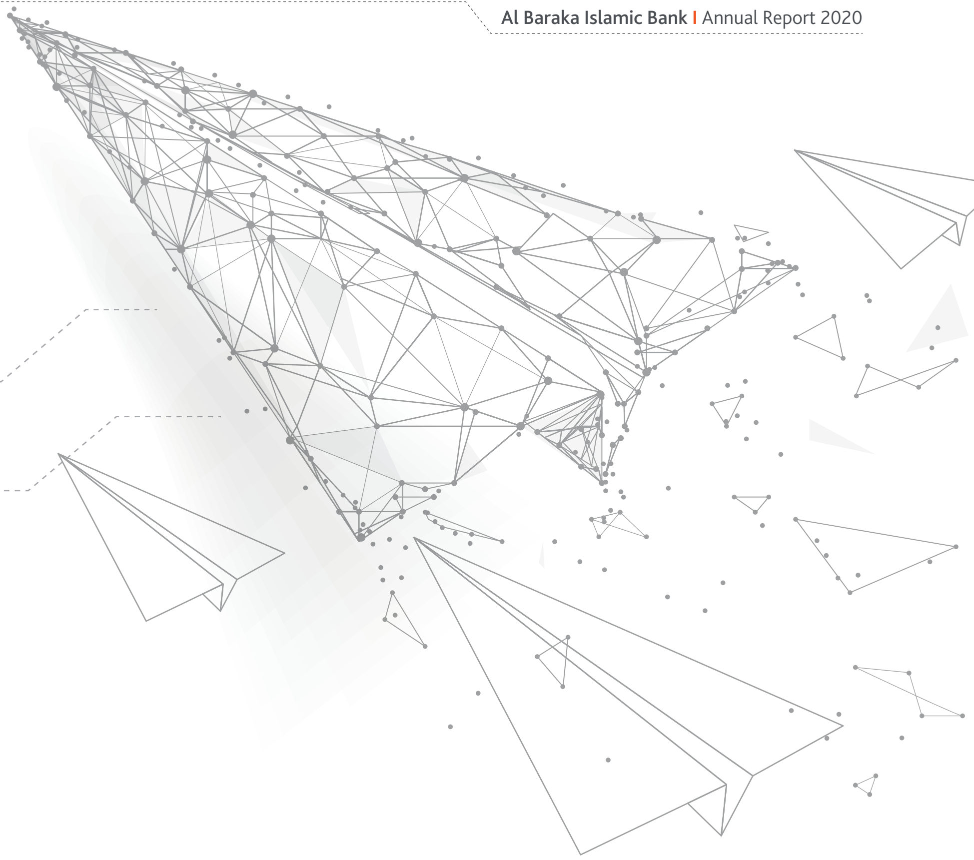
Such ratings reflects the strong capacity of the Group to meet its financial obligations/ commitments and presence of compliance and governance environment.

Sustainability and Social Responsibility

The Group have adopted a visionary sustainability and social responsibility philosophy built on generating real business activities that can be transformed into resources for our communities to improve their quality of living. The Group entered into partnerships with sovereign and private sector entities to develop affordable homes for low-income citizens. The Group have also directed its resources towards job creation opportunities, and have emphasized on projects of social importance such as education financing, healthcare financing, etc.

As part of its core obligations and social responsibility and in support of official and civil efforts aimed to combat the outbreak of the novel Coronavirus pandemic, the Group donated BD 250 thousand to the national campaign "Feena Khair" fund launched by the Royal Humanitarian Foundation, based on an initiative of His Highness Sheikh Nasser Bin Hamad Al Khalifa, Representative of His Majesty the King for Charity and Youth Affairs, National Security Adviser, and President of the Supreme Council for Youth and Sports. An initiative carried out in coordination with the Bahrain National Team to combat Coronavirus COVID-19, led by His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince, and Prime Minister.

The Group have also contributed significant amounts of donations to educational institutions, hospitals, orphanage and other charitable institutions. In addition, the Group provided on-job training to university students and continued to provide support to organizations in the field of Islamic banking and finance research. Furthermore, the Group remained a partner in many Islamic finance and banking events and conferences organized by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI).



Awards and Recognitions

During the year 2020, the Group won eight awards in different categories and sectors, including retail and corporate financing, customer accounts, and innovative products and services.

Future Outlook

Although COVID-19 pandemic has disrupted the whole world, it has created many opportunities. The World has changed in a way that can never return where it was pre-pandemic. Employees are working from home; students are attending schools from home; global conferences and meetings are organized remotely; people were able to place orders anytime with a fingertip. The Group is investing heavily to move with rapid changes in technology and Fintech to sustain its competitive position and to capitalize on prospective opportunities available in such field.

Furthermore, the development of skill levels within the organization will remain our utmost priority in coming periods. Alongside, the Group is developing contemporary solutions that meets with requirements of various customer segments. Successful implementation of such projects provides dynamism and strengthen our competitive position in the market.

Acknowledgment

We thank Allah the Almighty for guiding us through this testing time and for blessing us with another year of achievements and success. We are grateful to Allah the Almighty for providing strength, wisdom, and plenty of resources to our organization.

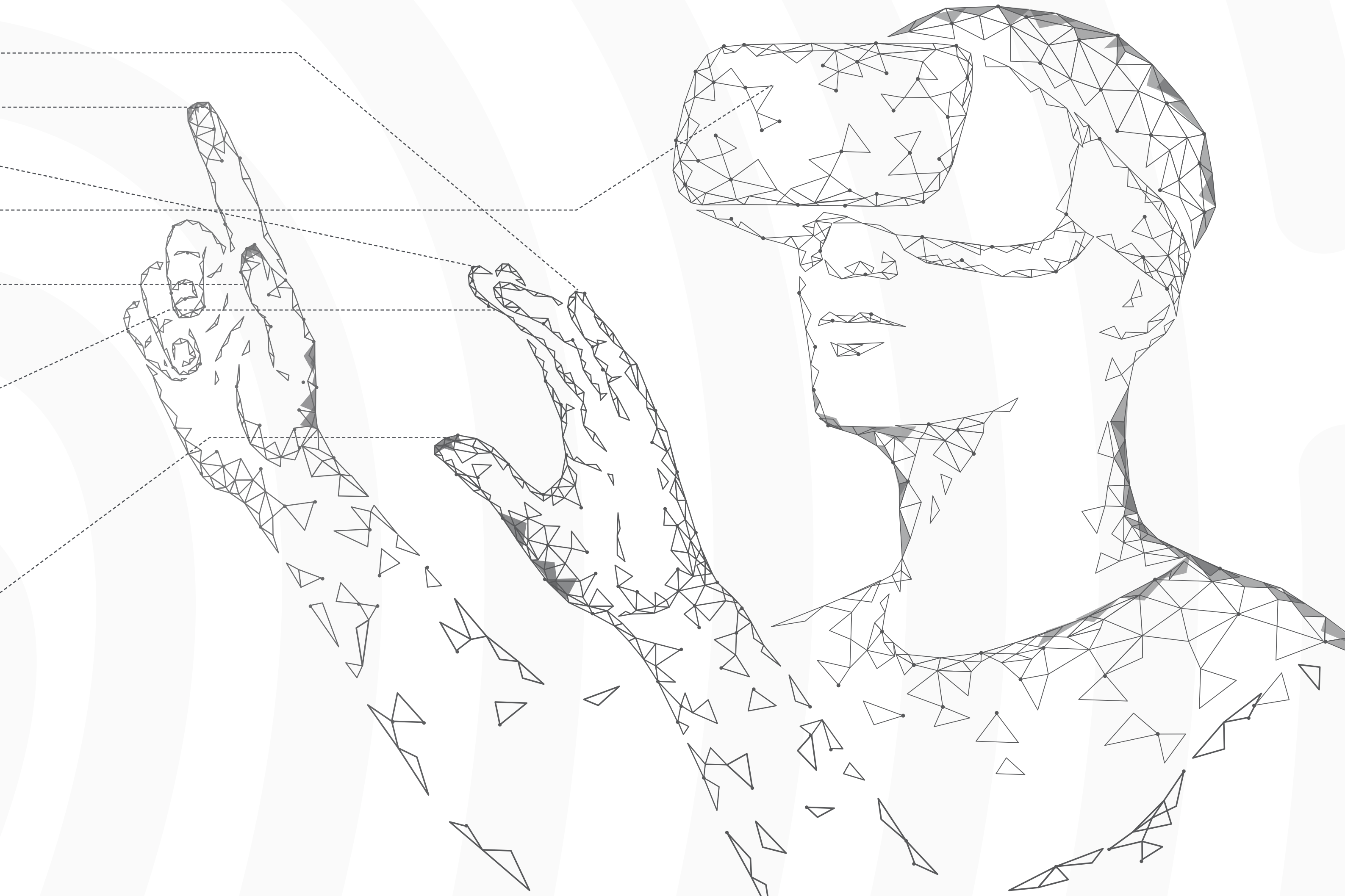
On behalf of Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad Bin Isa Al-Khalifa and to His Royal Highness Prince Salman Bin Hamad Al-Khalifa the Crown Prince and Prime Minister for their sincere support for the advancement of the banking sector in the Kingdom of Bahrain.

Our sincere gratitude to the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the State Bank of Pakistan, and all government agencies for their continues assistance and support. We are grateful to our shareholders, valued customers and business partners for trust and loyalty reposed on us. We offer sincere regards to our parent company and our Sharia Supervisory Board for their patronage and priceless guidance. A special thanks and appreciation goes to our employees for the hard work and dedication that supported the organization to sustain the progress and growth in line with our strategic directions during such a testing time.

Saleh Salman AlKawari
Chairman

Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain
21 February 2021

TRANSFORMATION



Executive Management

Hamad Abdulla Al Oqab
Chief Executive Officer

Tariq Mahmood Kazim
General Manager – Business Group

Khalid Mahmood Abdulla
Deputy General Manager – Support Services Group

Mohamed Abdulla Abdulrahim
Assistant General Manger & Chief Financial Officer

Fatima Moosa AlAlawi
Assistant General Manager – Head of Retail Banking

Hassan Abdulwahab Al Khan
Assistant General Manager - Head of Operations

Kamran Hussain
Assistant General Manager - Head of Risk Management

Fahad Abdulhameed Al Balooshi
Executive Senior Manager -
Head of Corporate Banking

Bader Isa Al Shetti
Head of Compliance
& AML - MLRO

Ahmed Isa Al Khayyat
Senior Manager - Head of
Information Technology

Mohammed Jasim Ebrahim
Sharia Officer & Secretary of the Sharia
Supervisory Board, Sharia Coordination
& Implementation

Duaij Khalifa Abulfateh
Head of Internal Sharia Audit

Mohammed Ali Qudrat
Senior Manager -
Head of Treasury

Raeda Asghar Murad
Senior Manager -
Head of Special Assets

Abdulla Abdulaziz Suwaileh
Senior Manager - Head of Human Resources
& Administration

Hasan Abdulaziz Al Qasimi
Manager – Acting Head of
Internal Audit

Executive Management Report

HAMAD ABDULLA AL OQAB
Chief Executive Officer

Overview

The Bank demonstrated strong resilience against one of the most challenging phases of its journey, due to prevailing operating conditions resulted from spread of COVID-19, and maintained a steady progress towards the acclamation of strategic outcomes during 2020.

The robust business plans, revitalization of prudential practices, enrichment of skill set repository, nurturing culture of professionalism, and investment in technologies, in recent times, provided us endurance to pass through these challenging times. The majority of key performance indicators moved in positive directions despite of high non-conducive operating conditions in the financial industry.

In essence, with our core business values as well as being a responsible organization, we stood side by side with our community in such a time of distress. In this regards, we ensured constant supply of core banking services to our esteemed customer base, in a safer environment by following best health care standards as well as provision of majority of basic banking services through electronic channels. Further, the Bank provided six months profit free payment and allowed utilization of credit limits without extra charges, to ease financial burden on people in such distressed situation. Furthermore, the Bank provided additional deferments of four months and offered rescheduling to customers deeply suffering from financial crises.

The safety and security of our most precious resource "human capital" also remained the utmost priority of the Bank during the current financial period. In this regards, a significant amount of investment made on technologies to support work remotely and reduce concentration of people in office to achieve the prescribed levels of social distancing. Furthermore, face-to-face interactions were discouraged and people were pursued to use electronic channels for business meetings and essential communications. Furthermore, the work place was sanitized on regular basis, essential supplies like sanitizers, masks, etc. were made available on desks of employees, ensured temperature check at the time of entrance of premises and encouraged staff having symptoms to stay at home.

Financial Performance

The Bank achieved a growth in size of consolidated financial position reaching to USD 2,652 million from USD 2,214 million, increasing by 19.8% despite of highly non-conducive business environments resulted from COVID-19. This increase reflects the growth of operations in both Bahrain and Pakistan.

We Continued performing our social responsibility initiatives by directing our products and services towards developing and enhancing our community socially and economically, providing support to small and grooming young generation through training opportunities.

Growth in Total Financing

27%

Growth in Customer Deposits

14%

However, and due to COVID-19 pandemic, the Bank scaled down its financing activities, during the year 2020, amid heightened uncertainties and lack of complete information to ascertain the effect on industries/ Clients. Focus was kept on building these assets predominantly with sovereign segments or with obligors demonstrating sound financial health.

In Bahrain, given the impact of the pandemic in almost all indusries, the Bank's focus remained to consolidate its portfolio during the current financial period. Therefore, the Bank entered into a few new transactions with domestic PSE's and few other obligors demonstrating sound financial health.

While in Pakistan, the Bank continued to build retail/ consumer financing portfolio at an accelerated pace. Therefore, the financing facilities marked a sharp growth and closed well above the budgetary expectations.

The above factors led the Bank's financing portfolio to increase by 26.7% during 2020 to reach US$ 1.23 billion compared to US$ 970 million in 2019. As at the end of the year, this portfolio comprises Murabaha Receivables of US$ 557 million (2019: US$ 450 million), Ijara Muntahia Bittamleek and Ijara receivables of US$ 322 million (2019: US$ 283 million) and Musharaka of US$ 350 million (2019: US$ 237 million). Thus, the increase covered all components of the portfolio.

Furthermore, the Bank is engaged in institutional trade finance operations/ confirmation on behalf of FI's and classic such business activities with end users/ ultimate customers. In this respect, a broad range of Sharia compliant solutions meeting contemporary needs of our customer base are duly available. Further, the Bank carries strategic partnerships and strong business relationships, in Middle East and South Asian Region, which remained a source of significant amount of business over the years.

Amid prevailing market conditions, the investments in securities issued by domestic and regional sovereign entities remained a primitive option for the Bank to deploy resources, as these carry relative lower risk of default, easily liquefiable/ provides leveraging option, if required, to meet any potential contingent situation that might arise in given circumstances. As a result, the Bank's investment portfolio increased significantly by 32.8% from US$ 744 million in 2019 to US$ 988 million in 2020.

The Bank's strategic drive to build a robust and well diversifies portfolio of investments (predominantly comprising of Sukuk but with a sizeable deployment in subsidiaries, associates, real estate funds, properties, and structured products) performed a pivotal role in turnaround of operating efficiencies along-with moderation of riskiness of operations. These investments are located in various parts of the world like Middle East, America, Europe, and South Asia etc. Furthermore, these investments either secured by tangible underlying assets or made with investees carrying credit rating above the investment grade/ or entered with sovereign entities. Furthermore, the majority of these assets are actively traded in primary/ secondary markets, maintaining an instant source of liquidity for the Bank, which further ensue the strength and dynamism of Bank portfolio.

Equity of investment accountholders represents the main external source of funds for the Bank. These accounts reached USD 1.70 billion in 2020 compared to 1.44 billion in 2019, an increase of 14.1%. This noticeable increase covered both banks and non-banks investment accountholders. In this regards, the Bank's wide geographical presence, strategic partnerships with regional financial institutions and market successful products remained key in maintaining said growth in deposits base. This growth was at the same time coincided with our continued efforts to rationalize the efficiencies of these deposits. Such growth was contributed by all business and geographical units, during the current financial year.

In Bahrain, the "alBarakat" Retail Product continued to mark the success and secured its progress aligned with strategic milestones. Such products played a critical role in our journey towards the strategic outcomes of diversification, moderation of cost of funds etc.

Executive Management Report (continued)

Growth in Operating Income

15%

Growth in Net Operating Income

52%

In view of spread of COVID-19 pandemic, the Bank diverged its efforts to meet any possible contingencies to arise from any further deterioration in an already fragile operating conditions. In this regards, the Bank accelerated the generation of deposit but with slowdown in building of core banking assets. Furthermore, the liquidity level in market witnessed a rise due to injection of money by government authorities, reducing reserve requirements and offering financial stimulus packages for businesses, which provided a support to us in our cause. Furthermore, our strategic investments portfolio predominantly comprises of marketable securities provided us a pivotal support in such testing times. Resultantly, the Bank was able to maintain liquidity at desired levels across the financial year 2020.

At the end of 2020, total owners' equity reached US$ 267.43 million compared to US$ 266.37 million in 2019, an increase of 0.4%. The Bank made the capital management as an integral component of core business plans to focus on strengthening its capital base and optimization of riskiness of operations. In this regards, the Bank received a significant amount of support from parent company in past few years and continued the capitalization of net profits. Resultantly, the Bank is fully compliant with minimum capital and capital adequacy requirements, both in Bahrain and Pakistan.

The International Islamic Rating Agency ("IIRA") granted the Bank an International Scale investment grade credit rating of BB (long-term)/A3 (short-term) and a National Scale rating of BBB+ (long-term)/A3 (short-term).

With regards to the Bank's income statement, a commendable growth observed in revenue generation activities during the year 2020 in comparison with last year. In this regards, the majority came from investment activities mainly due to participation of substantial amounts in sukuk issued by domestic sovereign and public sector entities. Furthermore, the foreign exchange income remained on the rise as well as income from banking services upon expanding in trade finance operations. Simultaneously, the rationalization of cost of funds also supported in achieving such growth in these balances during the year.

As a result, total operating income increased by 15% from USD 88.92 million in 2019 to USD 102.27 million in 2020.

Total operating expenses increased slightly by 3% from USD 67.25 million 2019 to USD 69.23 million in 2020. As a result, the Bank reported net operating income before provisions and taxes of USD 33.04 million in 2020 compared to USD 21.67 million in 2019, an impressive increase of 52.4%.

Increasing provision coverage remained the utmost strategic priority during the current financial year to have sufficient coverage against any identified and expected credit losses. In this regards, a detailed assessment was carried out at customer level, by taking into account the prevailing market conditions and specific structural issues faced by customer segment/ obligor, to ascertain the provisioning coverage required for existing portfolio of asset by closing of current financial period. Furthermore, the macroeconomic indicators were embedded in Probability of Default, affected sectors / obligors were stressed and additional haircuts were made on eligible collaterals to quantify these ECLs under prevailing market conditions. Therefore, net provisions increased by 22.9% from US$ 17.38 million in 2019 to US$ 21.36 million in 2020.

After provisions and taxes, the Bank reported a net profit of USD 7.58 million in 2020 compared to a net profits of USD 5.12 million reported in 2019, a remarkable increase of 48%.

Our Human Capital

During 2020, the Bank continued its efforts to create an effective work environment and to improve the values and principles to work as an integrated team with strong capabilities appropriate to satisfy the market's and customer needs as a primary goal for all staff. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve customers better.

The Bank's management also focused on providing internal and external training programs as well as professional certificates to improve staff performance and increase awareness of key business skills in addition to mandatory CBB requirements as well as other essential skills. Moreover, the Bank provided training programs to a large number of university students during the year. As an embodiment of the Bank's appreciation for the employee's loyalty, the Bank honored staff members who served for periods ranging from five and twenty years by granting them certificates of appreciation and prizes.

Information Technology and Digitalization

During the year, the Bank successfully migrated to a state-of-the-art computer system in order to keep pace with technological development and to maintain the Bank's ability to compete in markets where it operates, as well as to improve customers experience. In light of the COVID-19 pandemic, the Bank made substantial investments in technology to support employees while working from homes. In addition to the completion of advanced stages of digitization projects aimed at transforming the Bank to a new phase of providing excellent services to its valued customers.

Strong Corporate Identity

During 2020, the Bank continued with developing policies and high ethical and professional standards relating to offering innovative and highly efficient Sharia-compliant products and services. These steps included the implementation of a number of programs to promote the understanding and assimilation of the Bank's corporate identity and the values and principles that it represents which in turn, requires high skills and outstanding performance from all employees.

As a result, there is now a strong customer oriented approach in all marketing activities. This approach is derived from the strategy outlined in the unified corporate identity and has now been fully integrated into the Bank policies and procedures.

Prizes and Awards Earned

1. "The Highest Growth in International Spend in Bahrain for 2019" MasterCard
2. "Best Website 2020" The International Academy of Interactive and Visual Arts in New York
3. "Best Bank for Social Media 2020" Global Banking Finance and Review
4. "Best Saving Account with Prizes – alBarakat Account 2020" The Global Economics
5. "Best Innovation in Retail Marketing – Stands 2020" The Global Economics
6. Best Innovative Credit Cards Design – Gold MasterCard 2020" The Global Economics
7. "Best Islamic Retail Bank for Social Responsibility Award 2020" Islamic Retail Banking Awards – Cambridge
8. "Best Islamic Banking Retail Banking Product (Assets Side – Tamkeen) 2020" Islamic Retail Banking Awards – Cambridge
9. "Best Customer Service Bank – Quality of Service 2020" Global Business Outlook

Our Social Responsibility

We at Al Baraka Islamic Bank, being an Islamic financial institution, and as part of our commitment to contribute to the development of local economies and communities where we operate, believe that this role is one of the key features of our business model that we are committed to. The fact that Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility.

During the year, we continued performing our social responsibility initiatives by directing our products and services towards developing and enhancing our community socially and economically, providing support to small and medium enterprises, grooming young generation through training opportunities. We have also contributed to the welfare of our community by financial donations to charitable organizations and sponsoring local sports and scientific clubs as well as religious centers. We also have a special program to provide assistance to charities and humanitarian organizations during the holy month of Ramadan.

In addition, we are actively participating in the implementation of Al Baraka Sustainable Development Program, which are linked with the United Nations goals of sustainable development. Under this program, Al Baraka Banking Group pledges more than USD 822mn to finance and support these goals with the aim of creating thousands of new jobs. Under this program, the Group during 2019 financed a total of US$349 million towards various sustainable finance projects and has exceeded its yearly target by 166%. The Group has also created 10,570 new job opportunities through its partnerships and financing efforts.

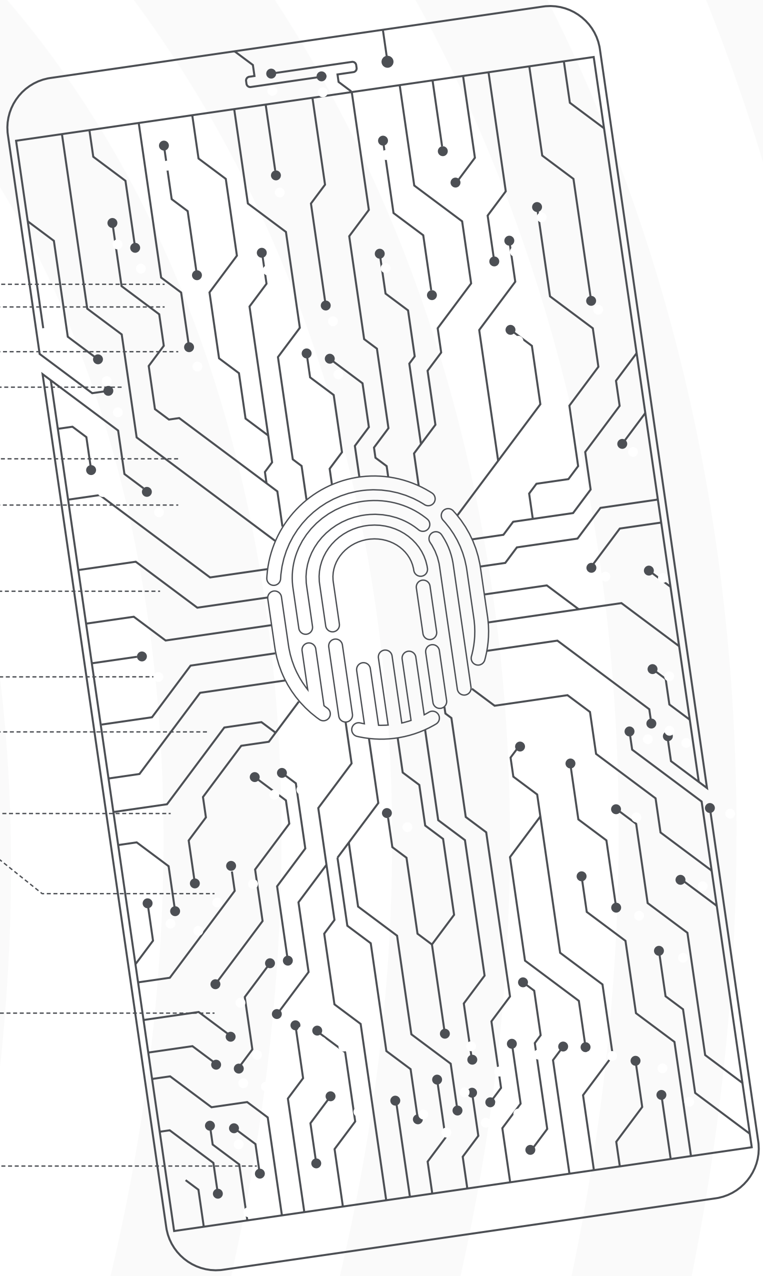
Conclusion

During 2020, Pandemic COVID-19 disrupted the lives of billions of people and had devastating impact on economies, despite of introduction of very attractive fiscal stimulus packages by governments. Amid this difficult situation, thanks to Allah, the Bank was able to pass through, with noticeable achievements at all key performance levels such as assets quality, profitability, NPA coverage, efficiencies, diversification, as well as regulatory risk weightings.

The Pandemic has continued in 2021, but World efforts rising up to combat its spreading through global cooperation and wide-spread vaccination. Bahrain is pioneering these efforts. Given also the multi-signs of economic recovery and higher oil prices, the business outlook seems improving, which hopefully will reflect positively on the Bank performance in 2021.

Hamad Abdulla Al Oqab
Chief Executive Officer


INNIVOATION



Corporate Governance

Philosophy, Strategy and objectives

Al Baraka Islamic Bank strongly believes that good corporate governance and its ongoing development is an important part of maintaining stability and enhancing the solid foundations of the organization in the long run. It is a fundamental part of how we discharge our duties and responsibilities towards protecting and enhancing our shareholders' value as well as ensuring that we achieve long-term sustainable financial performance. Our governance framework extends beyond legislative and regulatory compliance, and aimed at creating a culture of good governance across the business to protect the interests of stakeholders. The Bank aspires to the highest standards of ethical conduct by delivering promise to clients, reporting financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Bank's business.

The Bank's governance and compliance strategies, objectives and structures have been designed to ensure that the Bank complies with legislation and the myriad of codes, while at the same time moving beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded in five complementary directions, namely:

- Enterprise-wide Corporate Governance;
- Business Governance;
- Corporate Accountability and Ethics;
- Sustainability Management and Reporting; and
- Compliance.

The Compliance Department at AIB works closely with relevant department (Legal, Company Secretary, Risk, and Internal Audit) in promoting a culture of good governance and compliance within the Bank. The Bank has taken the necessary steps to continuously enhance its corporate governance to ensure conformity and seek best practices.

The Board of Directors adopted written Corporate Governance Policy covering Bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain ("CBB") on Corporate Governance for Islamic Retail Licensed Institutions – "Module-HC". Moreover, the Bank conducts annual detailed self-assessments to ensure compliance with the requirements of Module HC, and sets specific milestones for implementation of any shortfalls whenever exist, including continuous reviews and upgrades for strong corporate governance practices, including AIB's subsidiaries. The Bank complies with the principles as set out in Module-HC. The CBB, AIB's shareholders, the Board of Directors, and Executive Management are fully apprised of the amendments to any requirements and the milestones set. Starting from 2011, Corporate Governance was an item on the agenda of the annual shareholder meeting to provide information and answer any questions from shareholders regarding the Islamic Bank's governance.

These disclosures should be read in conjunction with the Bank's consolidated financial statements for the year ended 31 December 2020. To avoid any duplication, information required under the CBB Rulebook PD module but already disclosed in other sections of the annual report have not been reproduced in these disclosures.

Governance Framework

Ownership Structure

Al Baraka Islamic Bank is a Bahrain-based licensed Islamic Retail Bank and operates as a subsidiary of Al Baraka Banking Group. Al Baraka Banking Group ("ABG") is the dominating shareholder. The shareholding structure is transparent, and the existing share structure consists entirely of Ordinary Shares and there are no different classes of Ordinary Shares. The Bank also confirms that the minority shareholders of the Bank are well represented on the Board of Directors, either directly or through the independent directors.

There has been no trading of the Bank's shares during the year 2020 by the Directors or Executive Management. As at 31 December 2020, the distribution schedule of shares, setting out the number and percentage of shareholders was in the following categories:

	Name	Relationship	Position	Domicile	# of Shares	Share %
1	**ABG**	Parent Co.	-	Bahraini	1,255,755	92.0252%
2	**Abdullatif Abduulrahim Janahi**	Non-executive and Independent Director	BoD Member	Bahraini	1,250	0.091%
Other than the above, none of the other directors at the end of the financial year had any interest in the shares of AIB or its subsidiaries during the financial year. Other shareholders are as:						
3	**Hussain Mohsin Alharthe**	Shareholder	-	Saudi	50,000	0.37%
4	**Bahrain Islamic Bank**	Shareholder	-	Bahraini	10,000	0.37%
5	**Ibdar Bank**	Shareholder	-	Bahraini	10,000	0.37%
6	**Suliman Abdulaziz Alrajhi**	Shareholder	-	Saudi	5,000	0.37%
7	**Saleh Abdulaziz Alrajhi**	Shareholder	-	Saudi	5,000	0.37%
8	**Abdullah Abdulaziz Alrajhi**	Shareholder	-	Saudi	5,000	0.37%
9	**Mohammed Abdulaziz Alrajhi**	Shareholder	-	Saudi	5,000	0.37%
10	**Heirs of Dr. Hassan Abdullah Kamel**	Shareholder	-	Saudi	5,000	0.37%
11	**Dubai Islamic Bank**	Shareholder	-	UAE	5,000	0.37%
12	**Saeed Ahmed Lotah & Sons Group**	Shareholder	-	UAE	5,000	0.37%
13	**Jordan Islamic Bank**	Shareholder	-	Jordan	2,500	0.183%
14	**Sheikh Saleh Abdullah Kamel**	Shareholder	-	Saudi	73	0.0053%
	Total				**1,364,578**	**100%**

Distribution of ownership of shares by nationality:

Country	No of Shares	Ownership %
Bahrain	1,277,005	93.58%
Jordan	2,500	0.18%
Saudi Arabia	75,073	5.50%
UAE	10,000	0.73%
Total	**1,364,578**	**100%**

Corporate Governance (continued)

Distribution of ownership of shares by size of shareholder:

Categories	No of shareholders	% of total outstanding
Less than 1%	58,823	4.3%
1% up to less than 5%	50,000	3.7%
50% and above	1,255,755	92.0%
Total	**1,364,578**	**100%**

The Board of Directors ("The Board")

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and shall continue its endeavor to enhance shareholder value, protect their interest and defend their rights.

The Risk Management strategy is based upon risk principles approved by the Board, and is underpinned by a system of delegations, passing from the Board through Board committees, the Chief Executive Officer ("CEO"), Management Committees to the various risk, support and business units of the Bank.

The Board is accountable to the shareholders; the Management is accountable to the Board. Directors apply skills and care in exercising their duties to the Bank and are subject to fiduciary duties, and ensure that the Management acts in the best interests of the Bank and its shareholders by working to enhance the Bank's performance. The Board authorizes the Management to execute strategies that have been approved. The Board oversees the conduct of the Bank's businesses by ensuring that business is properly managed by a management team of the highest caliber.

The principal functions of the Board are as follows:

- Reviews and approves the Management's proposals on long-term strategic plans as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- Approves the annual budget and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- Sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;
- Ensures there is a managed and effective process to select and appoint key Executive Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Executive Management's performance on an ongoing basis;
- Ensures the implementation of effective internal controls and processes to measure and manage business risks, including but not limited to reviewing the adequacy and integrity of internal control systems and operations; establishing relevant policies on the management of business risks covering inter alia operational, credit, market and liquidity risks and other key areas of operations;
- Institutes comprehensive policies, processes and infrastructure to ensure Shari'a compliance in all aspects of operations, products and activities;
- Sets up an effective Internal audit function, staffed with qualified personnel to perform internal audit functions, covering financial, management and Shari'a audit;
- Establishes procedures to avoid self-serving practices and conflicts of interests;
- Assures equitable treatment of shareholders including minority shareholders,
- Ensures protection of the interests of the depositors, particularly investment account holders;
- Establishes and ensures the effective functioning of various Board Committees;
- Ensures that the operations of the Bank are conducted within the framework of relevant regulations, laws and policies;
- Ensures that the Bank has a beneficial influence on the economic well-being of its community; and
- Approve material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management.

The Board has approved certain policies and procedures, which authorizes the Executive Management to approve certain transactions. The Board has delegated specific authorities to the CEO and to Management Committees to manage the activities of the Bank within the limits set up by it. All credit and investment applications exceeding the pre-defined and approved limits in the form of amount or tenor require approval of the Board. Accordingly, the following types of material transactions require Board approval as defined by the approved policies:

1. Credit facilities above 10% of total shareholders' equity
2. Investments in quoted equities, investment in funds above 10% of total shareholders' equity
3. Write-offs or discharge of the Bank's debts above the delegated limits to Management
4. Purchase and sale of real estate investments above US$ 2.65m and sell below 30% of carrying value
5. Restructure of financing facilities above the delegated limits assigned to Management and Board Committees
6. If the investment losses is more than 10%.

Board meetings are held on a scheduled basis ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened when needed.

Election of the Board of Directors for the Term (2020-2023)

During the year 2020, the Bank has elected a new Board of Directors for the term (2020-2023). Therefore, for the period ending 26 March 2020 the previous Board was taking the responsibilities and powers of the Board. The current Board of Directors have been elected on March 26, 2020 in the Ordinary General Meeting and has been approved later by the Central Bank of Bahrain. Thus, the Report contains information and data of both Board of Directors. The required information is provided in separate schedules for each of them.

Termination of Board Membership:

The termination is provided for in Article 32 of the Articles of Association as follows:

1. If the member was appointed in violation to the provisions of the law.
2. If the member loses any of the conditions provided for in the Articles e.g. lack of legal capacity, convicted in bankruptcy, crimes of honour or breach of trust.
3. If he uses his membership to conduct a competitive business or causes real damages to the Bank.
4. If he is absent from the Board meeting for four consecutive meetings without legitimate reason.
5. If he resigns or discharged from office
6. If he occupies another salaried position other than an executive position which the Board decided to pay salary to him

If the seat of a director becomes vacant, the Board may appoint a temporary director to fill the vacancy. Such an appointment shall be presented to the ordinary general meeting in its first meeting for the purpose of ratifying the appointment.

Composition of the Board of Directors

The Directors have broad experience across number of industries and business sectors, and provide valuable input and external perspective to matters of business strategy. The Board currently has 9 members, comprising 8 independent / non-executive directors (including the Chairman) and 1 executive director.

The Board meets quarterly to review and evaluate corporate strategy, major operational and financial plans, risk policy, financial performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best practices.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman and the CEO ensures a balance of powers and authority, which provides a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring the Board's effectiveness, as well as representing the Board to the shareholders. The CEO acts in accordance with the authority delegated by the Board.

Corporate Governance (continued)

Board composition, independence of Directors, and membership in the Board Committees are set out below:

A. For the Board of Directors (2017-2020):

Director Name	Nationality	Board Membership		Committee Membership			
		Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk Management
Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Adnan Ahmed Yousif	Bahraini	Executive Director	Vice Chairman			Chairman	
Abdullatif Abdulrahim Janahi	Bahraini	Independent Director	Member			Member	
Abdulrahman Abdulla Mohamed	Bahraini	Independent Director	Member	Chairman		Member	Member
Musa Abdulaziz Shihadah	Jordanian	Executive Director	Member	Member			
Dr. Khalid Abdulla Ateeq	Bahraini	Independent Director	Member		Member		Chairman
Ashraf Ahmed El Ghamrawi	Egyptian	Executive Director	Member				
Yousef Ali Bin Fadil	UAE	Independent Director	Member	Member	Chairman		
Maqbool Habib Khalfan	Qatar	Independent Director	Member		Member		Member

B. For the Board of Directors (2020-2023):

Director's Name	Nationality	Board Membership		Board Committees			
		Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk Management
Saleh Salman Al Kawari	Bahraini	Independent	Chairman				Chairman
Adnan Ahmed Yousif	Bahraini	Executive	Vice Chairman	-	-	Chairman	-
Abdulatif Abdulrahim Janahi	Bahraini	Non-Executive	Member	-	-	Member	
Yousif Ali Bin Fadil	UAE	Independent	Member	Member	Chairman	-	-
Abdulrahman Abdulla Mohamed	Bahraini	Independent	Member	Chairman			Member
Dr. Khalid Abdulla Ateeq	Bahraini	Non-Executive	Member	Member	Member	-	-
Abdulrahman Abdulla Al Sayed	Bahraini	Independent	Member	-	Member		Member
Abdulrazzaq Abdulkhaleq Abdulla	Bahraini	Non-Executive	Member	-	-	Member	
Adnan Abdulla Al Bassam	Bahraini	Non-Executive	Member	-	-	-	Member

It is to be noted that with the new rules of the Central Bank of Bahrain, an independent director who has served three consecutive terms on the Board, will lose his/her independence status. The Bank has obtained permission and approval on exceptional basis to consider two members of the Board as independent directors, namely Mr. Abdulrahman Abdulla Mohamed and Mr. Yousif Ali Bin Fadil.

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the AML & Corporate Secretary who, together with the Head of Compliance, is responsible for ensuring that Board complies with the applicable rules and regulations.

Induction and Engagement Letters:
In accordance with the CBB Rulebook, the Bank has conducted a formal induction program for the new members of the Board and it was also attended by the other Board members. The induction program includes a detailed presentation on the business of the Bank, its activities, and the Organizational Structure. It also covers the duties and responsibilities of the Board in accordance with the Memorandum and Articles, the Charter of the Board, and the CBB Rulebook.

In addition, all members of the Board have signed individual letters of engagements with the Bank specifying their rights, duties and entitlements. All members of the Board are provided with copies of the Corporate Code of Governance, the Policy on the entitlements of the Members of the Board and Confidentiality and Non-Disclosure Undertaking along with all Charters of the Board Committees.

Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2020, the Board held 7 meetings, and the number of meetings attended by each member were as follows:

1. **For the Board of the Term (2017-2020):**

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings
1	Khalid Rashid Al-Zayani (Chairman)	4	2	13 January 2020 26 February 2020	2/2
2	Adnan Ahmed Yousif				2/2
3	Abdullatif Abdulrahim Janahi				2/2
4	Abdulrahman Abdulla Mohamed				2/2
5	Musa Abdulaziz Shihadah				2/2
6	Dr. Khalid Abdulla Ateeq				2/2
7	Ashraf Ahmed El Ghamrawi				2/2
8	Yousef Ali Bin Fadil				2/2
9	Maqbool Habib Khalfan				2/2

The Board consists of individuals of caliber and diverse experience with the necessary skills and qualification. The Board comprises Directors who, as a group, provides a mixture of core competencies for the effective functioning and discharging of the responsibilities of the Board.

Corporate Governance (continued)

2. For the Board Term (2020-2023):

	Name	Minimum No. Meetings	No. of Meetings Held	Dates of Meetings	No. of Meetings Attended
1	Saleh Salman Al Kawari Chairman	4	5	1. 26 March 2020 2. 13 May 2020 3. 11 August 2020 4. 11 November 2020 5. 20 December 2020	5/5
2	Adnan Ahmed Yousif Vice Chairman	4	5		5/5
3	Abdulatif Abdulrahim Janahi	4	5		5/5
4	Yousif Ali Bin Fadil	4	5		5/5
5	Abdulrahman Abdulla Mohamed	4	5		5/5
6	Dr. Khalid Abdulla Ateeq	4	5		5/5
7	Abdulrahman Abdulla Al Sayed	4	5		5/5
8	Abdulrazzaq Abdulkhaleq Abdulla	4	5		5/5
9	Adnan Abdulla Al Bassam	4	5		5/5

Performance Evaluation

In line with its Corporate Governance Policy, the Bank adopts formal procedure in order to enable the Board to undertake a formal evaluation of its own performance and that of its Committees and individual Directors. The Board distributes at the end of each financial year Evaluation Forms to all its members to evaluate:

- The Board of Directors itself;
- The Committees of the Board of Directors;
- The Chief Executive Officer ;
- The Secretary of the Board.

The result of the Evaluations Forms will then be discussed in the Remuneration and Board Affairs Committee, the Board of Directors and the Ordinary General Meeting.

Remuneration

During the year 2014, the Central Bank of Bahrain issued regulations concerning Sound Remuneration Practices which the Bank adopted by proposing revisions to its variable remuneration policy and framework. Such revisions were duly reviewed and approved by the Remuneration and Board Affairs Committee and Board of Directors on 12 November 2014. Further, the revised policy and incentive components were duly approved by the shareholders in the Annual General Meeting on 29 March 2015.

The Bank's compensation strategy, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and Executive Management and the key factors that are taken into account in setting the policy.

Remuneration Strategy

The quality and long-term commitment of all of our employees is fundamental to our success. There is a robust and effective governance framework in place to ensure that the Bank operates within clear parameters of its compensation strategy and policy for remunerating the Board members, Executives and Executive Management, and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by the Remuneration and Board Affairs Committee.

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of the Bank and its shareholders.

The Bank's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

In order to ensure alignment between how we compensate our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all ethics and integrity. Altogether, performance is judged, not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Remuneration & Board Affairs Committee believes the latter contributes to the long-term sustainability of the business. More particularly, we use capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk taker and/ or an Approved Person in a business line, control, or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

The Bank provides fixed annual fees to the Shari'a Board and does not provide any performance linked incentives.

The Remuneration & Board Affairs Committee has oversight of all reward policies for the Bank's employees. The Remuneration & Board Affairs Committee is the supervisory and governing body for the compensation policy, practices and plans. It is responsible for determining, reviewing and proposing the variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan, and the risk profile of the Bank. The Remuneration & Board Affairs Committee ensures that all persons are remunerated fairly and responsibly.

In addition to the responsibilities of the Remuneration & Board Affairs Committee mentioned elsewhere in this report, the Remuneration & Board Affairs Committee is entrusted with specific and detailed responsibilities with regard to the Bank's variable remuneration policy and oversight of its implementation. These include but are not limited to ensuring that the system operates as intended, especially for Material Risk Takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back testing results. The Remuneration & Board Affairs Committee is also responsible for ensuring that for Approved Persons in Risk Management, Internal Audit, Operations, Sharia' review, Financial Control and Compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration. In addition, the Remuneration & Board Affairs Committee recommends that Board members' remuneration be based on their attendance and performance in compliance with Article 188 of the Bahrain Commercial Companies Law.
The Remuneration & Board Affairs Committee carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration & Board Affairs Committee demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Board is satisfied that all non-executive Directors are independent, including the Remuneration & Board Affairs Committee members.

The aggregate remuneration paid to Remuneration & Board Affairs Committee members during the year in the form of sitting fees amounted to USD 36 thousand [2019: USD 45 thousand] for four meeting held in current and prior year.

Corporate Governance (continued)

Board remuneration

Remuneration for the Bank's Board of Directors is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to the approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

In the case of Non-Executive Directors, their level of remuneration reflects the experience and level of responsibilities undertaken by these Directors in the Bank. As for the CEO, the remuneration is structured so as to link the remuneration and other rewards/ benefits to contributions and achievements, in tandem with the Bank and the Parent (ABG) corporate objectives, culture and strategy.

No director has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than the contracts mentioned in related section of the Bank's financial statements.

Directors' interests in the Bank's shares

Board Members	Shareholding at 1 January 2020 US$ '000	Shareholding at 31 December 2020 US$ '000	Changes in shareholding US$ '000
Abdullatif Abdulrahim Janahi	1,250	1,250	-

CEO, Directors and Shari'a Board Members' Remunerations:

Directors:	**2020 US$ '000**	2019 US$ '000
Remuneration*	**239**	-
Sitting Fees	**375**	333
Allowances and others	**17**	27
Total	**631**	360
Staff inclusive of Chief Executive Officer: **Fixed Remuneration**		
Approved persons and material risk takers-business line	**2,653**	1,839
Approved persons-others	**2,294**	1,936
Other staff in Bahrain	**9,635**	11,969
Staff of overseas subsidiary	**16,002**	17,289
Total fixed remuneration	**30,584**	33,033
Variable Remuneration		
Approved persons and material risk takers-business line	**548**	-
Approved persons-others	**667**	-
Other staff in Bahrain	**203**	
Staff of overseas subsidiary	**463**	650
Total variable remuneration	**1,881**	650
Total remuneration to staff	**32,465**	33,683
Shari'a Board	**66**	73

*The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.

Variable Remuneration for Staff

The Bank's Variable Remuneration Policy provides that variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards the delivery of operational and financial targets set each year, individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the Remuneration & Board Affairs Committee aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the Remuneration and Board Affairs Committee.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of Control Functions:

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not is determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Alignment with Risk

The policy aims to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's Remuneration & Board Affairs Committee considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's Risk Management Framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

- the cost and quantity of capital required to support the risks taken;
- the cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The Remuneration and Board Affairs Committee keeps itself abreast of the Bank's performance against the Risk Management Framework. The Remuneration and Board Affairs Committee will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

Corporate Governance (continued)

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration;
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The Remuneration and Board Affairs Committee, with the Board's approval, can rationalize and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment;
- Consider additional deferrals or increase in the quantum of non-cash awards; and
- Recovery through malus and clawback arrangements.

The Bank's malus and clawback provisions in the policy allow the Bank's Remuneration and Board Affairs Committee to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Remuneration and Board Affairs Committee.

The Bank's malus and clawback provisions allow the Bank's Remuneration and Board Affairs Committee to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and

- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Incentive plans:

The employees of the bank are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/ future performance of the bank. In this respect, the separate short term incentive plans (STIP) and Long Term Incentive Plans (LTIP), are duly devised in the light of prevailing laws and regulations.

Main components of said remuneration are as follows:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred Shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All phantom shares awards are released to the benefit of the employee after a six-month retention period from the date of vesting.

More particularly, the employees in business lines can avail remuneration, under the short-term incentive plan (STIP), as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

While, the employees in other functions shall be subject to variable remuneration under such STIP as follow:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront shares	10%	Immediate	6 Months	Yes	Yes
Deferred cash	-	3 Years	-	Yes	Yes
Deferred share awards	40%	3 Years	6 Months	Yes	Yes

The Remuneration and Board Affairs Committee, based on its assessment of role, profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short term incentives, in order to motivate and align employee with the long term business plan of the bank, the bank may decide to selectively award Long Term Incentive plans to employees contingent on the delivery of future performance targets for the bank. The Board Affairs & Remuneration Committee will confirm the employees eligible for the bank's LTIP scheme on an annual basis. The performance horizon and quantum of award will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance period. LTIPs vest immediately at the end of the performance period (a minimum of 3 years) and are subject to a six month retention period post vesting.

Currently, the Bank has decided to remunerate the covered staff, having annual salary exceeding BD 100,000 (Bahraini Dinars One hundred thousand), by using the LTIP. In this respect, the scheme of remuneration is duly elaborated as follows:

Element of variable remuneration	Constitution	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

External Consultants

The Bank appointed consultants to advise the Bank on amendments to its variable remuneration policy to bring it in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

Board Committees

In accordance with its charter, the Board principally through its Committees is responsible for overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls, taking into account the Bank Risk Appetite, the overall business strategy, management expertise and the external environment. The Board has defined general parameters to manage the Bank-wide risk profile to comply with the approved Bank Risk Appetite and tolerances which consider both downside risk and opportunities.

Corporate Governance (continued)

The Board has approved policies that support the implementation of a risk oversight and management framework for the Bank. These policies are overseen by the Board Committees with each Committee operating under a Board approved charter that is reviewed annually.

Each Committee has established a reporting structure that describes the relevant responsibilities in respect to oversight and monitoring of Board-approved Risk Management policies.
The Committees evaluate developments in respect to the Bank's structure and operations, as well as economic, industry and market developments that may impact the Bank's management of risk.
The Board Committees meet regularly and consist of executive and non-executive directors. The Board Committees in operation during the year under review are:

1. Audit and Governance Committee

The Audit & Governance Committee appointed by the Board of Directors and consists of three members. The Head of Internal Audit reports directly to the Chairman of the Audit and Governance Committee. The Committee regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation matters as well as significant regulatory and compliance matters.

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- Monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- Monitoring processes designed to ensure an appropriate internal control system, including compliance with legal and regulatory requirements;
- Monitoring the activities and performance of the internal audit function and external auditors; and
- Coordinating the implementation of the Corporate Governance Policy framework.

The Audit & Governance Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, the interim and annual consolidated financial results; status updates on implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); new accounting and regulatory pronouncements and their implications. The committee also assists the Board in fulfilling its governance responsibility by monitoring the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board.

Independent Non-executive board member chairs the Audit & Governance Committee. The members, number of meeting held, and attendance of members were as follows:

1. Audit and Governance Committee (2017-2020):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Abdulrahman Abdulla Mohamed (Chairman)**	1	1	3 Feb 2020	1/1
2	**Moosa Abdulaziz Shehadeh**				1/1
3	**Yousif Ali Bin Fadil**				1/1

2. Audit and Governance Committee (2020-2023):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Abdulrahman Abdulla Mohamed (Chairman)**	4	3	12 May 2020 29 July 2020 10 November 2020	3/3
2	**Dr. Khalid Abdulla Ateeq**				3/3
3	**Yousif Ali Bin Fadil**				3/3

Sheikh Esam Mohammed Ishaq is a Sharia Supervisory Board member also a member of the Audit and Corporate Governance committee with a voting right in respect of Sharia Governance issues. He attends at least one meeting and whenever necessary to provide guidance and advice on Shari'a related matters, and to coordinate and link complementary roles and functions of the corporate governance committee and the Sharia Supervisory Board.

2. Remuneration & Board Affairs Committee

The Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors' and individual directors' performance;
- Effectiveness of, and compliance with, the Bank's corporate governance policies and practices;
- Succession planning for the Board and Executive Management;
- Staff remuneration policy and fees for non-executive directors and for the Shari'a Supervisory Board;
- Approve, monitor and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank;
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration and Board Affairs Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that for approved persons in Risk Management, Internal Audit, Operations, Financial Control and Compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration- and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The members, number of meeting held, and attendance of members are as follows:

1. Remuneration and Board Affairs Committee (2017-2020):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Yousef Ali Bin Fadil (Chairman)**	2	2	13 January 2020 24 February 2020	2/2
2	**Dr. Khalid Abdulla Ateeq**				2/2
3	**Maqbool Habib Khalfan**				2/2

2. Remuneration and Board Affairs Committee (2020-2023):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Yousif Ali Bin Fadil (Chairman)**	2	2	5 July 2020 10 November 2020	2/2
2	**Dr. Khalid Abdulla Ateeq**				2/2
3	**Abdulrahman Abdulla Al Sayed**				2/2

Corporate Governance (continued)

3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meetings held, and attendance of members are as follows:

1. Executive Committee (2017-2020):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Adnan Ahmed Yousif (Chairman)**	4	1	18 March 2020	1/1
2	**Abdullatif Abdulrahim Janahi**				1/1
3	**Ashraf Ahmed El Ghamrawi**				1/1

2. Executive Committee (2020-2023):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	**Adnan Ahmed Yousif (Chairman)**	4	4	14 June 2020 22 July 2020 13 October 2020 6 December 2020	4/4
2	**Abdullatif Abdulrahim Janahi**				4/4
3	**Abdulrazzaq Abdulkhaleq Abdulla**				4/4

4. Board Risk Management Committee

The Board Risk Management Committee (BRMC) is mandated to ensure that the integrated Risk Management functions within the Bank are effectively discharged. The Committee has the following overall responsibilities:

- Ensure that sound Risk Management policies and practices are in place for a bank-wide Risk Management Framework addressing the Bank's material risks, and report the results of the Committee's activities to the Board of Directors.
- Ensures day-to-day operations are executed within the boundaries set by the business and risk strategy, and risk appetite. Breaches of the risk appetite will result in immediate action at the appropriate management level.
- Ensure that management understands and accepts its responsibility for identifying, assessing and managing risk.
- Periodically review and monitor risk mitigation processes and periodically review and report to the Board of Directors:
    - (a) the magnitude of all material business risks;
    - (b) the processes, procedures and controls in place to manage material risks; and
    - (c) the overall effectiveness of the risk management process;

The BRMC consists of three members with the Board approved charter. The Chairman of the BRMC invites members of management or others to attend the committee meetings, as appropriate. The members, number of meetings held, and attendance of members are as follows:

1. Risk Management Committee (2017-2020):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Dr. Khalid Abdulla Ateeq (Chairman)	4	1	1 March 2020	1/1
2	Maqbool Habib Khalfan				1/1
3	Abdulrahman Abdulla Mohamed				1/1

2. Risk Management Committee (2020-2023):

	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Saleh Salman Al Kawari (Chairman)	4	3	30 June 2020 6 October 2020 8 December 2020	3/3
2	Abdulrahman Abdulla Mohamed				3/3
3	Abdulrahman Abdulla Al Sayed				3/3
4	Adnan Abdulla Al Bassam				3/3

CONFLICT OF INTEREST

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

MANAGEMENT COMMITTEES

In addition to the Board Committees, the Bank has in place mainly the following Management Committees with the Chief Executive Officer functioning as the Chairman of most committees. The members of committees comprise of Heads of Departments who are drawn from relevant and related functions:

- **Senior Executive Management Committee**
  The Senior Executive Management Committee's role is to oversee the activities of the Bank and to take key decisions. This Committee will advise the CEO and assist him in decision-making process.

- **Executive Management Committee**
  The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Bank in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

- **Credit Committee**
  The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All financing applications of significant amounts are approved at Head Office or by the Credit Committee.

- **Asset and Liability Committee (ALCO)**
  The ALCO is responsible for liquidity and funding risk management. ALCO make decisions and propose guidance to force the structure of the Bank's assets and liabilities, funding requirements, and liquidity management in line with the Bank's overall strategic objectives.

Corporate Governance (continued)

- **Remedial Committee**
  The committee is responsible for timely monitoring and managing non-performing credit exposures, which show signs of weaknesses or default and place into question the full and tinely recovery of all dues to the bank. Its responsibilities include recommendation for action plan and classification, which is to be implemented or further require approval by the Credit, Board Executive Committee, or the Board of Directors for restructuring.

- **Provisioning Committee**
  The committee responsible for the implementation of the FAS 30 ECL and the Provision Policy approved by the Board of Directors. It is mainly responsible to act a decision-making and guiding force in setting of provisions to the Bank's non-performing portfolio of credit facilities and investments.

- **Information Technology Steering Committee**
  The IT Steering Committee's role is to govern the Bank's short and long term information technology strategies, investments, projects and initiatives to ensure that they are enabling the Bank business objectives and aligned with the Bank strategies.

- **Strategic Planning Steering Committee**
  The committee is mainly responsible to determine the Bank's mission, vision, strategic initiatives over the long-term. It is responsible to promote sound strategic planning at all levels, produce bank-wide strategy and oversee its implementation.

- **Human Resources and Compensation Committee**
  The objective of this committee is to setup and maintain sound human resources framework and to oversight the Bank's recruitment and compensation processes to ensure its alignment with the Bank's overall strategy and objectives.

- **Transformation and Process Reengineering Committee**
  The primary purpose of this committee is to provide the Bank with efficient and effective processes to improve the Bank's organizational structure which would mostly fit the existing and future need of the Bank with the objective to improve cost, services, quality and efficiency through changes in various processes within the Bank.

- **Zakat & Charity Committee**
  The primary purpose of this committee is to manage the Bank's Zakat and charity payments.

- **Cost Rationalization Committee**
  The objective of this committee is to optimize capital and operating expenditures.

- **Executive Risk Management Committee**
  The primary purpose of this committee is to support the management level to perform the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues.

- **Cyber Security Steering Committee**
  The committee has the oversight responsibility with respect to the Bank's information technology use and protection, including but not limited to data governance, privacy, compliance, and cybersecurity.

- **Busness Continuity Planning Committee**
  The BCP Committee's functions and responsibilities are to:

  - To develop and review a strategic framework to ensure the effective continuance of the Bank's operations in the event of a major crisis or potentially catastrophic event.
  - The Committee is responsible for regularly testing the effectiveness of Business Continuity Planning across AIB's premises and the development, implementation and maintenance of the emergency management plan, emergency response plans and related training.

- **Digital Strategy Committee**
  The primary purpose of the Committee is to promote digital strategic planning and initiatives at all levels, produce a bank-wide digital strategy and oversee its implementation.

- **Follow up Committee for pending Internal & External Issues**
  The primary purpose of the Committee is to prompt the closure of pending external and internal findings reported by multiple stakeholders. The Committee acts as an independent party; to ensure correct resolution is achieved.

There is a clear division of responsibility between the Board and the Management. The CEO is supported by his team of Executive Management who are responsible for the implementation of Board resolutions, overall responsibilities of the day-to-day operations of the Bank's business, and operational efficiency. The Directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings.

INTERNAL CONTROL

The Board is responsible for the adequacy and effectiveness of system of internal controls of the Bank which is supported by segregation of duties, enhanced system of internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank.

The Bank's system of Internal Control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified assessed and managed throughout the Bank.
- A set of policies and guidelines relating to Credit Risk Management, Asset and Liability Management, Compliance, Operational Risk Management and Business Continuity Planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations, and that they are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit & Governance Committee. Findings of the internal audit are submitted to the Committee for review at their periodic meetings.
- The Board Audit & Governance Committee of the Bank reviews internal control issues identified by the respective Internal Audit Department, regulatory authorities, management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Committee meetings are tabled to the Board of the Bank on a periodic basis.

The governance arrangements, systems and controls employed by the Bank also ensure Shari 'a compliance and how these meet applicable AAOIFI standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Bank uses these funds for social welfare activities and charities. The Statement of sources and uses of charity fund disclosed in the Annual Report provides further information, if there was any non-Shari'a-compliant earnings and expenditure occur and the manner in which they were disposed of and the annual zakah contributions of the Bank.

RISK MANAGEMENT FRAMEWORK

The Bank is committed in complying with the best practices informed by Basel and IFSB guidelines and adhering to CBB requirements. Risk Management Framework aims at proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank.

The Bank's Risk Management Framework is regularly reviewed and continuously enhanced to facilitate a comprehensive assessment of the various types of risk that the Bank is and may be exposed to; risks such as credit, market, operational risk, liquidity, profit rate, concentration, reputational, compliance etc.

The year 2020 was an unprecedented year globally due to the COVID-19 pandemic and its impact was, and still is, witnessed in the Kingdom of Bahrain; both in terms of its contagion and also the effects on the economy. In order to minimize the impact of COVID-19 related stress in the country, the Government and Central Bank of Bahrain have initiated several measures including the deferral of instalments, Expected Credit Loss relaxations, as well as relief on Liquidity Ratios and Capital Buffers. Keeping in view the uncertain market conditions, the Bank has been closely monitoring its liquidity and funding profile, the impact of the pandemic on its financing customers, and carried out extensive stress testing to assess the Bank's ability to withstand continued and even worsening economic conditions. The results of the stress tests and scenario analysis reinforced the strength of the Bank's capital and liquidity profile.

Corporate Governance (continued)

During 2020, the Bank has successfully migrated to a new core banking system to empower the Bank with improved MIS reporting. The Bank also implemented an Internal Liquidity Adequacy Assessment Process (ILAAP), along with an Internal Capital Adequacy Assessment Process (ICAAP). The aim of the Bank's ICAAP and ILAAP is to manage all risks that could impact the capital and liquidity positions in a structured way, using internally developed approaches to measure, monitor and manage these risks at all times. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk Management governance originates at the Board level, and cascades through to the CEO and businesses, via policies and delegated authorities which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board has an overall responsibility for validating and approving the policies, defining the risk tolerance, and establishing the risk strategy for an effective Risk Management Framework. The responsibility of risk governance lies with the different Board and Management Committees who in turn define and monitor the relevant risks to the organization (both financial and non-financial risks, including market, credit, liquidity, operational, compliance, strategic, reputational and legal). The Bank has constituted various Management Committees with specific roles and responsibilities to review and endorse relevant risk parameters on an ongoing basis.

The Bank follows a policy of Enterprise-wide Risk Management (ERM), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties the Bank may face in its ongoing efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications and transparency. The Risk Management Framework of the Bank is structured upon:

- Core Risk Principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Bank is exposed.

The Bank's ERM process is based on three lines of defense: (i) Business and Support management, (ii) Independent Control functions and (iii) Internal Audit:

- Business and Support Management. Each of the Bank's business and support units, including material-risk takers, own and manage the risks, including compliance risks, inherent in or arising from the business process, and are responsible for having controls in place to mitigate key risks and promoting a culture of compliance and control.
- The Bank's independent control functions, including Compliance, Legal and Risk, set standards according to which the Bank and its businesses are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Risk Management Department (RMD) is responsible for formulating and monitoring the Bank's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to the Basel requirements under the CBB rules, and the guidelines of the Parent Bank (ABG). The RMD is also responsible for introducing and implementing risk measurement software, monitoring the Bank's compliance with risk measurement standards and providing the management with reports on the various risks; provides subject matter expertise on their respective risk areas. The Head of RMD reports directly to the Board Risk Management Committee and provides regular updates on the Bank's risk profile and recommendations. In addition, among other things, the independent control functions provide advice and training to the Bank's businesses and establish tools, methodologies, processes and oversight of controls used by the businesses to foster a culture of compliance and control, and to satisfy risk management standards.

- The Bank's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Bank's Board of Directors.
- The Risk Appetite Statement reflects the level and type of risk that the Bank is willing to assume, in order to achieve its strategic and business objectives keeping in view the obligations to its stakeholders. The Bank has a well-defined Risk Appetite Framework, which consists of the Risk Appetite Statement, with both qualitative and quantitative measures, along with:
    - Well defined performance metrics in the form of KPIs,
    - Risk limits, exposure criteria, restrictions and controls, providing finance and investment standards as laid out in the internal risk policies and procedures manual,
    - Capital and liquidity benchmarks which are monitored in ALCO meetings,
    - Key business and risk management objectives, goals and strategy which are defined in business, investment, and risk management strategies, and
    - Management and oversight structures in the Bank through Management and Board committees. The risk appetite defines the desired performance levels which, in turn, are embedded into management of the various risks within the Bank as well as the Capital of the Bank and is integrated into the strategic, capital, and risk management planning process across the business verticals.

Further, the Board periodically, reviews the Risk Management policies, limits, and risk strategies to cope with the changing economic environment and AIB's risk appetite.

The Bank believes that accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the Bank will also continue to strengthen its risk management processes and invest in relevant risk management infrastructures in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including credit and market risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

Data reconciliation is established to provide for the integrity of the information used and appropriate security controls around all systems. The Bank has a Board approved comprehensive Business Continuity Framework in place and the plan is tested periodically to ensure the impact of any potential disaster on the Bank's operations is minimal.

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department ensures the Bank's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps Executive Management informed on the implication of compliance laws and regulations on the Bank's operations.

MANAGEMENT OF CREDIT RISK

The Bank's risk management philosophy is implemented by a well-defined policy, trained and experienced staff, and effective systems. The Credit Risk Management Policy of the Bank dictates the Credit Risk Strategy. The Policy spells out the target markets, risk acceptance / avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. The Bank has tailored credit approval processes to suit the customer, product, sector and exposure types.

The Credit Policy articulates the Credit Risk Management Framework, including:

- Key credit risk management principles;
- Delegation of authority;
- The credit risk management program;
- Counterparty credit risk management for financing, trading and investment activities;
- Aggregate limits, beyond which credit applications requires higher level of approvals ; and
- Single name/aggregation exposures, beyond which exposures must be reported to the Board.

The Credit Policy is reviewed frequently to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Bank has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact. The Bank uses the Moody's rating system to support the internal credit models to estimate Probability of Default, Loss Given Default, and Exposure at Default parameters.

The Credit department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported regularly and are evaluated on various verticals such as product, branch, industry levels etc., branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

Proactive Credit Risk Management practice in the form of studies of rating-wise distribution, portfolio analysis of all financing assets, periodic review of industry, country, currency, counter-party, single-obligor and concentration of exposures are only some of the prudent measures; the Bank is engaged in mitigating risk exposures.

Management of Liquidity, Market and Profit Rate Risk

The Bank manages Liquidity, Market and Profit Rate Risk via its ALCO process. The ALCO is primarily entrusted with the task of Liquidity and Market Risk Management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits, monitors them, articulates Bank's profit rate view and determines the business strategy of the Bank.

The Bank has a well-established framework for Liquidity and Market Risk management with the Asset Liability Management, Fund Transfer Pricing (FTP), Profit Rate Risk and the Treasury Policies forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Bank's net profit income in the short run and equity value in the long-run for enhancing shareholders wealth.

In accordance with the Basel recommendations on liquidity management, the Bank measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Bank; and "crisis scenario", reflecting simulated extreme business circumstances in which the Bank's survival may be threatened. The Bank also carries out Behavior Analysis of customer funds to measure the retention rate of funds with different time buckets, using statistical techniques. The important aspect of Market Risk Management includes Profit Rate Risk Management and the pricing of assets and liabilities. Further, the Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

Corporate Governance (continued)

ALCO has determined the most appropriate liquidity horizon for the Bank as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

The Bank's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Bank continues to strengthen its liquidity management activities in order to ensure that the Bank maintains a stable funding base and strong liquidity during the prevailing period of global market crisis. In tune with this, the Bank ensures adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focusing on more stable funding sources, regular stress testing implemented and liquidity strategy updates were regularly advised to the Board.

Management of Operational Risk

The objective of Operational Risk Management is to identify, measure, mitigate and monitor operational risk, and promote risk awareness and a healthy risk culture within the Bank. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources.

The Bank manages Operational Risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Bank systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims and reputational damage resulting from non-compliance with legislation, rules and standards.

Operational Risk Management is aimed at having a healthy balance between the exposure to these risks and tools to manage these risks. The Bank has established a consistent framework for monitoring, assessing and communicating operational risks and the overall operating effectiveness of the internal control environment across the Bank. The Operational Risk Management Framework, approved by the Board, has been developed with the objective to ensure that operational risks within the Bank are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The management of Operational Risk has two key objectives:

- To minimize the impact of operational losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Bank and strengthen its brand and external reputation through efficient delivery of services.
- A key component of the Operational Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment. The Bank has also implemented a system to support the Operational Risk Management processes. The process for Operational Risk Management includes the following steps:
    - Identify and assess key operational risks;
    - Design controls to mitigate identified risks;
    - Establish key risk and control indicators;
    - Implement a process for early problem recognition and timely escalation;
    - Produce a comprehensive operational risk report; and
    - Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Bank has a comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The Bank also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Policy (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralized functional control is exercised over all computer system developments and operations.

A complex IT landscape, growing demands on continuity and increasing cyber threats are continuing challenges. The ongoing digitalization of our services improves efficiency and adds value for our customers. Services need to keep running smoothly while at the same time systems need to be improved to keep up with requirements, trends and innovations. The Bank has migrated to a new core banking system successfully with integration between front-to-back processes and systems.

The Bank closely monitors cyber threats and data privacy, and as mitigating actions:

- Continues to strengthen and significantly invest to enhance the ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks. Specifically, the Bank enhancing its capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, as well as enhancing our security event detection and incident response processes.
- Cyber risk is a priority area for the Board and is regularly reported at Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.
- Participate in intelligence sharing with both law enforcement and industry schemes to help improve our understanding of, and ability to respond to, the evolving threats faced by the Bank and peers within industry.

Compliance in the Bank is centrally controlled by the Bank's Compliance Officer who is approved by the CBB. The main responsibility of the Compliance function is to ensure that the Bank is complied with all applicable rules and regulations. The Internal Audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank has nominated a dedicated officer to look after the Business Continuity Framework on an ongoing basis and carryout periodic tests to ensure the Bank's readiness to manage the operations with minimum/no disruptions in the event of any unforeseen situation.

The Bank continually refines and strengthens existing policies, procedures and internal control measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in AIB's size and complexity.

CAPITAL MANAGEMENT

Capital Management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Bank has implemented a dedicated capital management system which calculates the capital adequacy ratio in compliance with CBB and Basel II guidelines. Using this system, exposures are measured at the most granular level so that account level data is correctly used for calculation of risk weights, credit conversions and allocation of credit risk mitigants. The Bank has adopted the Basel II Standardized Approach to measure regulatory capital requirement on Credit and Market risks. For Operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. The Bank has adopted "Pillar I Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like Liquidity, Concentration, Profit Rate Risk and Other Risks relevant to AIB. This also includes the capital charge estimations resulting from stress testing.

COMPLIANCE

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory and supervisory requirements are not adhered to and/or is inefficient and ineffective. The Bank manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements.
- Monitoring and reporting on the level of compliance with legislative requirements.
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed.

The Bank is committed to, and requires all its employees to display, the highest standards of integrity, professionalism and ethical behavior, and to comply with all relevant laws, rules and standards when conducting the business of the Bank. The Bank's compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on the Bank's compliance risk. The Risk Management Department, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

CODE OF BUSINESS CODUCT AND ETHICS FOR MEMEBRS OF THE BOARD OF DIRECTORS

The Bank maintains a Board approved policy on the employment of relatives which establishes minimum standards regarding the employment of immediate family members or other relatives of AIB's employees throughout every phase of the employment

Corporate Governance (continued)

relationship, such as recruiting, hiring and internal transfers. The policy restrict recruitment of first and second degree relatives to work in the Bank or any of its existing/future branches. Recruitments of the third and fourth degree may be allowed, however, should not work in positions where there is an actual, potential or perceived conflict of interest or opportunity for collusion; including, but not limited to where one individual may be able to assign, process, review, approve, audit financial transactions, or otherwise affect the work of the other through direct oversight on each other. The Human Resources Department and Internal Audit Department are both responsible to examine applications before recruitments to ensure there is no actual or potential conflict of interest exists according to the Bank's policies, particularly the Code of Conduct and Conflict of Interest policies. Accordingly, any hiring decision relating to a Relative must be done in consultation with the Internal Audit. The principles of this Policy also apply to transferring employees from one department to another, promoted, or upgraded.

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, Officers, Employees, Agents, Consultants and Others, when they are representing or acting for the Bank. The Board of Directors, as well as Executive officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a Director or Executive Officer may be granted only by the Board or the appropriate Board Committee, and must be promptly disclosed to the stockholders.

The Code is intended to focus the Board and each Director on areas of ethical risk, provide guidance to Directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each Director must comply with the letter and spirit of this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit & Governance Committee. Violations will be investigated by the Board or by a person(s) designated by the Board and appropriate action will be taken in the event of any violations of the Code.
The Code is intended to serve as a source of guiding principles for Directors. Directors are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit & Governance Committee, who may consult with inside or outside legal counsel as appropriate. The code envisages and expect from the Board:

- Adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with Government and regulatory agencies.
- Compliance with applicable laws, rules and regulations.
- To redress misuse or misapplication of the Bank's assets and resources.
- The highest level of confidentiality and fair dealing within and outside the Bank.

Conflict of interest:
A "conflict of interest "occurs when personal interest of any member of the Board of Directors interferes or appears to interfere in any way with the interests of the Bank. Every member of the Board of Directors has a responsibility to the Bank, its stakeholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, it demands that they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that they do not conflict with the Bank's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- ***Business Interests*** – If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.
- ***Related Parties*** - As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.
- ***Use of Bank's Assets and Resources -*** Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:
  - Using the Bank property, information or position for personal gain;
  - Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or
  - indirect interest.

- ***Gifts*** - Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

Confidentiality:
Directors should maintain the confidentiality of information entrusted to them by the Bank and any other confidential information about the Bank that comes to them, from whatever source, in their capacity as a Director, except when disclosure is authorized or legally mandated. For purposes of this Code, "confidential information" includes all non-public information relating to the Bank.

COMMUNICATION POLICY

The Bank uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases), for the purposes of advertising and providing information on the Bank's progress.

The Bank's commitment to providing timely, accurate and balanced disclosure of all material information to a broad audience is guided by the Disclosure Policy of the Parent Group (ABG). Furthermore the Bank maintains a website at www.albaraka.bh, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report, reviewed quarterly financials of the Bank, and carries updates of any significant events and regulatory requirements. The Bank's quarterly results are published in both Arabic and English newspapers, are posted on the Bank's website, and the provision of at least the last five years of financial data on the Bank's website.

The Board acknowledges the importance of continuous communication with shareholders, especially direct dialogue with them at the Bank's Annual General Meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents such as the financial statements etc.

The Bank communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Bank at any time throughout the year. The Bank provides detailed information about its Corporate Governance structure and other related information. Shareholders are given the opportunity to ask questions at the Annual General Meeting.

According to the Bank's policy, ABG's President, and the Bank CEO are the primary spokespersons responsible for communicating Company information to the investment community and the media. For the purpose of these guidelines, the investment community refers to existing and potential investors of the Bank, analysts and market professionals. Where appropriate, the Bank may authorize other officers of the Bank to communicate with the investment community or the media as part of the Bank's investor relations or public communications program.

Investors and customers queries are dealt with one-on-one by Executive Management in the Bank and the Bank's relationship managers. Additional information for the investor community is provided through:

- One-on-one meetings and conference calls with Executive Management;
- Road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

Customer-Centric Initiatives
As always, efficient customer service and customer satisfaction are the primary objectives of the Bank in its day to day operations. The Bank is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products and skills of its people must be leveraged for delivering superior Banking experience to its customers without fail.

The Bank is focused towards providing excellent customer service through all delivery channels and has been working on to enhance the Digital Banking scope of services as alternative delivery channels to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving upon the various processes and procedures.

All our stakeholders, including investors, may use the Bank's website for logging a query or a complaint, through the "Contact Us" page available on the website. The query is automatically channeled to the appropriate department responsible to handle the issues when completed using the online form, or can be sent using the available complaints email.

Corporate Governance (continued)

The Bank maintains a comprehensive 'Whistleblowing' policy, approved by the Board for handling of Customer Complaints. All employees of the Bank are aware of and abide by this policy. The Bank has a designated Whistleblowing and Customer Complaints team for handling all internal and external complaints and its contact details are displayed on the Bank's website and at the Branches. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to CBB and to AIB's Board of Directors.

LEGAL AND REGULATORY RISK AND ANTI-MONEY LAUNDERING

Strict compliance with all relevant regulations is one of the Bank's core values. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through periodic staff trainings and internal reviews, as well as internal and external reviews by auditors.

The Anti-money Laundering (AML) and Counter-Terrorist Financing (CFT) policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures; and obligation of the Bank according to regulations and directives issued by CBB. The roles of the Bank's MLRO and Deputy MLRO is to oversee the proper implementation of the requirements of the Anti- Money Laundering Law, as amended, on covered and suspicious transactions as well as the freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislation, rules and industry guidance for the financial services sector. The Bank continuously reviews the policies and the adopted measures to ensure the ongoing application of, and adherence to, best practices. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff.

Sharia Compliance and Supervision

The Shari'a Supervisory Board (SSB) of the Bank is elected for a Three years term by the shareholders during the AGM based on recommendations from the Board of Directors. The Shari'a Board has the following responsibilities:

- Overseeing the operations and activities of the Bank to ensure compliance with Islamic Shari'a principles;
- Monitoring and supervising transactions to ensure full compliance with the Board's decisions; and
- Reviewing files, records, and documents at any time. The Shari'a Board can also request any information deemed necessary and approves all relevant documents relating to new products and services including contracts, agreements, marketing and promotional material, or other legal documents used in the AIB's operations.
- The SSB of the Bank currently (after passing away of Dr. Abdulsattar Abughuddah during 2020) comprises of three (3) scholars specialized in Fiqh Al Mu'amalat. These members have extensive experience in the field of Islamic banking and finance and meet the fit & proper criteria specified by the CBB. The structure of the SSB is as follows:

	Names	Qualification	Position on the Board	Nationality
1	**Shaikh Dr. Abdulsattar Abdulkareem Abughuddah**	• B.Sc in Shari'a & Laws • M.A in Comparative Fiqh • PH.D in Comparative Fiqh	Chairman (Passed away)	Bahraini
2	**Shaikh Esam Mohamed Ishaq**	• Graduate from McGill University, Montreal, Canada • Member of Board of AAOIFI	New Chairman	Bahraini
3	**Shaikh Dr. Nedham Mohammed Yaqoobi**	• Graduate from McGill University, Montreal, Canada • PH.D in Shari'a	Member	Bahraini
4	**Shaikh Judge Waleed Abdulmonem Al-Mahmood**	• B.Sc in Shari'a & Laws • Higher Diploma in Comparative Figh • Master's degree	New Member (Joined 23 December 2020)	Bahraini

- SSB meets at least on quarterly basis and each member of SSB attends at least three fourth of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairman may convene SSB meetings as and when it is necessary;

Meeting Number	Date of Meeting	Attendees	SSB Absentees
1st Meeting	2 February 2020	1. Dr. Abdulsattar Abughuddah (Chariman) 2. Shaikh Esam Mohamed Ishaq 3. Dr. Nedham Mohammed Yaqoobi	Nil
2nd Meeting	22 April 2020	1. Dr. Abdulsattar Abughuddah (Chariman) 2. Shaikh Esam Mohamed Ishaq 3. Dr. Nedham Mohammed Yaqoobi	Nil
3rd Meeting	9 September 2020	1. Dr. Abdulsattar Abughuddah (Chariman) 2. Shaikh Esam Mohamed Ishaq 3. Dr. Nedham Mohammed Yaqoobi	Nil
4th Meeting	8 December 2020	1. Shaikh Esam Ishaq (Chariman) 2. Dr. Nedham Mohammed Yaqoobi	Dr.Abdulsattar (Passed away)

The Shari'a Board operates in accordance with its internal regulations, which clarify its policies, procedures and responsibilities. In carrying out its duties, the Shari'a Board has the full right to communicate with the Board of Directors, the Executive Management, and the management and staff of the subsidiary. In addition to supervising, advise on Shari'a compliance in all products and services. It is worth noting that the Internal Shari'a Audit function is an independent department reporting functionally to the Shari'a Board, and administratively to the Chief Executive Officer. Also, the Shari'a coordination & implementation function is an independent department that reports functionally to the Shari'a Board and administratively to the Chief Executive Officer. Both the Shari'a Officer and the Head of Shari'a Audit are working in conformity with a charter that defines their technical duties in accordance with the instructions of the CBB.

The Bank places great importance on Shari'a compliance, whether in the transactions of the AIB or of its subsidiary. The Compliance Policy of the Bank is in accordance with the Shari'a rules and principles stipulated in the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the decisions of the SSB. The Bank and its subsidiary are committed to comply with Shari'a standards issued by the AAOIFI, and fatwas and decisions circulated by the Shari'a Board to the extent that they do not conflict with local laws.

Organisational Chart

Board of Directors Profile

Saleh Salman Al Kawari

Chairman

Experience: 50 Years

Mr. Saleh was previously the Chief Executive Officer of HSBC Bahrain (1997-2007). He joined HSBC Bahrain in 1965, during this long period of career, he held number of senior positions in the Bank, including manager of retail banking and corporate banking and manager of various branches. He was also tasked a special project to explore the establishment of retail and commercial banking in Awal Bank (2007-2008). He served as board member in the Benefit Company, BIBF, and the Bankers Society of Bahrain. He has over 50 years' experience in the banking Industry. A Bahraini national, he holds a Master of Business Administration Degree from Durham University, UK (1994) and is Fellow of The Chartered Bankers Institute 1995.

Adnan Ahmed Yousif

Vice Chairman

Experience: 47 Years

Mr. Adnan possesses over four decades of international banking experience. He has led Al Baraka Banking Group (ABG) since its inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world. He is the Chairman of Al Baraka Turk Participation Bank, Al Baraka Bank Sudan, Al Baraka Bank Ltd. South Africa, Banque Al Baraka D'Algerie S.P.A., Al Baraka Bank Pakistan Ltd., Al Baraka Bank Syria S.A., Vice Chairman of Al Baraka Islamic Bank Bahrain and a Board member of Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia.

He is currently the Chairman of Bahrain Association of Banks. He was the Chairman of the Union of Arab Banks, Lebanon, for two consecutive terms (2007-2013). He worked with Arab Banking Corporation (ABC) for over 20 years, last serving as a Director on its Board.

In 2011, he received the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain. In 2017 he received the Honorary Freedom Award, the highest honor from the City of London for his outstanding contributions to international banking services. He was declared as the Islamic Finance Personality of the Year 2017 by the Global Islamic Finance Awards (GIFA). He was also awarded by the LARIBA American Finance House the 2012 LARIBA Award for Excellence in Achievement in recognition of his leadership role in consolidating and operating the largest diversified Islamic banking group in the world. In 2004 and 2009, he received the "Islamic Banker of the Year" award.

In 2017, he won the 12th Islamic Business & Finance Awards for his outstanding contribution in CSR in Islamic banking. In 2016, the CSR Regional Network designated him as the High Commissioner for advocating the United Nations Sustainable Development Goals 2030. The CSR Regional Network, in 2015, also named him the CSR International Ambassador (Kingdom of Bahrain). He received the Gold Award for Sustainable Development for his role in the social responsibility programs nationally and internationally in 2016, as well as recognition for the leading role of ABG in the field of CSR at Oman International Conference on Social Responsibility. He holds a Master's in Business Administration degree from University of Hull, U.K. In recognition of his outstanding contribution in the field of contemporary Islamic finance and for modernizing its theoretical fundamentals in practice, the Al Jinan University of Lebanon granted him an Honorary Doctorate of Philosophy in Business Administration.

Abdullatif Abdulrahim Janahi

Board Member

Experience: 60 Years

Mr. Abdullatif is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars , and universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 60 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. He is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

Yousef Ali Bin Fadil

Board Member

Experience: 36 Years

Mr. Yousef is a Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank. Previously, General Manager of the Emirates Financial Company and before that Executive Manager for Investment, Dubai Islamic Bank and a number of senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served as Member of the Boards of Directors of several financial institutions including, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 36 years of experience in the banking field. He is a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

Board of Directors Profile (continued)

Abdulrahman Abdulla Mohamed

Board Member

Experience: 40 Years

Mr. Abdulrahman holds a Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 40 years of experience in Banking Industry. Present Positions, Board member of Al Baraka Islamic Bank, Vice Chairman of Takaful International (June 2015 – till present) and Vice Chairman of Bahrain Middle East Bank from (january 2019 till present) . His past positions were General Manager in National Bank of Bahrain, Board Member – Bahrain Commercial Facilities Company, and Chairman of the Board – National Motors Company. Board Member at TAIB Bank (Aug 2011 until November 2019).

Dr. Khalid Abdulla Ateeq

Board Member

Experience: 38 Years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 38 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain (previously Bahrain Monetary Agency) for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at University of Bahrain. In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member at Med Gulf Insurance Company, and ABG.

Abdulrahman Abdulla Al Sayed

Board Member

Experience : 22Years

Mr. Abdulrahman is a board member and the CEO of ITQAN Financial Services, Bahrain. Previously, he worked for the Central Bank of Bahrain for 10 years (1998 – 2008) in different senior positions, the lately was Director of Islamic Financial Institutions Supervision. Mr. Al-Sayed served as a board member in several institutions including, ABC Islamic Bank and Bahrain Saudi Bank. He served also as an Expert – Audit Committee, Al Salam Bank, Bahrain. He also represented the Central Bank of Bahrain in several IFSB working groups, Malaysia. He has more than 22 years of experience in the banking and regulatory fields. He is a Bahraini national, holds Master Degree in Business Administration, University of Dundee, UK. He also passed all the Certified Public Accountant (CPA) subjects, from State of California, USA.

Abdulrazzaq Abdulkhaleq Abdulla

Board Member

Experience: 40 Years

Mr. Abdulrazzaq is a highly experienced banking professional with almost 40 years of banking experience in various capacities. He has worked for Standard Chartered Bank in Bahrain for over five years and was working with Bahrain Islamic Bank from 1981 until 2015 during this period he had demonstrated experience in commercial banking, branch management, marketing, HR, and internal audit. He worked as Assistant General Manager Central Operations and oversees many departments including IT department. At present, he serves as board member of various Companies in Kingdom of Bahrain and K.S.A, including BENEFIT, SINNAD, and ITQAN Capital Investment Company (K.S.A). He is a Bahraini national, with various internationally recognized accounting qualifications and has undergone Gulf Executive Program University of Virginia U.S.A. Darden Business School.

Adnan Abdulla Albassam

Board Member

Experience: 25 Years

Mr. Adnan is the Vice Chairman of Al Bassam Investment Company W.L.L, Bahrain since 2005. Previously, he was Senior Manager – Internal Audit at Bahrain Islamic Bank (2000-2005). He served also as a Senior Accountant at Ernst & Young (1997-2000). Mr. Al Bassam is a board member of several institutions including, Jordan Islamic Bank, Jordan, and the Malls Real Estate Development B.S.C (c), Bahrain. He is also a member of the board of trustees of Gulf University, Bahrain. He has more than 25 years of experience in the banking and auditing fields. He is a Bahraini national, holds a Bachelor's Degree in Business Administration with concentration in Accounting from Southern Oregon State College, USA. He is a Certified Public Accountant (CPA) from Oregon State Board of Accountancy in 1999, USA.

Executive Management Profile

Hamad Abdulla Al Oqab
Chief Executive Officer
Experience 27 years

Mr. Hamad has over 27 years' experience in banking, finance and auditing. In addition to his role as Chief Executive Officer of Al Baraka Islamic Bank, he holds the position of Deputy Chief Executive of Al Baraka Banking Group "The major shareholder of the Bank".

He represents Al Baraka Banking Group in several Boards of its subsidiary Banks, which include, Jordan Islamic Bank, Banque Al Baraka D'Algerie, and Albaraka Egypt. Additionally, he serves as a member of the Audit Committee of Jordan Islamic Bank and Deputy Chairman of Banque Al Baraka D'Algerie and Chairman of Al Baraka Lebnon.

Mr. Hamad is the Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Before joining Al Baraka Banking Group in 2005, he worked in different institutions including Shamil Bank "Currently Ithmaar Bank", Arthur Andersen, Unilever and Bahrain Monitory Agency "Currently Central Bank of Bahrain". Mr. Hamad is a Certified Public Accountant and a Chartered Global Management Accountant.

Tariq Mahmood Kazim
General Manager – Business Group
Experience: 36 Years

Mr. Tariq holds a Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) with a 36 years of experience in Banking, Support Service, implementing Banking, Telecommunication and e-Commerce Solutions. Past careers includes two years with Arabian Networks as General Manager and 16 years with NCR and AT&T as a Business Unit Leader. Joined Al Baraka Islamic Bank in April 2002. He is also a Vice Chairman of the Board in Al Baraka Bank (Pakistan) Limited, and chairing its Board Executive Committee and Social Responsibility, and Member of Board HR & Remuneration Committee. He is also Chairman of Danaat AlBaraka.

Khalid Mahmood Abdulla
Deputy General Manager – Support Services Group
Experience: 25 Years

Mr. Khalid has over 25 years of experience in Accounting, Auditing, Banking, Sharia and corporate governance fields. He took up his current position with Al Baraka Islamic Bank in June 2019. Prior to this, he was General Manager - Head of Internal Audit at Bahrain Islamic Bank, at the beginning of his career he worked with Arthur Andersen and Bahrain National Gas Company (BANAGAS). Mr. Khalid holds a Bachelor degree of Science in Accounting from the University of Bahrain; is a Certified Public Accountant (CPA) from State of Michigan, USA, and attended the Leadership Development Program at Darden School of Business, University of Virginia, USA.

Mohamed Abdulla Abdulrahim
Assistant General Manger & Chief Financial Officer
Experience: 20 years

Mr. Mohamed joined Al-Baraka Islamic Bank in December 2016. He has over 20 years of experience in Islamic banking and finance, with concentration on: financial and management accounting and reporting, regulatory reporting, financial and strategic planning and budgeting, internal controls, corporate and retail banking, investment banking, cost optimization and control. Prior joining Al-Baraka Islamic Bank, he worked for 9 years with Khaleeji Commercial Bank and 6 years with Kuwait Finance House. Mr. Mohamed holds a Bachelor degree of Science in Accounting from University of Bahrain, he is a Certified Public Accountant licensed from Colorado State Board of Accountancy and is a regular member of the American Institute of Certified Public Accountants, he is a Certified Islamic Professional Accountant licensed from Accounting and Auditing Organization For Islamic Financial Institutions, he attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada) that was sponsored by the Waqf Fund of Central Bank of Bahrain. Mr. Mohamed is a Board memeber in Danaat AlBaraka.

Fatima Moosa AlAlawi
Assistant General Manager – Head of Retail Banking
Experience: 20 years

Mrs. Fatema has over 20 years of experience. She has demonstrated a rich mix of strategic vision, delivery of results, consistently strong executions, the building of new business lines and products, digital transformation of retail banking, and building and running of successful teams.

Prior to joining Albaraka, Fatema consulted Aion Digital as Chief Business Officer. She helped create, branded, and then launched Aion Digital a (digital banking platform). Aion allowed banks to go digital with seamless mobile customer journeys across onboarding, social campaigns, financial wellbeing, hyper personalized communications and the most unique loyalty program in GCC. Her efforts led to Aion being valued at USD 15 million within a year of its launch.

Before that she spent a decade at Bahrain Islamic Bank where she was ultimately Acting Head of Retail leading all aspects of the Retail Banking business including product/business development and marketing and ultimately responsible for branch network, priority banking and sales. Within Bahrain Islamic Bank, She introduced 22 products to the Islamic banking industry. Prior to that she was Vice President of the Islamic International Rating Agency (IIRA) specialized in Shari'a quality rating of Islamic financial institutions. Fatema has worked for the Islamic Development Bank's Infrastructure Fund managed by Emerging Markets Partnership as an Investor Relations Associate for 5 years and marketing for 2 years that led to the raising of USD

Executive Management Profile (continued)

950 million for the Fund. Mrs. Fatema has also taught Finance at the University of Bahrain. In 2015 she was awarded by HRH Princess Sabeeka AlKhalifa, the President of Supreme Council for Women for contributing through a leading role to the banking and financial sector. She is also the recipient of the Future Leader Excellence Award by the Middle East Awards Institute.

Mrs. Fatima holds an MBA from the University of Bahrain, and attended the Leadership Development Program at Darden School of Business, University of Virginia, USA. She also learned Fiqh al-Mu'amalat from University College of Bahrain, Project Management from Boston University and did a leadership program in UCLA, USA.

Hassan Abdulwahab Al Khan

Assistant General Manager - Head of Operations

Experience: 20 years

Mr. Hassan has over 20 years of experience in Retail and banking operations. He joined Al-Baraka Islamic Bank in 2018. Before joining the Bank, he was the Head of Operations at Bahrain Islamic Bank. Mr. Hassan holds a Bachelor degree of Science in Accounting from University of Bahrain and a Master degree in Business Administrations from Al Ahlia University. He is a Certified Islamic Professional Accountant licensed from the Accounting and Auditing Organizations For Islamic Financial Institutions, he also holds a Certificate in International Trade Finance from London Institute of Banking and Finance. Mr. Hassan attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada) that was Sponsored by the Waqf Fund of Central Bank of Bahrain.

Kamran Hussain

Assistant General Manager - Head of Risk Management

Experience: 25 years

Mr. Kamran is a seasoned Banker with over 25 years of experience in the GCC banking sector gained through various roles in Corporate Banking, Credit and Risk Management in leading banks. Prior to joining the Bank, he was the Vice President – Head Office Credit at Bank ABC, Bahrain. He also worked at different capacities for Banque Saudi Fransi and NCB in Kingdom of Saudi Arabia. Mr. Kamran holds a Bachelor in Computer Science and an MBA.

Fahad Abdulhameed Albalooshi

Executive Senior Manager - Head of Corporate Banking

Experience: 19 years

Mr. Fahad is an experienced Banking professional with a diverse career in Corporate Banking, Trade Finance, and Business Development. He took up his current position in Jan 2020. Before joining Al Baraka Islamic Bank, he worked for 11 years with Arab Bank and 7 years with Bahrain Islamic Bank.

Mr. Fahad holds a Diploma in Commercial Studies from University of Bahrain, Bachelor of Banking & Finance from University of Bahrain, MBA in Finance from AMA International University. He passed the CFA exams and earned the designation in 2013. He is a member in the CFA society. Additionally, he is Professional Risk Manager (PRM) and member in the PRMIA society.

Mr. Fahad participated in Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada) and sponsored by Waqf Fund of Central Bank of Bahrain and many other leadership courses.

Bader Isa Al Shetti

Senior Manager – Head of Compliance & AML - MLRO

Experience: 17 years

Mr. Bader has joined Al Baraka Islamic Bank in 2016. Prior to his appointment as Head of Compliance and AML with Al Baraka Islamic Bank, he was the Country Head of Financial Crime Compliance and MLRO at HSBC Bahrain, Group Head of Compliance and AML with Al Salam Bank Bahrain and was a key personnel with the Risk Management advisory practice at Ernst & Young Bahrain. As an expert practice member, he helped in raising the Compliance and AML culture within the Bank and has heavily contributed in the development and growth in the areas of Regulatory Compliance, Anti Bribery and Corruptions, Sanctions and Financial Crime Compliance. He was also involved in launching the Central Bank of Bahrain rulebook volume II for Islamic Banks which was developed in concurrent with the Islamic Financial Services Board (IFSB) regulations where he was responsible enhancing some key rulebook modules to embrace the lasts Basel and IFSB regulations. Mr. Bader is a Certified Anti-Money Laundering Specialist (CAMS), a Certified Compliance Officer (CCO) by the American Academy of Financial Management and, a Certified Specialist on Combating Financing of Terrorism by the Arab University of Beirut and holds a BA in Finance from the Arab League University in Egypt.

Ahmed Isa Al Khayyat

Senior Manager - Head of Information Technology

Experience: 13 years

Mr. Ahmed has more than 13 years of IT experience. Prior to joining Al Baraka Islamic Bank, he was working as the Head of IT at Seera Investment Bank for 5 years. Also prior to that, he was a Senior Project Coordinator assigned to large scale digitization projects at Bahrain eGovernment Authority (eGOV) for more than 2 years.

Mr. Ahmed has a Bachelor degree from University of Bahrain in Business Information System, he is also a certified Project Management Professional (PMP) and being designated as an Oracle Database Administrator Certified Professional (OCP), in addition to other multiple certificates.

Mohammed Jasim Ebrahim
Sharia Officer & Secretary of Sharia Supervisory Board
Experience: 12 Years

Mr. Mohammed holds a Bachelor's degree in Islamic Law (Comparative Fiqeh and Fundamentals of Fiqeh) from the College of Sharia at the Islamic University of Al Madinah Al Munawarah - Saudi Arabia. He is a Certified Sharia Advisor and Ausitor (CSAA) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He has more than 12 years of experience in the field of Sharia supervision and Islamic banking and he is a permanent lecturer at Al Baraka Academy.

Duaij Khalifa Abulfateh
Head of Internal Sharia Audit Department
Experience: 12 Years

Mr. Duaij Khalifa Abulfateh has over 12 years' extensive experience in Islamic banking and finance, with concentration on: financial and regulatory reporting, financial and strategic planning and budgeting, He has joined Al Baraka Islamic Bank in February 2008. Currently is responsible to establish and Lead Internal Sharia Audit Department.

Mr. Duaij is a Certified Sharia Advisor and Auditor (CSAA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and hold Master degree in General Business Administration from NYIT in addition to BSC degree in Managerial Accounting from NYIT, along with two-advanced diploma from Bahrain Institute of Banking and Finance: Advanced Diploma in Islamic Finance & Advanced Diploma in Islamic commercial jurisprudence.

Mohammed Ali Qudrat
Senior Manager – Head of Treasury
Experience: 17 Years

Mr. Mohammed is a banking professional with more than 17 years of Islamic banking experience in various capacities. Mr. Mohammed joined Al Baraka Islamic Bank in 2015 with a mandate of handling FX, Money Market as well as the Bank's sukuk portfolio. Prior joining Al-Baraka Islamic Bank, he worked for 8 years with Bahrain Islamic Bank and 4 years with Ithmaar Bank gaining in-depth knowledge FX, MM, ALM, Corporate Treasury sales & handled over USD 500 million fixed income portfolio. He holds Multiple Diplomas in Banking and Finance & Treasury and Capital Markets from Bahrain Institute of Banking and Finance (BIBF).

Raeda Asghar Murad
Senior Manager - Head of Special Assets
Experience: 15 Years

Mrs. Raeda is a seasoned Banker and has over fifteen years of experience both in frontline core relationship roles as well as experience in credit and managing teams.

She carries strong knowledge of Islamic banking services, products, risk management, and business development within diverse markets. Exhibiting strategic outlook, whilst being driven by execution of priorities in dynamic environments.

In her current role, she works with the executive management team. Her previous experiences include managing the Corporate Banking Administration Department, Corporate Banking Relationship Management of both Local and International markets. Before joining Al Baraka Islamic Bank, she worked in different institutions including BMI Bank, Nomura Investment Bank, AXA Insurance (formerly Norwich Union Insurance), Aluminum Bahrain in addition to experience in the Education field.

Mrs. Raeda holds a Bachelor degree in Business Information Systems from the University of Bahrain and Advance Diploma in Islamic Finance from BIBF, where she has received recognition for outstanding achievements and was also part of the Graduate Talent Program.

Abdulla Abdulaziz Suwaileh
Senior Manager - Head of Human Resources & Administration
Experience: 12 Years

Mr. Abdulla has more than 12 years' experience in the fields of Human Resources and Administration. Prior to joining Al Baraka Islamic Bank in 2015, he worked in Eskan Bank (2013-2015) and Al Baraka Islamic Bank (2019-2013). Currently, Mr. Abdulla holds MBA from University of Bahrain (2020), BSc in Business with Human Resources Management from the University of the West of Scotland (2008), CIPD-UK Level 3 (2010), CMI-UK Level 5 (2013), and Certified Trainer from International Academy for Training and Consulting (IATC) (2014).

Abdulla attended many training courses in the area of leadership, people development, Islamic Finance, and Interpersonal Skills. He was selected among the top 50 students in the Crown Prince Leadership program in 2004 (Bahrain).

Hasan Abdulaziz Al Qasimi
Manager – Acting Head of Internal Audit
Experience: 10 Years

Mr. Hasan has 10 years' experience in the fields of external audit, financial reporting and control, internal control, and internal audit. Prior to joining Al Baraka Islamic Bank in 2017, he worked in Seef Properties and Ernst & Young as an internal auditor and external auditor. Mr. Hasan is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy.

Shari'a Supervisory Board's Report

Date: 21 Jumada Al-Thani 1442 A.H.

Corresponding to: 03 February 2021

In the Name of Allah, the Most Gracious, the Most Merciful

Report of the Fatwa and Sharia Supervisory Board From 01.01.2020 to 31.12.2020

To the Shareholders of alBraka Islamic Bank
Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Family, and Companions.

In accordance with the General Assembly Resolution appointing the Sharia Supervisory Board of Al Baraka Islamic Bank and entrusting us with this task, we present to you the following report:

We have independently and under no duress reviewed the applicable principles, contracts, financial reports, relating to the Bank's activities and products offered by Al Baraka Islamic Bank during the period from January 1st until the end of December 2020. We have done the necessary reviewing to express an opinion as to whether the Bank has complied with the provisions and principles of Islamic Sharia as well as the Fatwa, resolutions and guidelines that we have issued within this period, in addition to reviewing the report issued by IESCA "KPMG Fakhro" and approving the observations included in it.

We also have monitored the procedures of the Bank on the basis of testing each type of transactions, either directly or through the Sharia Officer or the Sharia Auditor; All of that was through an establishment of 4 meetings of SSB and supervising: ("162" documents), (audits on "746" executed transactions), (Sharia training program for staff, trainees), ("86" new advertisement and promotional material), (Mechanism for deferring installments imposed by CBB due to the COVID-19).

We also planned and supervised in order to obtain all the information and explanations that we considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank did not violate the provisions and principles of Islamic Sharia.

In our opinion*:

1. The contracts, transactions and services entered into and provided by the Bank during the financial year ended 31st December 2020 which we reviewed (except those we decided as a non-halal income) were made in compliance with the provisions and principles of Islamic Sharia.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Sharia and disburse of it towards charitable causes under the supervision of the Sharia Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Sharia provisions and principles.
4. The bank's management has obtained authorization from the shareholders to pay zakat on their behalf through the Zakat and Charitable Donations Committee according to the Zakat calculation approved by us and accordingly, the zakat per share equals $ 0.34.

We pray to Allah Almighty to guide us to the righteous path.

Shaikh Dr. Abdulsattar Abdulkareem Abughuddah (رحمه الله)
Previous Chairman of Sharia Supervisory Board

Shaikh Esam Mohamed Ishaq
Chairman of Sharia Supervisory Board

Shaikh Dr. Nedham Mohammed Yaqoobi
Member of sharia Supervisory Board

Shaikh Judge Waleed Abdulmonem Al-Mahmood
Member of sharia Supervisory Board
*My opinion is limited to the period from 23-31 Dec 2020

Mohamed Jasim Mohamed
Sharia Officer & Secretory of Sharia Supervisory Board

Social Responsibility

The Bank continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in the Kingdom of Bahrain.

The Bank has participated in Philanthropic Program, Economic Opportunities and Social Investments Program and Qard Hasan Program, under the broad title of Al Baraka Sustainability and Social Responsibility Program during 2020. The total amount contributed in Philanthropic Program was US$291 thousand, in arts, culture and literature projects, community development project, youth engagement and sports and towards individuals with special needs.

PHILANTHROPIC PROGRAM	US$ 000
Community Development Projects Vocational Training	209
Arts, Culture and Literature	68
Youth Engagement and Sports	9
Individuals with Special Needs	5
Total	291

KINGDOM OF BAHRAIN Philanthropic Program Contributions US$ 291,000

Total of Programs by Al Baraka Islamic Bank (Philanthropic, Qard Hasan and Economic Opportunities & Social Investments) US$ 173,319,000

Community Development Projects	72%
Arts, Culture and Literature	23%
Youth Engagement and Sports and Individuals with Special Needs	5%

Al Baraka Islamic Bank has given an amount of US$786 thousand as Qard Hasan to 40 to staff and people in need.

Al Baraka Islamic Bank participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of US$172,242 thousand to housing projects and education.

ECONOMIC OPPORTUNITIES AND SOCIAL INVESTMENTS PROGRAM	US$ 000
Community Development Projects Housing	169,237
Education	3,005
Total	172,242

Al Baraka Islamic Bank has given an amount of US$786 thousand as Qard Hasan to 40 to staff and people in need.

Al Baraka Islamic Bank participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of US$172,242 thousand to housing projects and education.

As shown below, Al Baraka Islamic Bank has contributed to Al Baraka Goals by funding projects with US$ 24 thousand in education and US$ 29 thousand in healthcare.

AL BARAKA GOALS (2016-2020)

AL BARAKA GOALS	5-YEAR TARGET	TARGET	ACHIEVED	ACHIEVED PERCENTAGE OF TARGET	ACHIEVED PERCENTAGE OF 5-YEAR TARGET
Job Creation	500	100	-	-	-
Education - Financing	US$3,978,780	US$795,756	-	-	-
Education - Donations	US$83,554	US$16,711	US$23,626	141%	28%
Healthcare - Financing	US$6,631,300	US$1,326,260	-	-	-
Healthcare - Donations	US$464,191	US$92,838	US$29,390	32%	6%
Financing Renewable Energy Projects	-	US$2,500,000	-	-	-
Financing Energy Efficiency	-	US$2,500,000	-	-	-
Total	US$ 11,157,825	US$ 7,231,565	US$ 53,016	1%	0.5%

ECONOMIC OPPORTUNITIES & SOCIAL INVESTMENTS PROGRAM US$ 172.2 millions

Program Contributions

Housing	98%
Education	2%

Consolidated
Financial Statements

For the year ended 31 December 2020

Contents

Independent Auditors' Report

to the Shareholders of AL BARAKA ISLAMIC BANK B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2020 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and the consolidated results of the operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] as modified by the Central Bank of Bahrain ("CBB") ("FAS issued by AAOIFI as modified by CBB")

In our opinion, the Bank has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Bank during the year under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions (ASIFI) issued by AAOIFI. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement, of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI as modified by CBB and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFI issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ASIFI issued by AAOIFI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner in charge of the audit resulting in this independent auditors report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
21 February 2021
Manama, Kingdom of Bahrain

Consolidated statement of financial position

At 31 December 2020

	Notes	2020 US$ '000	2019 US$ '000
ASSETS			
Cash and balances with banks and financial institutions	3	294,877	344,747
Receivables	4	557,436	449,729
Ijara Muntahia Bittamleek and Ijara receivables	5	321,510	282,709
Musharakas	6	350,280	237,493
Investments	7	988,091	744,069
Investment in joint venture	8	14,631	14,715
Investments in real estate	9	9,813	15,358
Premises and equipment	10	46,338	47,295
Goodwill	11	14,050	14,502
Other assets	12	54,949	63,617
TOTAL ASSETS		2,651,975	2,214,234
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBTS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		384,137	276,882
Murabaha and other payables		185,209	125,462
Other liabilities	13	105,411	94,005
TOTAL LIABILITIES		674,757	496,349
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS	14	1,696,907	1,436,847
SUBORDINATED DEBTS	15	12,883	14,667
OWNERS' EQUITY	16		
Share capital		136,458	136,458
Additional tier-1 capital		111,000	111,000
Reserves		(2,361)	(4,070)
Accumulated losses		(3,502)	(2,010)
EQUITY ATTRIBUTABLE TO PARENT'S SHAREHOLDERS		241,595	241,378
Non-controlling interest		25,833	24,993
TOTAL OWNERS' EQUITY		267,428	266,371
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		2,651,975	2,214,234
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		523,207	642,471
CONTINGENCIES AND COMMITMENTS	17	381,608	337,306

Saleh Salman Al Kawari
Chairman

Adnan Ahmed Yousif
Vice Chairman

Hamad Abdulla Aloqab
Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of income

For the year ended 31 December 2020

	Notes	2020 US$ '000	2019 US$ '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	85,981	91,075
Investments	19	11,773	8,422
Income from jointly financed assets		97,754	99,497
Return on equity of investment accountholders before Group's share as a Mudarib		(87,437)	(82,458)
Group's share as a Mudarib	15	23,676	9,244
Return on equity of investment accountholders	17	(63,761)	(73,214)
Group's share as a Mudarib and Rabalmal		33,993	26,283
INCOME FROM SELF FINANCED ASSETS			
Financings	18	9,500	10,106
Investments	19	44,503	38,089
Income from self financed assets		54,003	48,195
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	8,723	8,660
Other income	21	7,206	6,420
Group's mudarib / agency fee from off-balance sheet equity of investment account holders		587	1,438
Income from banking services and others		16,516	16,518
TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		104,512	90,996
Other financing costs		(2,243)	(2,073)
TOTAL OPERATING INCOME		102,269	88,923
OPERATING EXPENSES			
Staff expenses	10	(32,463)	(30,664)
Depreciation	22	(4,958)	(5,656)
Other operating expenses		(31,812)	(30,931)
TOTAL OPERATING EXPENSES		(69,233)	(67,251)
NET OPERATING INCOME		33,036	21,672
Allowances for impairment - net		(21,358)	(17,383)
Recovery from written off financing	23	101	2,012
INCOME BEFORE TAXATION		11,779	6,301
Taxation	24	(4,199)	(1,183)
INCOME FOR THE YEAR		7,580	5,118
Attributable to:			
Equity Shareholders of the parent		6,032	5,297
Non-controlling interest		1,548	(179)
		7,580	5,118

Saleh Salman Al Kawari	Adnan Ahmed Yousif	Hamad Abdulla Aloqab
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of changes in owners' equity

For the year ended 31 December 2020

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital	Additional tier-1 capital	Statutory	General	Employee defined benefit plan	Cumulative changes in fair value of investments	Revaluation of premises and equipment	Foreign exchange	Accumulated losses	Total	Non-controlling interest	Total owners' equity
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2020	136,458	111,000	23,228	8,687	(59)	(1,206)	-	(34,720)	(2,010)	241,378	24,993	266,371
Cumulative changes in fair value	-	-	-	-	-	2,766	-	-	-	2,766	181	2,947
Translation of foreign currency operations	-	-	-	-	-	-	-	(1,625)	-	(1,625)	(865)	(2,490)
Remeasurement loss on defined benefit plan	-	-	-	-	(35)	-	-	-	-	(35)	(24)	(59)
Recognition of modification loss	-	-	-	-		-	-	-	(8,835)	(8,835)	-	(8,835)
Receipt of government grant	-	-	-	-		-	-	-	1,914	1,914	-	1,914
Net income for the year	-	-	-	-	-	-	-	-	6,032	6,032	1,548	7,580
Allocation to statutory reserve	-	-	603	-	-	-	-	-	(603)	-	-	-
Balance at 31 December 2020	**136,458**	**111,000**	**23,831**	**8,687**	**(94)**	**1,560**	**-**	**(36,345)**	**(3,502)**	**241,595**	**25,833**	**267,428**
Balance at 1 January 2019	122,458	110,000	22,699	8,687	(31)	1,035	714	(28,313)	(21,778)	215,471	28,666	244,137
Cumulative changes in fair value	-	-	-	-	-	(2,241)	-	-	-	(2,241)	2	(2,239)
Translation of foreign currency operations	-	-	-	-	-	-	-	(6,407)	-	(6,407)	(3,477)	(9,884)
Issuance of ordinary shares	14,000	-	-	-	-	-	-	-	-	14,000	-	14,000
Issuance of additional tier 1 capital	-	30,000	-	-	-	-	-	-	-	30,000	-	30,000
Write down of additional tier 1 capital	-	(15,000)	-	-	-	-	-	-	15,000	-	-	-
Redemption of additional tier-1 capital	-	(14,000)	-	-	-	-	-	-	-	(14,000)	-	(14,000)
Changes in fair value of premises and equipment	-	-	-	-	-	-	(714)	-	-	(714)	-	(714)
Net income / (loss) for the year	-	-	-	-	-	-	-	-	5,297	5,297	(179)	5,118
Remeasurement loss on defined benefit plan	-	-	-	-	(28)	-	-	-	-	(28)	(19)	(47)
Allocation to statutory reserve	-	-	529	-	-	-	-	-	(529)	-	-	-
Balance at 31 December 2019	136,458	111,000	23,228	8,687	(59)	(1,206)	-	(34,720)	(2,010)	241,378	24,993	266,371

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2020

	2020 US$ '000	2019 US$ '000
OPERATING ACTIVITIES		
Net income before taxation	11,779	6,301
Adjustments for:		
Depreciation	4,958	5,656
Allowances for impairment - net	21,358	17,383
Gain on sale of premises and equipment	(165)	(49)
Share of (loss) / income from investment in joint venture	84	(44)
Gain on sale of investments	(15,951)	(10,383)
Unrealized loss on revaluation of investment properties	990	-
Modification loss in lieu of payments moratorium	(8,835)	-
Operating profit before changes in operating assets and liabilities	14,218	18,864
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	86,678	(64,452)
Receivables	26,008	76,676
Ijara Muntahia Bittamleek and Ijara receivables	(41,020)	395
Musharakas	(115,363)	33,484
Other assets	5,103	18,612
Other liabilities	11,291	(19,523)
Murabaha and other payables	59,746	6,762
Current accounts	107,255	1,294
Equity of investment accountholders	260,060	26,066
Taxation paid	(649)	(1,184)
Net cash generated from operating activities	413,327	96,994
INVESTING ACTIVITIES		
Purchase of investments	(1,069,684)	(592,604)
Investments sold / matured	848,241	430,771
Purchase of premises and equipment	(4,689)	(4,404)
Sale of premises and equipment	319	82
Net cash used in investing activities	(225,813)	(166,155)
FINANCING ACTIVITIES		
Repayment of subordinated debts	(1,784)	(2,811)
Receipt of government grant	1,914	-
Net cash from / (used) in financing activities	130	(2,811)
Foreign currency translation adjustments	(1,504)	(13,063)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	186,140	(78,423)
Cash and cash equivalents at 1 January	196,646	275,069
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (NOTE 25)	382,786	196,646

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of changes in off-balance sheet equity of investment accountholders

For the year ended 31 December 2020

2020	Balance at 1 January 2020 US$ '000	Write offs US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2020 US$ '000
Wakala Bi Al-Istithmar (note 27)						
Receivables	156,650	-	(156,709)	535	(476)	-
Investments	4,655	-	(4,659)	34	(30)	-
On balance sheet jointly financed assets	177,397	-	180,804	9,177	(3,234)	364,144
	338,702	-	19,436	9,746	(3,740)	364,144
Others						
Receivables	142,260	-	(13,231)	7,409	(81)	136,357
Investments	161,509	-	(138,803)	-	-	22,706
	303,769	-	(152,034)	7,409	(81)	159,063
	642,471	-	(132,598)	17,155	(3,821)	523,207

2019	Balance at 1 January 2019 US$ '000	Write offs US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2019 US$ '000
Wakala Bi Al-Istithmar (note 27)						
Receivables	-	-	154,179	3,249	(778)	156,650
Investments	-	-	4,561	436	(342)	4,655
On balance sheet jointly financed assets	325,763	-	(155,664)	17,423	(10,125)	177,397
	325,763	-	3,076	21,108	(11,245)	338,702
Others						
Receivables	77,235	(1,392)	64,013	2,722	(318)	142,260
Investments	9,522	-	151,987	-	-	161,509
	86,757	(1,392)	216,000	2,722	(318)	303,769
	412,520	(1,392)	219,076	23,830	(11,563)	642,471

The attached notes 1 to 34 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 Bank's licence 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 ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha financing, Ijara financing 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.

Impact of COVID-19

The outbreak of coronavirus ("COVID-19") pandemic across the globe has caused disruption to business and economic activities and uncertainties in the global economic environment. The fiscal and monetary authorities have announced several stimulus packages to the Bank's customers, which are in the process of implementation. The Bank has considered potential impacts of the current market volatility in the determination of the reported amounts of the Bank's financial and non-financial assets and are considered to represent management's best assessment based on current observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

The consolidated financial statements were approved by the Board of Directors on 21 February 2021.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Group. All values are rounded to nearest US Dollar (US$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

2.2 Statement of compliance

The consolidated financial statements 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 and related CBB communications, 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 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 equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.2 Statement of compliance (continued)

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'FAS issued by AAOIFI as modified by CBB', which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

2.3 Modification loss

During the year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to USD 8.8 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 USD 301.1 million as part of its support to impacted customer

Further, as per the regulatory directive, financial assistance amounting to USD 1.9 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government and/or regulators, in response to its COVID-19 support measures, have been recognized directly in equity.

2.4 Liquidity support

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

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate line item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Bank and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

The subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

Bank	Ownership for 2020	Ownership for 2019	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2020 / 2019
Held directly by the Bank					
Al Baraka Bank (Pakistan) Limited*	**59.13%**	59.13%	2004	Pakistan	**190**/ 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% in 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.

2.6New standards, interpretations and amendments adopted by the Group

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019. All the mandatory applications of new standards and interpretation effective from 1 January 2020 has been deferred to 1 January 2021 by the Accounting Board (AAB) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) through its 18th meeting held on 22-23 June 2020. The new standards, interpretations and amendments issued but not effective are as follows:

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

FAS 33 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. This standard supersedes FAS 25 "Investment in Sukuk" and is effective beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorised as one of the below investment categories depending on its nature:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.6 New standards, interpretations and amendments adopted by the Group (continued)
FAS 33 Investment in sukuk, shares and similar instruments (FAS 33) (continued)

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

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

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

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

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

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

Subsequent measurement

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.6 New standards, interpretations and amendments adopted by the Group (continued)
FAS 33 Investment in sukuk, shares and similar instruments (FAS 33) (continued)

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

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 2021, with early adoption permitted.

2.7 Summary of accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

2.7.1 Financial contracts
Financial contracts consist of balances with banks and the Central Banks, Due from banks, Sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Musharaka, other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of allowance for credit losses.

2.7.2 Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and receivables with an original maturity of 90 days or less.

2.7.3 Impairment, Credit Losses and Onerous Commitments
Financial assets consist of cash and balances with banks and financial institution, receivables and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

Impairment of financial assets
The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2: Lifetime ECL - not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

Stage 2: Lifetime ECL - not credit impaired (continued)

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between sum of the present value of all cash shortfalls and the carrying value. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

"For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%."

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- probability that the debtor will enter bankruptcy or other financial reorganization.

Measurement of ECL

Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as follows.

Definition of default

The Group considers a financial asset to be in default when the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or usually when the obligor is past due more than 90 days for any material credit obligation to the Group. In assessing whether a obligor is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment of another obligation by the same issuer to the Group.

Probability of default

Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generates estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group operates.

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.

- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)
2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)
Probability of default (continued)

Incorporation of forward - looking information
The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy the, methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default
"LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Group that can be used to recover the asset in case of default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:"

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability. However, the Group applies 10% floor regardless of collateral coverage of the exposure.

Exposure At Default (EAD)
EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to on balance sheet equivalents.

On-balance sheet EADs
"EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure. Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL."

Off-balance sheet EADs
Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following method to work out CCF for off- balance sheet EADs.

Regulatory CCFs - In absence of internal data, The Group uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)
2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)
Exposure At Default (EAD) (continued)

Stage 2: Lifetime ECL - not credit impaired (continued)

Collective ECL computation and staging

ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information, including days past due and risk rating.

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

"The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing, then such restructured accounts are categorized under stage 3."

Backward transition

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)
2.7.4 FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)
Backward transition (continued)

From Stage 2 to stage 1

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including estimation of expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or capital charge.

Write-offs

Financing facilities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the obligor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for credit losses in the consolidated statement of financial position

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities; where the Group has not identified the the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented against the drawn commitment.

2.7.5 Investments

Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and through statement of income and investment in real estate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)
2.7.5 Investments (continued)

Investment in real estate
Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Equity-type instruments at fair value through profit and loss
Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income. An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.These investments are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

Equity-type instruments at fair value through equity
This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at fair value through statement of income
These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

Debt-type instruments at amortised cost
Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Investment in joint venture
Investment in joint venture is accounted for using the equity method of accounting. Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.5 Investments (continued)

Investment in joint venture (continued)

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the joint venture. Where there has been an income or expense recognised in the other comprehensive income of the joint venture, the Group recognises its share of any such income or expense, when applicable, in other comprehensive income. Gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of stake in the joint venture.

2.7.6 Premises and equipment

"Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity." Losses arising from changes in the fair value of land is first adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the land is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

2.7.7 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, and the principal or the most advantageous market must be accessible to by the Group.

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 reporting 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 Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.8 Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.7.9 Equity of investment accountholders

All equity of investment accountholders are initially measured at cost being the fair value of consideration received at the inception of contracts. Subsequently, the equity of investment accountholders are carried at cost inclusive of undistributed profit or accumulated losses and reserves.

2.7.10 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

2.7.11 Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

2.7.12Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represents funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.13 Revenue recognition

Murabaha receivable

Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are non-performing is excluded from the consolidated statement of income.

Mudaraba financing

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

Wakala financing

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijara Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Group's share of income from equity of investment accountholders (as a Mudarib)

The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fees and commission income

Fees and commission income including structuring fees is recognised when earned.

Dividends

Dividends are recognised when the right to receive payment is established.

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

Income from debt type instrument

Income on debt type securities is amortized to profit and loss on effective profit rate.

Rental income

Rental income is accounted for on a straight-line basis over the Ijara terms.

2.7.14 Return on equity of investment accountholders

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity are entitled to income only after deducting a penalty charge.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.14 Return on equity of investment accountholders (continued)

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

2.7.15 Investment pool expenses

Investment pool expenses include business, administrative, general and other expenses.

2.7.16 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2.7.17 Contingencies and Commitments

"Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date."

2.7.18 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) The right to receive cash flows from the asset has expired;

(ii) The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset; or

(iii) The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.7 Summary of accounting policies (continued)

2.7.19 Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

2.7.20 Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income at the entity level.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

(ii) Group companies

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2.7.21 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at reporting date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

2.7.22 Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders unless they authorize the bank's management to pay it. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

2.7.23 Joint and self financed

Investments, financing and receivable that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivable that are financed solely by the Group are classified under "self financed".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.7.24 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.7.25 Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

2.7.26 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

2.7.27 Investment agency (Al-Wakala Bi Al-Istithmar)

a) Wakala as Muwakkil (Principal)

At the inception of the transaction, the Bank as "principal /(investor)" shall evaluate the nature of investment as either:

i. pass-through investment; or

ii. Wakala venture.

i.Pass through Investment

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. On initial recognition, the asset shall be recognized underlying the Wakala arrangement applying the initial recognition principles as applicable in line with respective FAS, and in absence thereof, in line with the generally accepted accounted principles applicable to such balances.

ii.Wakala Venture

These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognized at cost in Wakala Venture. Subsequently, the carrying amount is adjusted to incorporate gains/ losses net of agent's remuneration and impairments, if any.

b) Wakala as Wakeel (Agent)

i) Off Balance Sheet Approach

"These transaction will be recognized as an agency arrangement under off-balance sheet approach whereby, at inception of arrangement, since the Bank does not control the related assets / business, it does not record the assets and related income and expenditure in its books of account."

The agency remuneration, including fixed and variable components thereof, will be recognized on an accrual basis i.e. when the relevant services are provided. Any expenses, including losses reimbursable will be recognized when due.

ii) Multi level arrangements

The Bank maintains multi-level investment arrangements to invest funds received under "Wakala "to invest as "Mudaraba" in jointly financed assets. The funds invested under such arrangements are recorded and disclosed as "On Balance Sheet Equity Accountholders" in consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.8 Judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

Impairment and uncollectibility of financial assets

"In determining impairment on financial assets, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL"). "

Impairment of Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONSS

	2020 US$ '000	2019 US$ '000
Cash in hand	**44,349**	36,420
Balances with State Bank of Pakistan		
Current account	**3,245**	7,529
Mandatory reserves	**55,643**	132,867
	58,888	140,396
Balances with Central Bank of Bahrain		
Current account	**9,119**	5,165
Mandatory reserves	**17,382**	26,836
	26,501	32,001
Balances with other banks and financial institutions	**165,139**	135,930
	294,877	344,747

The mandatory reserves with central banks are not available for use in the day-to-day operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. RECEIVABLES

	2020			2019		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Commodities and Wakala with FIs	-	161,018	161,018	-	11,603	11,603
Salam financing	-	61,202	61,202	-	96,164	96,164
Istisna'a financing	-	133,087	133,087	-	113,499	113,499
Murabaha	1,418	248,050	249,468	2,006	226,692	228,698
Bills receivable and others	-	34,040	34,040	-	72,613	72,613
Gross receivables	1,418	637,397	638,815	2,006	520,571	522,577
Deferred profits (4.1)	(54)	(18,191)	(18,245)	(54)	(20,063)	(20,117)
	1,364	619,206	620,570	1,952	500,508	502,460
Allowances for expected credit losses (4.2)	(372)	(62,762)	(63,134)	(372)	(52,359)	(52,731)
Net receivables	992	556,444	557,436	1,580	448,149	449,729

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 expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	
Good (1-4)	160,099	21,856	-	181,955	195,627
Satisfactory (5-7)	238,789	108,445	-	347,234	235,331
Default (8-10)	-	-	91,381	91,381	71,502
	398,888	130,301	91,381	620,570	502,460

4.1 Movements in deferred profit from murabaha contracts:

	2020 US$ '000	2019 US$ '000
Deferred profit at the beginning of the year	20,117	19,611
Murabaha sales revenue during the year	223,673	379,680
Murabaha cost of sales	(216,176)	(335,330)
Profit accrued during the year	(9,369)	(37,315)
Deferred profit written off during the year	-	(698)
Deferred profit waived during the year	-	(5,831)
Deferred profit at the end of the year	18,245	20,117

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4 RECEIVABLES (continued)

4.2 Allowances for expected credit losses

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

	2020			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	928	10,217	41,586	52,731
Changes during the year:				
- transferred to Stage 1: 12 month ECL	11	(5)	(6)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(5)	6	(1)	-
- transferred to Stage 3: Lifetime ECL not credit-impaired	-	(33)	33	-
Net remeasurement of loss allowance	450	4,243	11,266	15,959
Recoveries / write-backs	-	-	(342)	(342)
	456	4,211	10,950	15,617
Reclassification from Wakala Pool	184	264	-	448
Amounts written off during the year	-	-	(4,690)	(4,690)
FX translation	(13)	(26)	(933)	(972)
Balance at 31 December	1,555	14,666	46,913	63,134

	2019			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	1,339	8,151	65,498	74,988
Changes during the year:				
- transferred to Stage 1: 12 month ECL	14	(4)	(10)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(18)	31	(13)	-
- transferred to Stage 3: Lifetime ECL not credit-impaired	(13)	(13)	26	-
Net remeasurement of loss allowance	(172)	2,379	14,488	16,695
Recoveries / write-backs	-	-	(2,114)	(2,114)
	(189)	2,393	12,377	14,581
Reclassification from Wakala Pool	(184)	(264)	-	(448)
Amounts written off during the year	-	-	(33,566)	(33,566)
FX translation	(38)	(63)	(2,723)	(2,824)
Balance at 31 December	928	10,217	41,586	52,731

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2020			2019		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Ijara Muntahia Bittamleek (5.1)	24,418	258,613	283,031	27,754	221,388	249,142
Ijara receivables (5.2)	12,272	36,200	48,472	10,027	31,404	41,431
	36,690	294,813	331,503	37,781	252,792	290,573
Allowance for expected credit losses (5.3)	(382)	(9,611)	(9,993)	(119)	(7,745)	(7,864)
	36,308	285,202	321,510	37,662	245,047	282,709

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 expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	
Good (1-4)	291,116	230	-	291,346	237,221
Satisfactory (5-7)	5,279	8,269	-	13,548	25,483
Default (8-10)	-	-	26,609	26,609	27,869
	296,395	8,499	26,609	331,503	290,573

5.1 Ijara muntahia bittamleek

	2020			2019		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	-	331,741	331,741	-	294,557	294,557
Accumulated depreciation	-	(74,916)	(74,916)	-	(74,783)	(74,783)
Net book value	-	256,825	256,825	-	219,774	219,774
Equipment						
Cost	42,090	1,174	43,264	43,500	1,136	44,636
Accumulated depreciation	(17,672)	(965)	(18,637)	(15,746)	(587)	(16,333)
Net book value	24,418	209	24,627	27,754	549	28,303
Others						
Cost	-	8,240	8,240	-	6,381	6,381
Accumulated depreciation	-	(6,661)	(6,661)	-	(5,316)	(5,316)
Net book value	-	1,579	1,579	-	1,065	1,065
TOTAL						
Cost	42,090	341,155	383,245	43,500	302,074	345,574
Accumulated depreciation	(17,672)	(82,542)	(100,214)	(15,746)	(80,686)	(96,432)
Net book value	24,418	258,613	283,031	27,754	221,388	249,142

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5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.1 Ijara receivables

	2020			2019		
	Self financed	Jointly financed	Total	Self financed	Jointly financed	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Ijara receivables	12,272	36,200	48,472	10,027	31,404	41,431
	12,272	36,200	48,472	10,027	31,404	41,431

5.3 Allowances for expected credit losses

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

	2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January	173	564	7,127	7,864
Changes during the year:				
- transferred to Stage 1: 12 month ECL	54	(16)	(38)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(4)	366	(362)	-
- transferred to Stage 3: Lifetime ECL not credit-impaired	-	(54)	54	-
Net remeasurement of loss allowance	671	(631)	2,367	2,407
Recoveries / write-backs	-	-	(186)	(186)
Allowances for credit losses	721	(335)	1,835	2,221
Amounts written off during the year	-	-	(2)	(2)
FX translation	-	(2)	(88)	(90)
Balance at 31 December	894	227	8,872	9,993

	2019			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January	221	754	14,032	15,007
Changes during the year:				
- transferred to Stage 1: 12 month ECL	22	(22)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(7)	7	-	-
- transferred to Stage 3: Lifetime ECL not credit-impaired	-	(271)	271	-
Net remeasurement of loss allowance	(59)	121	1,946	2,008
Recoveries / write-backs	-	-	(417)	(417)
Allowances for credit losses	(44)	(165)	1,800	1,591
Amounts written off during the year	-	-	(8,388)	(8,388)
FX translation	(4)	(25)	(317)	(346)
Balance at 31 December	173	564	7,127	7,864

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6 MUSHARAKAS

	2020			2019		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Musharakas	33,642	326,712	360,354	39,933	205,300	245,233
Allowance for expected credit losses (6.1)	-	(10,074)	(10,074)	-	(7,740)	(7,740)
	33,642	316,638	350,280	39,933	197,560	237,493

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 expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	
Good (1-4)	204,034	99,052	-	303,086	211,170
Satisfactory (5-7)	16,236	30,527	-	46,763	23,326
Default (8-10)	-	-	10,505	10,505	10,737
	220,270	129,579	10,505	360,354	245,233

6.1 Allowances for expected credit losses

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

	2020			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	1,117	1,533	5,090	7,740
Changes during the year:				
- transferred to Stage 2: Lifetime ECL not credit-impaired	(264)	264	-	-
Net remeasurement of loss allowance	827	996	1,132	2,955
Recoveries / write-backs	-	-	(379)	(379)
	563	1,260	753	2,576
FX translation	(35)	(48)	(159)	(242)
Balance at 31 December	1,645	2,745	5,684	10,074

	2019			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	1,542	1,187	4,886	7,615
Changes during the year:				
- transferred to Stage 1: 12 month ECL	68	(68)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(40)	40	-	-
Net remeasurement of loss allowance	(294)	497	1,017	1,220
Recoveries / write-backs	-	-	(309)	(309)
	(266)	469	708	911
FX translation	(159)	(123)	(504)	(786)
Balance at 31 December	1,117	1,533	5,090	7,740

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7. INVESTMENTS

	2020			2019		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
i) Debt-type instruments at fair value through statement of income						
Quoted						
Sukuk	-	3,389	3,389	-	-	-
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	475,244	277,170	752,414	279,283	27,152	306,435
Unquoted						
Sukuk	35,643	101,728	137,371	121,527	226,728	348,255
	510,887	378,898	889,785	400,810	253,880	654,690
Allowances for expected credit losses	(644)	(35)	(679)	(237)	(61)	(298)
	510,243	378,863	889,106	400,573	253,819	654,392
iii) Equity-type instruments at fair value through statement of income						
Quoted						
Listed equity shares	-	34	34	-	204	204
iv) Equity-type instruments at fair value through equity - note (Note 7.2)						
Quoted						
Listed equity shares	30,764	350	31,114	28,646	333	28,979
Unquoted						
Unlisted equity shares	63,333	327	63,660	63,333	337	63,670
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	1,636	4,342	5,978	1,636	-	1,636
	96,733	5,019	101,752	94,615	670	95,285
	(5,723)	(467)	(6,190)	(5,330)	(482)	(5,812)
	91,010	4,552	95,562	89,285	188	89,473
Total investments	601,253	386,838	988,091	489,858	254,211	744,069

Within unquoted investments which are held at fair value through equity are investments amounting to US $ 67.5 million (2019: US $ 64.0 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 US $ 892.5 million (2019: US $ 654.4 million) has a fair value amounting to US $ 893.9 million (2019: US $ 667.8 million).

Investments stated at a carrying amount of US $ 438.9 million (2019: US $ 298.7 million) are placed in custody of a financial institution to secure a financing line.

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7. INVESTMENTS (continued)

7.1 Debt-type instruments at amortised cost

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 expected credit losses allowances.

	2020				2019
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	
Good (1-4)	371,394	-	-	371,394	171,819
Satisfactory (5-7)	483,083	35,308	-	518,391	482,871
Default (8-10)	-	-	-	-	-
	854,477	35,308	-	889,785	654,690

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

	2020			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	298	-	-	298
Changes during the year:				
Net remeasurement of loss allowance	159	223	-	382
	159	223	-	382
FX translation	(1)	-	-	(1)
Balance at 31 December	456	223	-	679

	2019			
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000
Balance at 1 January	584	227	1,894	2,705
Changes during the year:				
- transferred to Stage 1: 12 month ECL	38	(38)	-	-
Net remeasurement of loss allowance	(324)	(189)	408	(105)
	(286)	(227)	408	(105)
Amounts written off during the year	-	-	(2,302)	(2,302)
Balance at 31 December	298	-	-	298

7.2 Provision for impairment on equity type investments

	2020 US$ '000	2019 US$ '000
Balance at 1 January	5,812	5,503
Charges for the year	1,193	996
Reversal for the year	(702)	(339)
Exchange difference	(113)	(348)
	6,190	5,812

Notes to the Consolidated Financial Statements

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8 INVESTMENT IN JOINT VENTURE

	2020 US$ '000	2019 US$ '000
Balance at 1 January	**14,715**	14,671
Net share of (loss) / income for the year	**(84)**	44
Balance at 31 December	**14,631**	14,715

Name	Nature of Business	Ownership 2020	Ownership 2019
Danaat Al-Baraka	Real estate development	**51.00%**	51.00%

Summarised statement of financial position

	2020 US$ '000	2019 US$ '000
Non-current assets	**44,038**	27,501
Current assets	**152**	1,545
Term liabilities	**(11,406)**	-
Current liabilities	**(4,097)**	(194)
Net assets	**28,687**	28,852
Group's ownership in equity	**14,631**	14,715
Net carrying amount	**14,631**	14,715

Summarised statement of profit and loss

	2020 US$ '000	2019 US$ '000
Total income	**1**	139
Total expenses	**(165)**	(53)
Total comprehensive (loss) / income	**(164)**	86
Group's net share of (loss) / profit	**(84)**	44

9 INVESTMENTS IN REAL ESTATE

	2020 US$ '000	2019 US$ '000
Balance at 1 January	**15,358**	5,238
Transfer from other assets	**-**	5,565
Transfer from premises and equipment	**-**	4,555
Disposals during the year	**(4,555)**	-
Unrealized loss on remeasurement	**(990)**	-
Balance at 31 December	**9,813**	15,358

Notes to the Consolidated Financial Statements

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10 PREMISES AND EQUIPMENT

	Land and Buildings US$ '000	Computer Software & license US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Total US$ '000
Cost:					
At 1 January 2020	36,687	18,190	36,018	595	91,490
Additions	495	2,834	1,030	331	4,690
Disposals	(119)	-	(595)	(160)	(874)
Exchange difference	(451)	(320)	(438)	(11)	(1,220)
At 31 December 2020	36,612	20,704	36,015	755	94,086
Accumulated depreciation:					
At 1 January 2020	5,595	13,961	24,115	524	44,195
Additions	985	1,033	2,881	59	4,958
Disposals	(74)	-	(574)	(72)	(720)
Exchange difference	(142)	(203)	(332)	(8)	(685)
At 31 December 2020	6,364	14,791	26,090	503	47,748
Net book values:					
At 31 December 2020	30,248	5,913	9,925	252	46,338
At 31 December 2020	31,092	4,229	11,903	71	47,295
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

11 GOODWILL

	2020 US$ '000	2019 US$ '000
Balances at 1 January	14,502	16,172
Foreign exchange translation	(452)	(1,670)
Balance at 31 December	14,050	14,502

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's Executive Management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. Accordingly, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

Notes to the Consolidated Financial Statements

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12 OTHER ASSETS

	2020 US$ '000	2019 US$ '000
Collaterals pending sale	**14,380**	14,889
Deferred tax (12.1)	**19,781**	22,918
Advance against capital expenditure	**6,206**	4,034
Accounts receivable	**13,570**	10,602
Advance tax	**667**	1,493
Income receivable	**358**	1,623
Prepayments	**1,753**	1,930
Others	**686**	8,697
Total	**57,401**	66,186
Provision for impairment	**(2,452)**	(2,569)
Balance at 31 December	**54,949**	63,617

12.1 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.

13 OTHER LIABILITIES

	2020 US$ '000	2019 US$ '000
Accounts payable	**13,300**	14,428
Margins received	**36,038**	37,647
Security deposit against Ijara Muntahia Bittamleek	**1,890**	3,405
Bills payable	**30,740**	20,819
Provision for employees benefits	**7,001**	5,722
Charity fund	**805**	625
Allowance for expected credit losses-unfunded facilities	**368**	770
Others	**15,269**	10,589
Balance at 31 December	**105,411**	94,005

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14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by the Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	2020	2019
	US$ '000	US$ '000
IAH - Non-banks	1,328,868	1,171,616
IAH - Banks	367,695	265,002
Profit equalisation reserve (note 14.1)	344	229
Balance at 31 December	**1,696,907**	1,436,847

14.1 Movement in profit equalisation reserve

	2020	2019
	US$ '000	US$ '000
Balance at 1 January	229	115
Amount apportioned from income allocable to equity of investment accountholders	115	114
Balance at 31 December	344	229

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to meet future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract.

As investment accountholder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2019: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US $ 14.1 million (2019: US $ 8.8 million) to equity of investment account holders for the year ended 31 December 2020.

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14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.2 Equity of Investment Accountholders by maturity

	2020 US$'000	2019 US$'000
Saving Accounts	739,187	616,732
One Month Investment Account	109,179	115,765
Three Months Investment Account	225,324	176,650
Six Months Investment Account	54,051	141,005
Nine Months Investment Account	34,305	10,544
1 Year Investment Account	475,720	310,741
2 Years Investment Account	7,548	7,975
3 Years Investment Account	33,452	39,265
4 Years Investment Account	19	22
5 Years Investment Account	18,122	18,148
	1,696,907	1,436,847

14.3 Equity of Investment Accountholders by type

	2020 US$'000	2019 US$'000
Accounts on demand	739,187	616,732
Accounts on a contractual basis *	957,720	820,115
	1,696,907	1,436,847

* These can be withdrawn subject to deduction of profit upon management discretion.

15 SUBORDINATED DEBTS

	2020 US$'000	2019 US$'000
Subordinated Mudaraba Sukuk	12,883	14,667
	12,883	14,667

Particular	Principal	Profit	Profit rate	Maturity
Al Baraka Pakistan Limited Tier 2 Sukuk first issue	Semi-Annually	Semi-Annually	6 M Kibor + 1.25%	2021
Al Baraka Pakistan Limited Tier 2 Sukuk second issue	Bullet	Semi-Annually	6 M Kibor + 0.75%	2024

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16 OWNERS' EQUITY

	2020 US$ '000	2019 US$ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2019: 6,000,000) of US$ 100 each	**600,000**	600,000
Issued and fully paid 1,364,578 ordinary shares (2019: 1,364,578) of US $ 100 each	**136,458**	136,458

Additional information on shareholding pattern:
Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

	2020		
	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	**Bahrain**	**1,255,755**	92.03%

	2019		
	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	**Bahrain**	**1,255,755**	92.03%

The Bank has only one class of shares and the holders of these shares have equal voting rights.

	2020			2019		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	outstanding shares
Less than 1%	**58,823**	**12**	**4.31%**	**58,823**	12	4.31%
1% up to less than 5%	**50,000**	**1**	**3.66%**	**50,000**	1	3.66%
	108,823	**13**	**7.97%**	**108,823**	13	7.97%

(ii) Additional Tier 1 (AT1) Capital

	2020 US$ '000	2019 US$ '000
Subordinated Mudaraba debt	**111,000**	111,000

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to USD 111 million, received from ultimate parent. Such capital was raised from time to time to ensure compliance with minimum capital requirement (MCR) and capital adequacy requirement (CAR) as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to USD 81 million against cash consideration and USD 30 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to US $ 81 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to US $ 30 million carries expected profit rate, which is 30% of the dividend or profit to be received on underlying equity investments shall be distributed to the Ultimate Parent, subject to and in accordance with terms and conditions, on an annual basis;
- the investor will not have a right to claim the profit and such event of nonpayment of profit will not be considered as event of default; and
- such instruments are recognised under equity in the consolidated statement of financial position and the corresponding profits paid to investor are accounted as appropriation of profits.

(iii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

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16 OWNERS' EQUITY (continued)

(iv) General reserve

In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(v) Cumulative changes in fair value

This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(vi) Revaluation reserve on premises and equipment

This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value.

(vii) Foreign exchange reserve

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

(viii) Employee defined benefit plan reserve

This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets.

17 CONTINGENCIES AND COMMITMENTS

	2020 US$ '000	2019 US$ '000
Letters of credit	**106,072**	63,673
Guarantees	**60,765**	56,500
Foreign exchange contracts	**201,936**	172,274
Acceptances	**11,312**	43,333
Taxation	**1,443**	1,489
Others	**80**	37
	381,608	337,306

18 INCOME FROM FINANCINGS

	2020 US$ '000	2019 US$ '000
Sales and other receivables	**46,172**	49,941
Ijarah Muntahia Bittamleek	**15,490**	16,143
Musharakas	**33,819**	35,097
	95,481	101,181

	2020 US$ '000	2019 US$ '000
Income from jointly financed financings	**85,981**	91,075
Income from self financed financings	**9,500**	10,106
	95,481	101,181

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19 INCOME FROM INVESTMENTS

	2020 US$ '000	2019 US$ '000
Yield, coupon or return on investments	42,095	36,008
Gain on sale of investments	15,950	10,383
Loss on disposal and revaluation deficit	(1,769)	120
	56,276	46,511

	2020 US$ '000	2019 US$ '000
Income from jointly financed investments	11,773	8,422
Income from self financed investments	44,503	38,089
	56,276	46,511

20 REVENUE FROM BANKING SERVICES

	2020 US$ '000	2019 US$ '000
Fees and commissions	5,981	6,294
Letters of credit and acceptances	2,220	1,908
Guarantees	522	458
	8,723	8,660

21 OTHER INCOME

	2020 US$ '000	2019 US$ '000
Foreign exchange gain - net	6,134	5,389
Others	1,072	1,031
	7,206	6,420

22 OTHER OPERATING EXPENSES

	2020 US$ '000	2019 US$ '000
Administrative expenses	6,931	6,592
Premises costs	10,366	11,039
Business expenses	13,344	11,478
General expenses	1,171	1,822
	31,812	30,931

23 ALLOWANCES FOR IMPAIRMENT - NET

	2020 US$ '000	2019 US$ '000
Receivables (note 4)	(15,617)	(14,581)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	(2,221)	(1,591)
Musharakas (note 6)	(2,576)	(911)
Investments at amortized cost (note 7)	(382)	105
Investments at fair value through equity (note 7.2)	(491)	(657)
Contingencies and commitments	(53)	252
Others	(18)	-
	(21,358)	(17,383)

Notes to the Consolidated Financial Statements

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24 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	2020 US$ '000	2019 US$ '000
Consolidated statement of financial position:		
Advance tax - net	667	1,493
Deferred tax	19,781	22,918
Consolidated statement of income:		
Current tax	(2,009)	(1,572)
Deferred tax	(2,190)	389
	(4,199)	(1,183)

25 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	2020 US$ '000	2019 US$ '000
Cash in hand	44,349	36,420
Balances with central banks (unrestricted accounts)	12,364	12,694
Balances with other banks and financial institutions	165,139	135,930
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	160,934	11,602
	382,786	196,646

26 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 Bank, Shari'a supervisory board and external auditors.

The significant balances with related parties at 31 December were as follows:

	Shareholders		Other Related Parties		Total	
Assets:	2020 US$ '000	2019 US$ '000	2020 US$ '000	2019 US$ '000	2020 US$ '000	2019 US$ '000
Cash and balances with banks and financial institutions	5	93	5,105	5,506	5,110	5,599
Receivables	-	-	17,636	194	17,636	194
Ijara Muntahia Bittamleek and Ijara receivables	-	-	-	85	-	85
Musharaka	-	-	1,717	1,623	1,717	1,623
Investments	20,197	18,361	79,036	78,621	99,233	96,982
Other assets	6,824	7,844	-	100	6,824	7,944
	27,026	26,298	103,494	86,129	130,520	112,427
Liabilities:						
Current account	12,866	6,861	30,562	33,725	43,428	40,586
Other liabilities	97	4	901	480	998	484
	12,963	6,865	31,463	34,205	44,426	41,070
Equity of investment accountholders	7,224	6,707	42,988	127,803	50,212	134,510
Off-balance sheet equity of investment accountholders	30,835	153,379	125,939	139,906	156,774	293,285
Contingencies and commitments	2	-	30,914	2,711	30,916	2,711

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26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	Shareholders		Other Related Parties		Total	
	2020	2019	**2020**	2019	**2020**	2019
	US$ '000	US$ '000	**US$ '000**	US$ '000	**US$ '000**	US$ '000
Income from jointly financed sales	**-**	-	**318**	237	**318**	237
Income from jointly financed, other financings and investments	**-**	-	**58**	537	**58**	537
Other income	**319**	320	**-**	-	**319**	320
Group's Mudarib/agency fee from off-balance sheet equity of investment accountholders	**-**	18	**42**	45	**42**	63
	319	338	**418**	819	**737**	1,157
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**21**	201	**1,727**	3,575	**1,748**	3,776
Other expenses	**-**	318	**2,324**	1,559	**2,324**	1,877
	21	519	**4,051**	5,134	**4,072**	5,653

Compensation of key management personnel is as follows:

	2020	2019
	US$ '000	US$ '000
Salaries	**4,047**	3,510
Other benefits	**1,727**	2,107
	5,774	5,617

27. WAKALA BI AL-ISTITHMAR

	2020	2019
	US$ '000	US$ '000
RECEIVABLES		
Commodities and wakala placements with FIs	**-**	141,350
Murabaha	**-**	9,052
Bills receivables	**-**	6,248
	-	156,650
Investments		
Real Estate Funds	**-**	4,655
Wakala Pool	**-**	161,305
On balance sheet jointly finance assets	**364,144**	177,397
Total wakala bi al-istithmar financed assets	**364,144**	338,702

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28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2020 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversions were used where there are no contractual terms.

	Up to 3 months US $ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US$ '000
Assets										
Cash and balances with banks and financial institutions	221,852	-	-	-	-	-	-	-	73,025	294,877
Receivables	273,687	120,568	38,518	38,184	16,919	6,693	429	702	61,736	557,436
Ijara Muntahia Bittamleek and Ijara Receivables	6,264	27,960	14,337	42,396	35,889	56,260	97,706	22,548	18,150	321,510
Musharakas	-	76,596	9,446	106,106	103,520	34,323	13,188	-	7,101	350,280
Investments	71,779	-	78,108	22,253	415,633	310,104	630	1,000	88,584	988,091
Investments in real estate	-	-	-	9,813	-	-	-	-	-	9,813
Investment in Joint Venture	-	-	-	-	-	-	-	-	14,631	14,631
Premises and equipment	-	-	-	-	-	-	-	-	46,338	46,338
Goodwill	-	-	-	-	-	-	-	-	14,050	14,050
Other assets	17,379	2,782	1,952	7,245	20,881	21	-	-	4,689	54,949
Total assets	590,961	227,906	142,361	225,997	592,842	407,401	111,953	24,250	328,304	2,651,975
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY										
Current accounts	384,137	-	-	-	-	-	-	-	-	384,137
Murabaha and other payables	28,380	87,097	28,332	41,400	-	-	-	-	-	185,209
Other liabilities	101,820	2,377	374	840	-	-	-	-	-	105,411
Total liabilities	514,337	89,474	28,706	42,240	-	-	-	-	-	674,757
Equity of investment accountholders	895,910	151,958	318,639	161,664	82,500	64,677	21,559	-	-	1,696,907
Subordinated debts	2,605	-	894	-	9,384	-	-	-	-	12,883
Total owners' equity	-	-	-	-	-	-	-	-	267,428	267,428
Total liabilities, Equity of investment accountholders, subordinate debts and owner's equity	1,412,852	241,432	348,239	203,904	91,884	64,677	21,559	-	267,428	2,651,975
Net gap	(821,891)	(13,526)	(205,878)	22,093	500,958	342,724	90,394	24,250	60,876	-
Cumulative net gap	(821,891)	(835,417)	(1,041,295)	(1,019,202)	(518,244)	(175,520)	(85,126)	(60,876)	-	-
Off-balance sheet equity of investment accountholders	293,903	58,819	40,992	13,682	15,811	100,000	-	-	-	523,207

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For the year ended 31 December 2020

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2019 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversions were used where there are no contractual terms.

	Up to 3 months US $ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US$ '000
Assets										
Cash and balances with banks and financial institutions	164,742	20,302	-	-	-	-	-	-	159,703	344,747
Receivables	172,065	145,032	35,954	37,176	18,695	4,486	-	-	36,321	449,729
Ijara Muntahia Bittamleek and Ijara Receivables	8,273	30,639	13,893	42,483	24,762	57,046	87,268	14,781	3,564	282,709
Musharakas	1,092	3,936	8,938	97,814	79,192	29,189	11,782	-	5,550	237,493
Investments	106,057	60,843	34,679	97,909	39,318	315,176	1,000	-	89,087	744,069
Investments in real estate	-	-	-	15,358	-	-	-	-	-	15,358
Investment in Joint Venture	-	-	-	-	-	14,715	-	-	-	14,715
Premises and equipment	-	-	-	-	-	-	-	-	47,295	47,295
Goodwill	-	-	-	-	-	-	-	-	14,502	14,502
Other assets	19,154	3,326	12,097	3,225	23,076	404	-	-	2,335	63,617
Total assets	471,383	264,078	105,561	293,965	185,043	421,016	100,050	14,781	358,357	2,214,234
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY										
Current accounts	276,882	-	-	-	-	-	-	-	-	276,882
Murabaha and other payables	71,544	15,918	-	38,000	-	-	-	-	-	125,462
Other liabilities	89,031	2,119	770	2,050	35	-	-	-	-	94,005
Total liabilities	437,457	18,037	770	40,050	35	-	-	-	-	496,349
Equity of investment accountholders	730,100	136,653	172,006	155,759	68,359	155,478	18,492	-	-	1,436,847
Subordinated debts	1,590	-	1,545	1,845	-	9,687	-	-	-	14,667
Total owners' equity	-	-	-	-	-	-	-	-	266,371	266,371
Total liabilities, Equity of investment accountholders, subordinate debts and owner's equity	1,169,147	154,690	174,321	197,654	68,394	165,165	18,492	-	266,371	2,214,234
Net gap	(697,764)	109,388	(68,760)	96,311	116,649	255,851	81,558	14,781	91,986	-
Cumulative net gap	(697,764)	(588,376)	(657,136)	(560,825)	(444,176)	(188,325)	(106,767)	(91,986)	-	-
Off-balance sheet equity of investment accountholders	273,248	194,712	27,504	3,784	31,451	100,000	-	-	11,772	642,471

Notes to the Consolidated Financial Statements

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28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

COVID-19

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 LCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECl provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And 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.

Net stable funding Ratio (NSFR)

In August 2018, the Central Bank of Bahrain (CBB) issued its regulations on Liquidity Risk Management (LM). Amongst other things, the LM regulations mandate banks to implement NSFR by end of December 2019. The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

The Consolidated NSFR for Group, calculated as per the requirements of the CBB rulebook, as of 31 December is as follows*:

	2020 US$ '000	2019 US$ '000
Total Available Stable Funding	1,572,390	1,392,816
Total Required Stable Funding	824,815	627,417
Net Stable Funding Ratio (NSFR)	191%	222%
Minimum NSFR	100%	100%

*Further details on the NSFR are available on the Group's website under "Basel Disclosures" section

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The policies and procedures to manage displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Notes to the Consolidated Financial Statements

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28 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign exchange risk (continued)
Following is the Group's exposure to different currencies in equivalent US dollars:

	2020 US$ '000
Pakistani Rupees	**68,607**
Euro	**(2,706)**
Kuwaiti Dinars	**53**
Pound Sterling	**(3,832)**
Egyptian Pound	**4,063**
Algerian Dinar	**6,000**
Others	**490**

	2019 US$ '000
Pakistani Rupees	86,528
Euro	(1,798)
Kuwaiti Dinars	2,258
Egyptian Pound	3,396
Algerian Dinar	6,000
Pound Sterling	(5,229)

The strategic currency risk represents the amount of equity of the subsidiary.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on equity and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency 2020	**Particular**	**Change**	**Exposures in US $ '000**	**Effect on equity/ Income Statement in US $ '000**
Pakistani Rupees	Net long Position	**20.00%**	**68,607**	**13,721**
Euro	Net long Position	**20.00%**	**(2,706)**	**(541)**
Kuwaiti Dinars	Net long Position	**20.00%**	**53**	**11**
Pound Sterling	Net long Position	**20.00%**	**(3,832)**	**(766)**
Egyptian Pound	Net long Position	**20.00%**	**4,063**	**813**
Algerian Dinar	Net long Position	**20.00%**	**6,000**	**1,200**

Currency 2019	Particular	Change	Exposures in US $ '000	Effect on equity/ Income Statement in US $ '000
Pakistani Rupees	Net long Position	20.00%	86,528	17,306
Euro	Net Short Position	20.00%	(1,798)	(360)
Kuwaiti Dinars	Net long Position	20.00%	2,258	452
Pound Sterling	Net Short Position	20.00%	(5,229)	(1,046)
Egyptian Pound	Net long Position	20.00%	3,396	679
Algerian Dinar	Net long Position	20.00%	6,000	1,200

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28 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	Change in equity price 2020 %	Effect on equity/ Income Statement 2020 US $ '000	Change in equity price 2020 %	Effect on equity/ Income Statement 2020 US $ '000
Pakistan Stock Exchange	10%	381,921	10%	395,240
Egyptian Stock Exchange	10%	406,318	10%	339,561
Jordan Stock Exchange	10%	2,019,672	10%	1,836,065

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2020	*GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	33,802	6,102	39,904
Government	465,068	273,661	738,729
Investment companies	114,835	-	114,835
Manufacturing	-	77,293	77,293
Real estate	3,164	1,342	4,506
Others	10,125	2,699	12,824
	626,994	361,097	988,091

31 December 2019	*GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	40,791	6,101	46,892
Government	453,910	66,605	520,515
Investment companies	82,272	-	82,272
Manufacturing		76,719	76,719
Real estate	5,377	-	5,377
Others	-	12,294	12,294
	582,350	161,719	744,069

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

c) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

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.

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28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

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.

Type of credit risk

Financing contracts mainly comprise Sales receivable, Istisna'a receivable, Musharaka and Ijara Muntahia Bittamleek.

Sales receivable

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Istisna'a receivable

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Maximum Exposure to Credit Risk	
	2020	2019
	US$ '000	US$ '000
Receivables	**557,436**	449,729
Musharakas	**350,280**	237,493
Ijara Muntahia Bittamleek and Ijara receivables	**321,510**	282,709
Investments at amortized cost	**889,106**	654,392
Balances with banks and financial institutions	**250,528**	308,327
Other assets	**12,828**	22,852
Contingencies and commitments	**380,086**	335,780
	2,761,774	2,291,282

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28 RISK MANAGEMENT (continued)
c) Credit risk (continued)

Credit quality by type of Islamic financing contracts
The table below shows the credit quality by type of Islamic financing contracts, based on the Group's quality of assets. The balances presented are gross of impairment provision.

	31 December 2020			
Type of Islamic Financing Contract	Neither past due nor non performing	Past due but performing	Non performing Islamic financing contracts	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	511,921	17,268	91,381	620,570
Musharakas	347,569	2,280	10,505	360,354
Ijara Muntahia Bittamleek and Ijara receivables	304,481	413	26,609	331,503
	1,163,971	19,961	128,495	1,312,427

	31 December 2019			
Type of Islamic Financing Contract	Neither past due nor non performing	Past due but performing	Non performing Islamic financing contracts	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	391,375	39,583	71,502	502,460
Musharakas	232,586	1,910	10,737	245,233
Ijara Muntahia Bittamleek and Ijara receivables	262,393	311	27,869	290,573
	886,354	41,804	110,108	1,038,266

Aging analysis of past due but performing Islamic financing contracts

	31 December 2020			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
Type of Islamic Financing Contract	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	4,045	1,716	11,507	17,268
Musharakas	1,874	224	182	2,280
Ijara Muntahia Bittamleek and Ijara receivables	385	15	13	413
	6,304	1,955	11,702	19,961

	31 December 2019			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
Type of Islamic Financing Contract	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	23,247	2,498	13,838	39,583
Musharakas	1,558	283	69	1,910
Ijara Muntahia Bittamleek and Ijara receivables	210	100	1	311
	25,015	2,881	13,908	41,804

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

28. RISK MANAGEMENT (Continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

	31 December 2020				
	3-6 Months	6-12 Months	1-3 Years	3 Years & Above	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	29,663	1,615	31,647	28,456	91,381
Musharakas	788	1,485	5,350	2,882	10,505
Ijara Muntahia Bittamleek and Ijara receivables	2,981	39	15,046	8,543	26,609
	33,432	3,139	52,043	39,881	128,495

	31 December 2019				
	3-6 Months	6-12 Months	1-3 Years	3 Years & Above	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	23,325	12,075	19,072	17,030	71,502
Musharakas	1,771	4,893	1,251	2,822	10,737
Ijara Muntahia Bittamleek and Ijara receivables	10,590	2,227	10,193	4,859	27,869
	35,686	19,195	30,516	24,711	110,108

Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1. Hamish Jiddiyyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.

2. Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.

3. Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

   Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

4. Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

5. Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2020

28. RISK MANAGEMENT (Continued)

Credit Quality
Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

d) Operational risk
In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes and the use of internal audit to prevent and detect risks. While these risks cannot be completely eliminated, the operational risk department has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment. As of 31 December 2020, the Group did not have any significant issues relating to operational risks.

The Group categorises operational risk loss events into the following categories:

Infrastructure risks
Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information technology risks
The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Staff risk
The main risks that might arise from staff risks are risks due to fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

29. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

The distribution by geographic region and industry sector was as follows:

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
Geographical region	**2020**	2019	**2020**	2019	**2020**	2019
	US$ '000	US$ '000	**US$ '000**	US$ '000	**US$ '000**	US$ '000
Middle East	**1,376,288**	1,125,946	**246,907**	159,653	**656,173**	577,223
Europe	**53,081**	28,806	**2,148**	7,087	**56**	9,181
Asia	**1,125,309**	970,198	**343,649**	258,943	**750,955**	670,201
Others	**97,297**	89,284	**94,936**	85,333	**289,723**	180,242
	2,651,975	2,214,234	**687,640**	511,016	**1,696,907**	1,436,847

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
Industry sector	**2020**	2019	**2020**	2019	**2020**	2019
	US$ '000	US$ '000	**US$ '000**	US$ '000	**US$ '000**	US$ '000
Trading and manufacturing	**405,357**	368,287	**64,699**	56,124	**190,212**	124,152
Banks and financial institutions	**996,263**	1,064,394	**280,216**	191,563	**434,469**	320,944
Construction	**28,415**	25,080	**9,279**	10,673	**12,395**	5,599
Others	**1,221,940**	756,473	**333,446**	252,656	**1,059,831**	986,152
	2,651,975	2,214,234	**687,640**	511,016	**1,696,907**	1,436,847

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of investments are disclosed in note 7 to these financial statements. However, a certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. 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 consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

	Middle East		Other Asian Countries	
Geographical region	**2020**	2019	**2020**	2019
	US$ '000	US$ '000	**US$ '000**	US$ '000
Assets	**1,463,023**	1,200,709	**1,188,952**	1,013,525
Liabilities, equity of investment accountholders, and Subordinated debt	**1,291,857**	1,017,443	**1,092,690**	930,420
Total income	**51,323**	46,116	**50,946**	42,807
Total operating expenses	**(35,631)**	(33,166)	**(33,602)**	(34,085)
Net operating income	**15,692**	12,950	**17,344**	8,722
Provision for impairment - net and write back of written off	**(11,899)**	(7,398)	**(9,358)**	(7,973)
Taxation	**-**	-	**(4,199)**	(1,183)
Income for the year	**3,793**	5,552	**3,787**	(434)

32. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

33. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. 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 31 December 2020 is 190.64%.

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

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity*	*Less than 6 months*	*More than 6 months and less than one year*	*Over one year*	*Total weighted value*
Available Stable Funding (ASF):	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Capital:	**196,105**	**-**	**-**	**11,913**	**208,018**
Regulatory Capital	196,105	-	-	-	196,105
Other Capital Instruments	-	-	-	11,913	11,913
Retail deposits and deposits from small business customers:	**-**	**936,194**	**37,138**	**28,663**	**905,345**
Stable deposits	-	13,671	1	-	12,989
Less stable deposits	-	922,523	37,136	28,663	892,356
Wholesale funding:	**-**	**997,218**	**178,485**	**13,319**	**345,893**
Operational deposits	-	-	-	-	-
Other wholesale funding	-	997,218	178,485	13,319	345,893
Other liabilities:	**-**	**-**	**-**	**113,134**	**113,134**
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	113,134	113,134
Total ASF	**196,105**	**1,933,412**	**215,623**	**167,029**	**1,572,390**

Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	744,768	-	-	-	40,910
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	-	259,290	10,256	33,850	77,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (Continued)

Item	*Unweighted Values (i.e. before applying relevant factors)*				
	No specified maturity	*Less than 6 months*	*More than 6 months and less than one year*	*Over one year*	*Total weighted value*
Required Stable Funding (RSF):	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	350,347	95,141	525,509	222,744
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which: With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	113,617	73,851
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange- traded equities	-	2,518	34,259	33,629	49,200
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	179,505	-	-	-	179,505
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	171,464	-	-	-	171,464
OBS items	**185,381**	**-**	**-**	**-**	**9,269**
Total RSF	**1,281,118**	**612,155**	**139,656**	**706,606**	**824,815**
NSFR (%)					**190.64%**

Supplementary Financial Information

at 31 December 2020

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

Supplementary Disclosures to the Consolidated Financial Statements

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

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

- Payment holiday for 6 months to eligible customers free of any additional profit;
- 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		
Item	*Consolidated income statement*	*Consolidated statement of financial position*	*Consolidated Statement of Changes in Owner's Equity*
	US$ '000	**US$ '000**	**US$ '000**
Modification loss	-	(8,835)	(8,835)
Amortization of Modification Loss	8,835	8,835	8,835
Government Grant	-	-	1,914
Concessionary REPO(matured during the period)	-	79,576	-
Average Reduction In Reserves	-	11,262	-
ECLs attributable to COVID-19	(2,304)	(2,304)	(2,304)

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.

Basel III, Pillar III Disclosures

for the year ended 31 December 2020

Content

Additional Public Disclosures

31 December 2020

1 INTRODUCTION

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 Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing 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.

For details on the Group's subsidiary as of 31 December 2020, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated as per the requirement of the CA Module. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the consolidated financial statements of the Group.

Additional Public Disclosures

31 December 2020

2 CAPITAL ADEQUACY

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2020			31 December 2019		
	CET 1 US$ '000	AT1 US$ '000	T2 US$ '000	CET 1 US$ '000	AT1 US$ '000	T2 US$ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	136,458	-	-	136,458	-	-
General reserves	8,687	-	-	8,687	-	-
Statutory reserves	23,831	-	-	23,228	-	-
Retained earnings	(15,844)	-	-	(17,681)	-	-
Current cumulative net income/ (losses)	3,462	-	-	936	-	-
Unrealized gains and losses on available for sale financial instruments	1,121	-	-	(1,645)	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(36,345)	-	-	(34,720)	-	-
Other reserves	(94)	-	-	(59)	-	-
Total CET1 capital before minority interest	121,276	-	-	115,204	-	-
Minority interest in banking subsidiaries	13,471	-	-	13,267	-	-
Total CET1 capital prior to regulatory adjustments	134,747	-	-	128,471	-	-
Less:						
Goodwill	31,133	-	-	31,585	-	-
Intangible other than mortgage servicing rights	6,039	-	-	4,230	-	-
Deferred tax assets	11,575	-	-	15,314	-	-
Total CET 1 capital after the regulatory adjustments above (CET 1a)	86,000			77,342	-	-
Other Capital (AT1 & T 2)						
Instruments issued by parent company	-	111,000	-	-	111,000	-
Instruments issued by banking subsidiaries to third parties	-	132	4,541	-	145	7,348
Expected Credit Losses (ECL) Stages 1 & 2	-	-	7,303		-	6,240
Total Available AT1 & T2 Capital		111,132	11,844	-	111,145	13,588
Total CET 1 Capital	86,000	-	-	77,342	-	-
Total T1 Capital	-	197,132	-	-	188,487	-
Total Capital	-	-	208,976	-	-	202,075

Table – 2. Capital requirement by type of islamic financing contracts

The following table summarises the capital requirements by type of islamic financing contracts:

	31 December 2020 Capital requirements US$ '000	31 December 2019 Capital requirements US$ '000
Type of islamic financing contracts		
Receivables	16,954	16,347
Ijara Muntahia Bittamleek & Ijara receivables	8,399	7,354
Musharaka	15,421	11,799
	40,774	35,500

Additional Public Disclosures

31 December 2020

2. CAPITAL ADEQUACY (Continued)

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2020		31 December 2019	
	Self Financed US$ '000	Financed by IAH US$ '000	Self Financed US$ '000	Financed by IAH US$ '000
Market risk - standardised approach	238	-	-	-
Price risk	6,337	-	8,468	-
Total CET1 capital before minority interest	6,575	-	8,468	-
Multiplier	12.50	12.50	12.50	12.50
	82,188	-	105,850	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	100%
Risk Weighted Exposures ("RWE") for CAR Calculation	82,188	-	105,850	-
Total market RWE	-	82,188	-	105,850
	-	12.50%	-	12.50
Minimum capital requirement	-	10,273	-	13,231

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of:

	31 December 2020 US$ '000	31 December 2019 US$ '000
Indicators of operational risk		
Average gross income	83,314	79,595
Multiplier	12.5	12.5
	1,041,425	994,938
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	156,214	149,241
	12.50%	12.50%
Minimum capital requirement	19,527	18,655

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2020			31 December 2019		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	25.41%	23.97%	10.46%	23.86%	22.25%	9.13%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	17.63%	15.09%	12.19%	21.42%	16.51%	13.54%
Itqan Capital Company	24.40%	24.40%	24.40%	26.91%	26.91%	26.91%

** Minimum required by CBB regulations under Basel III*
***The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.*

Additional Public Disclosures

31 December 2020

2. CAPITAL ADEQUACY (Continued)

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))

The following table summarises the distribution of ownership of shares by nationality/ incorporation as of:

	31 December 2020			31 December 2019		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	12.90%	9.70%	9.70%	13.34%	10.63%	10.63%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%

3. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.es.

a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

a) Credit risk (continued)

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2020				31 December 2019			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US$ '000	*Average gross exposure over the period US$ '000	Total gross credit exposure US$ '000	*Average gross credit risk exposure over the period US$ '000	Total gross credit exposure US$ '000	*Average gross credit exposure over the period US$ '000	Total gross credit exposure US$ '000	*Average gross credit exposure over the period US$ '000
Funded exposure								
Cash and balances with banks and financial institutions	192,379	116,897	104,000	272,691	63,986	96,670	281,217	163,984
Receivables	992	1,359	552,018	492,310	1,579	1,837	444,055	539,635
Ijara Muntahia Bittamleek and Ijara receivables	36,307	37,032	285,202	268,347	37,662	35,413	245,047	244,486
Musharaka	33,642	32,911	316,638	249,832	39,933	40,944	197,561	201,799
Investments	575,499	518,423	386,839	300,054	464,767	431,445	254,236	222,825
Investment in real estate	11,562	15,542	-	-	17,159	12,141	-	-
Premises and equipment	47,363	45,805	-	-	48,553	56,360	-	-
Funded exposure	3,870	15,311	52,210	52,917	51,341	58,969	14,731	22,641
Contingencies and commitments	178,150	152,637	-	-	163,505	156,322	-	-
	1,079,764	935,917	1,696,907	1,636,151	888,485	890,101	1,436,847	1,395,370

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2020				31 December 2019			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US$ '000	Other Asian countries US$ '000	Middle East US$ '000	Other Asian countries US$ '000	Middle East US$ '000	Other Asian countries US$ '000	Middle East US$ '000	Other Asian countries US$ '000
Cash and balances with banks	6,390	160,177	110,435	19,377	-	92,762	62,544	189,898
Receivables	992	-	332,866	219,152	1,579	-	188,764	255,291
Ijara Muntahia Bittamleek and Ijara receivables	36,307	-	282,122	3,080	37,662	-	239,018	6,030
Musharaka	-	33,642	-	316,638	-	39,933	-	197,561
Investments	388,643	186,856	208,382	178,457	297,629	138,363	267,796	15,216
Investment in real estate	11,562	-	-	-	17,159	-	-	-
Premises and equipment	31,382	15,980	-	-	31,453	17,101	-	-
Other assets	520	29,162	14,020	12,378	4,529	46,810	14,670	59
	475,796	425,817	947,825	749,082	390,011	334,969	772,792	664,055

** 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.*

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2020				31 December 2019			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Cash items	37,901	-	6,448	-	17,351	-	19,069	-
Claims on Sovereigns	478,797	11	495,288	-	290,139	-	501,675	-
Claims on Public Sector Entities	169,627	-	27,161	-	137,613	-	11,367	-
Claims on banks	87,662	40,571	223,829	-	98,870	40,577	73,432	-
Claims on corporate	21,229	137,562	456,117	-	20,673	122,922	449,710	-
Mortgage	-	-	284,936	-	-	-	228,798	-
Past dues receivables	992	6	46,290	-	1,579	6	55,609	-
Regulatory Retail Portfolio	-	-	119,479	-	-	-	91,699	-
Equity investment	34,054	-	246	-	31,553	-	392	-
Investment in Funds	4,308	-	-	-	3,939	-	-	-
Holding of Real Estate	55,636	-	4,341	-	61,470	-	5,037	-
Other assets	11,410	-	32,772	-	61,795	-	59	-
	901,616	178,150	1,696,907	-	724,982	163,505	1,436,847	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

Table – 10. Credit risk – related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	31 December 2020		31 December 2019	
	Self financed		Self financed	
	Funded	Unfunded	Funded	Unfunded
	US$ '000	US$ '000	US$ '000	US$ '000
Cash and balances with bank	-	5,110	-	5,599
Receivables	-	17,636	-	194
Musharaka	-	1,717	-	1,623
Ijara Muntahia Bittamleek and Ijara Receivables	-	-	-	85
Investments	44,891	-	42,639	-
Other Assets	6,824	-	7,945	-
Contingencies and commitments	30,914	-	2,711	-
	82,629	24,463	53,295	7,501

Additional Public Disclosures
31 December 2020

3. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table – 10. Credit risk – related party transactions (Continued)
The Group's intra-group transactions are as follows:

	31 December 2020	31 December 2019
	Self financed	Self financed
	US$ '000	US$ '000
Assets		
Investment in a subsidiary	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	82,629	7,501
Contingencies and commitments		
Letters of credit	-	2,019
Acceptances	-	4,140
	-	6,159

The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gains/ losses on translation of such operations are duly reflected in a separate component of consolidated equity of the Group. The Bank is not using any hedging strategy to mitigate the impacts of fluctuation in Pakistani Rupee.

Table – 11. Credit risk – concentration of risk
The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.
The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2020:

	Funded
Counterparties *	US$ '000
Counterparty # 1	438,919
Counterparty # 2	200,154
Counterparty # 3	124,365
Counterparty # 4	100,000
Counterparty # 5	63,708
Counterparty # 6	60,889
Counterparty # 7	58,454
Counterparty # 8	52,922
Counterparty # 9	35,308
Counterparty # 10	33,658
Counterparty # 11	33,642

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2019:

	Funded
Counterparties *	US$ '000
Counterparty # 1	563,298
Counterparty # 2	140,396
Counterparty # 3	100,000
Counterparty # 4	64,167
Counterparty # 5	59,996
Counterparty # 6	56,050
Counterparty # 7	43,145
Counterparty # 8	39,936
Counterparty # 9	39,460
Counterparty # 10	33,634
Counterparty # 11	32,001
Counterparty # 12	32,884

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer. In this respect, the high risk exposure classified by the bank is as follows:

2020	Funded US$ '000
Counterparty # 1	10,000
Counterparty # 2	8,036
Counterparty # 3	3,243
Counterparty # 4	1,855
Counterparty # 5	1,331
Counterparty # 6	358
Counterparty # 7	311
Counterparty # 8	234
Counterparty # 9	176
Counterparty # 10	167
Counterparty # 11	121
Counterparty # 12	99
Counterparty # 13	83
Counterparty # 13	55
Counterparty # 15	71
Counterparty # 16	43
Counterparty # 17	7
Counterparty # 18	4
Counterparty # 19	1

2019	US$ '000
Counterparty # 1	12,999
Counterparty # 2	38
Counterparty # 3	7
Counterparty # 4	221

Table – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2020					31 December 2019				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing	Non-performing Islamic financing contracts	90 days to 1 year	1 year to 3 years	Over 3 years	Past due but performing	Non-performing Islamic financing contracts	90 days to 1 year	1 year to 3 years	Over 3 years
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Banks	-	-	-	-	-	262	-	-	-	-
Corporates	19,423	93,285	12,571	46,098	34,616	31,203	68,793	36,337	16,844	15,612
Individuals	538	13,317	2,107	5,944	5,266	3,746	30,360	12,802	12,079	5,479
Others	-	21,893	21,893	-	-	6,593	10,954	5,741	1,591	3,622
	19,961	128,495	36,571	52,042	39,882	41,804	110,107	54,880	30,514	24,713

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table – 14. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2020:

	Specific allowances						
	Opening Balance	Charges during the year	Transit in Stage3 during the year	Write-Back during the year	Write-offs during the year	Exchange difference on opening balance	Balance at the end of the year
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Corporates	40,142	8,606	(286)	(103)	(4,690)	(841)	42,828
Individuals	4,444	3,432	(35)	(355)	(2)	(84)	7,400
Others	8,118	2,727	-	(449)	-	(253)	10,143
	52,704	14,765	(321)	(907)	(4,692)	(1,178)	60,371

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2019:

	Specific allowances						
	Opening Balance	Charges during the year	Transit in Stage3 during the year	Write-Back during the year	Write-offs during the year	Exchange difference on opening balance	Balance at the end of the year
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Corporates	57,485	11,060	117	(2,121)	(23,887)	(2,512)	40,142
Investment Firms	13,287	2,130	-	-	(15,410)	(7)	-
Individual	5,207	2,180	157	(286)	(2,658)	(156)	4,444
Others	7,387	1,912	-	(418)	-	(763)	8,118
	83,366	17,282	274	(2,825)	(41,955)	(3,438)	52,704

Table – 15. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2020		31 December 2019	
	Non-performing Islamic financing contracts	ECL for Stage 3	Non-performing Islamic financing contracts	ECL for Stage 3
	US$ '000	US$ '000	US$ '000	US$ '000
Middle East	65,714	17,096	50,147	16,044
Other Asian countries	62,780	44,372	59,960	36,660
	128,494	61,468	110,107	52,704

Table – 16. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2020	31 December 2019
	Self financed	Self financed
	US$ '000	US$ '000
Restructured Islamic financing contracts	8,141	96,388

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

The Bank provides support to its customer facing financial difficulties in the form of waiver of profits, extension of repayment dates and even in certain cases discount upon settlement of the financing facilities.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table – 17. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2020		31 December 2019	
	Gross positive FV of contracts	* Collateral held	Gross positive FV of contracts	* Collateral held
	US$ '000	US$ '000	US$ '000	US$ '000
Cash and balances with banks and financial institutions	296,380	-	345,203	-
Receivables	553,010	416,523	445,634	405,612
Ijara Muntahia Bittamleek and Ijara receivables	321,509	176,214	282,709	295,976
Musharaka	350,280	350,280	237,494	237,494
Investments	962,338	-	719,003	-
Investment in real estate	11,562	-	17,159	-
Premises and equipment	47,363	-	48,553	-
Other assets	56,080	-	66,072	-
	2,598,522	943,017	2,161,827	939,082

* Collaterals values have been restricted to outstanding exposure of financing facilities.

Table – 18. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2020		31 December 2019	
	Gross positive FV of contracts	Collateral held	Gross positive FV of contracts	* Collateral held
	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	553,010	38,310	282,710	24,577
Ijara Muntahia Bittamleek & Ijara income receivable	321,509	12,149	445,635	35,809

The Bank has obtained the insurance coverage/ guarantee received from a multilateral insurance company against a financing exposure which has been used as credit risk mitigant (CRM) during the year ending 31 December 2020. As at 01 January 2020, the CRM applied was USD 38 million which was reduced to nil as at 31 December 2020, in lieu of settlement of underlying exposure.

b) Market risk

Table – 19. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2020		31 December 2019	
	Price risk	Foreign exchange risk	Price risk	Foreign exchange risk
	US$ '000	US$ '000	US$ '000	US$ '000
RWE	2,973	79,213	-	105,848
Capital requirements (12.5%)	372	9,902	-	13,231
Maximum value of RWE	2,973	104,057	-	105,848
Minimum value of RWE	1,717	79,213	-	96,711

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

b) Market risk (continued)

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2020:

	Total gross exposure US$ '000	Average gross exposure over the period US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Managed funds	1,000	1,076	-	1,000	25
Private equity	49,706	49,982	34,422	15,284	10,021
Real estate related	19,137	15,711	-	19,137	6,968
	69,843	66,769	34,422	35,421	17,014

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2019:

	Total gross exposure US$ '000	Average gross exposure over the period US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Managed funds	1,000	1,000	-	1,000	25
Private equity	48,556	43,646	28,648	19,908	10,838
Real estate related	15,056	17,323	-	15,056	6,897
	64,612	61,969	28,648	35,964	17,760

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 3.9 million (2019: USD 4.1 million), in such portfolio, were held to generate capital gains.

Table – 21. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains during the year ended:

	2020 US$ '000	2019 US$ '000
Cummulative realised gains arising from sale or liquidation	15,951	10,383
Total unrealised gains recognised in the balance sheet but not through P&L	1,121	(1,645)
Unrealised gross gains included in Tier One Capital	1,121	(1,645)

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 3.9 million (2019: USD 4.1 million), in such portfolio, were held to generate capital gains.

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

- Availability of profitable opportunities in the market
- Key economic fundamentals and liquidity levels
- Policy interest rates promulgated by domestic and leading global monetary agencies.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

b) Market risk (continued)

Table – 22. Profit rate mismatch

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	2020				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	273,687	120,568	38,518	38,184	86,479
Ijara Muntahia Bittamleek and Ijara Income Receivables	6,264	27,960	14,337	42,396	230,553
Musharaka	-	76,596	9,446	106,106	158,132
Investments-Sukuk	65,768	-	78,108	22,253	722,978
Profit rate sensitive assets	**345,719**	**225,124**	**140,409**	**208,939**	**1,198,142**
Murabaha and other payables	28,380	87,097	28,332	41,400	-
Equity of investment accountholders	895,910	151,958	318,639	161,664	168,736
Subordinated debt	2,605	-	894	-	9,384
Profit rate sensitive liabilities	**926,895**	**239,055**	**347,865**	**203,064**	**178,120**
Profit rate gap	**(581,176)**	**(13,931)**	**(207,456)**	**5,875**	**1,020,022**
Profit rate sensitivity (200bps)	**(11,624)**	**(279)**	**(4,149)**	**118**	**20,400**

	2019				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	172,065	145,032	35,954	37,176	59,502
Ijara Muntahia Bittamleek and Ijara Income Receivables	8,273	30,639	13,893	42,483	187,421
Musharaka	1,092	3,936	8,938	97,814	125,713
Investments-Sukuk	39,296	128,303	34,679	97,909	354,205
Profit rate sensitive assets	220,726	307,910	93,464	275,382	726,841
Murabaha and other payables	71,544	15,918	-	38,000	-
Equity of investment accountholders	730,100	136,653	172,006	155,759	242,329
Subordinated debt	1,590	-	1,545	1,845	9,687
Profit rate sensitive liabilities	803,234	152,571	173,551	195,604	252,016
Profit rate gap	(582,508)	155,339	(80,087)	79,778	474,825
Profit rate sensitivity (200bps)	(11,650)	3,107	(1,602)	1,596	9,497

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba agreement with Investment accountholders. Whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against Ijara and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

b) Market risk (continued)

Table – 23. Foreign currency translation risk

Following is the Group's exposure to different currencies in equivalent US dollars:

	2020 Total equivalent US$ '000
Pakistani Rupees	68,607
Euro	(2,706)
Kuwaiti Dinars	53
Pound Sterling	(3,832)
Egyptian Pound	4,063
Algerian Dinar	6,000
Others	490

	2019 Total equivalent US$ '000
Pakistani Rupees	86,528
Euro	(1,798)
Kuwaiti Dinars	2,258
Pound Sterling	(5,229)
Egyptian Pound	3,396
Algerian Dinar	6,000

* The strategic currency risk represents the amount of equity of the subsidiary

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

Table – 24. Foreign currency risk sensitivity analysis

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owner's equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

At 31 December 2020	Particular US$ '000	Change US$ '000	Exposures in US$ '000	"Effect on profit and loss/Equity US$ '000
Pakistani rupees	Net long Position	20%	68,607	13,721
Euro	Net short Position	20%	(2,706)	(541)
Kuwaiti dinars	Net long Position	20%	53	11
Pound sterling	Net short Position	20%	(3,832)	(766)
Egyptian Pound	Net long Position	20%	4,063	813
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	490	98

At 31 December 2019	Particular US$ '000	Change US$ '000	Exposures in US$ '000	"Effect on profit and loss/Equity US$ '000
Pakistani rupees	Net long Position	20%	86,528	17,306
Euro	Net short Position	20%	(1,798)	(360)
Kuwaiti dinars	Net long Position	20%	2,258	452
Pound sterling	Net short Position	20%	(5,229)	(1,046)
Egyptian Pound	Net long Position	20%	3,396	679
Algerian Dinar	Net long Position	20%	6,000	1,200

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by Equity of IAH to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Investment in Shari' a compliant opportunities;

b) Targeted returns;

c) Compliance with credit and Investment policy and overall business plan; and

d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing agreed period are entitled to income available for tenror completed by the Investor and after deducting some charges.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

The Bank constantly update its investment strategies to maintain progress with latest development in markets. In lieu of prevailing market conditions, the Bank focused on sovereigns and segments carrying relatively lower risk and avoided the segment deeply affected by spread of COVID-19 pandemic.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

Investment risk reserve

The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it’s website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges

	31 December 2020 US $ '000	31 December 2019 US $ '000
Central Bank of Bahrain		
Discrepancies in credit, risk and compliance procedures		
Discrepancies in corporate governance disclosure	-	1
Anomalies in standing orders, EFTS and other electronic channels	35	5
	35	6
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	560	189

*There was a penalty amounted to USD 1 thousand related to certain discrepancies in Corporate Governance paid subsequent to year 2018.

Non-Shari’a complaint income

The Group has received US $ 596 thousand (2019: US $ 115 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

Table – 25. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2020 US $ '000	31 December 2019 US $ '000
IAH - Non-banks	367,695	267,266
IAH - Banks	1,328,868	1,169,352
Profit equalisation reserve	344	229
	1,696,907	1,436,847

Table – 26. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2020	31 December 2019
PER to IAH (%)	0.02%	267,266
IRR to IAH (%)	Nil	229
	1,696,907	1,436,847

Table – 27. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	31 December 2020	31 December 2019
Receivables	32.53%	30.90%
Musharaka	18.66%	13.75%
Ijara Muntahia Bittamleek & Ijara income receivable	16.81%	17.05%
Investments	22.80%	17.69%
Other assets	9.21%	20.60%

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

Table – 28. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type

	31 December 2020	31 December 2020
Banks	**21.69%**	18.60%
Investment Firms	**4.22%**	3.34%
Corporates	**23.79%**	20.78%
Residentials	**42.97%**	48.93%
Others	**7.33%**	8.34%

Table – 29. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Administrative expenses charged to equity of investment accountholders	**14,061**	8,863	10,577	7,079	5,755
Share of profits earned by IAH, before transfers to/from reserves	**87,437**	84,531	69,629	71,861	61,137
Percentage share of profit earned by IAH before transfer to/from reserves	**5.37%**	6.06%	4.83%	4.73%	4.53%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**63,761**	75,287	53,151	53,553	44,558
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**3.91%**	5.40%	3.68%	3.52%	3.30%
Share of profit paid out to Bank as mudarib	**23,676**	9,244	16,477	18,308	16,579
Mudarib Fee to total Investment Profits	**27.08%**	10.94%	23.66%	25.48%	27.12%

The Bank included the service charges/ fees from credit card operations on a proportionate basis in accordance with instructions and approvals Sharia department for distribution to equity of investment account holders.

Table – 30. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the year ended:

	31 December 2020 US $ '000	31 December 2019 US $ '000	31 December 2018 US $ '000	31 December 2017 US $ '000	31 December 2016 US $ '000
Balance at 1 January	229	115	572	551	558
Amount utilized on initial implementation of FAS 30	-	-	(572)	-	-
Restated balances as on 01 January	229	115	-	551	558
Amount apportioned from income	115	114	115	-	-
Foreign exchange gain / (loss)	-	-	-	21	(7)
	344	229	115	572	551
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.13%**	0.13%	0.17%	0.00%	0.00%

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

Table – 31. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2020 US $ '000	31 December 2019 US $ '000	31 December 2018 US $ '000	31 December 2017 US $ '000	31 December 2016 US $ '000
Balance at 1 January	-	-	1,701	2,339	2,339
Amount utilized on initial implementation of FAS 30	-	-	(1,701)	-	(2,339)
Restated balances as on 01 January	-	-	-	2,339	-
Exchange difference	-	-	-	1	-
Amount apportioned to provision	-	-	-	(639)	-
	-	-	-	1,701	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	Nil	Nil	Nil	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract. :

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2019: up to 70%) as per the terms of IAH agreements.

Table – 31. Movement in investment risk reserve

The following table summarises the average rate of return over the period:

	Average 31 December 2020 Rate of return %		
	Bahrain		Pakistan
	BD	US $	
Saving Accounts	0.10%	0.10%	3.25-%
One Month Term Deposits	0.91%	0.70%	2.24-%
Three Months Term Deposits	1.61%	1.34%	2.38-%
Six Months Term Deposits	1.91%	1.52%	2.46-%
Nine Months Term Deposits	2.23%	1.82%	-
1 Year Term Deposits	2.48%	2.07%	4.05%
2 Years Term Deposits	2.53%	2.11%	5.61-%
3 Year Term Deposits	2.58%	2.21%	5.73-%
4 Years Term Deposits	2.63%	2.30%	5.58-%
5Years Term Deposits	2.68%	2.39%	6.11-%

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

	Average 31 December 2020 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.11%	0.09%	7.02%
One Month Term Deposits	0.70%	0.73%	4.98%
Three Months Term Deposits	0.88%	0.64%	5.77%
Six Months Term Deposits	1.00%	0.75%	6.01%
Nine Months Term Deposits	1.50%	0.84%	-
1 Year Term Deposits	1.21%	0.91%	9.03%
2 Years Term Deposits	1.30%	0.94%	11.43%
3 Year Term Deposits	1.92%	1.93%	11.68%
4 Years Term Deposits	-	-	11.26%
5Years Term Deposits	2.37%	1.66%	11.97%

Table – 33. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2020:

	Opening Actual Allocation	Movement	Closing Actual Allocation
	US $ '000	US $ '000	US $ '000
Cash and balances with banks	281,217	(177,217)	104,000
Receivables	444,055	107,962	552,018
Ijara Muntahia Bittamleek	245,047	40,155	285,202
Musharaka	197,561	119,077	316,638
Investments	254,236	132,603	386,839
Other assets	14,731	37,479	52,210
	1,436,847	260,059	1,696,907

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2019:

	Opening Actual Allocation	Movement	Closing Actual Allocation
	US $ '000	US $ '000	US $ '000
Cash and balances with banks	93,598	187,619	281,217
Receivables	705,617	(261,562)	444,055
Ijara Muntahia Bittamleek	250,758	(5,711)	245,047
Musharaka	223,712	(26,151)	197,561
Investments	108,593	145,643	254,236
Other assets	28,504	(13,773)	14,731
	1,410,782	26,065	1,436,847

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 30 December 2020:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	314,664	(210,664)	104,000
Receivables	491,451	60,567	552,018
Ijara Muntahia Bittamleek	251,477	33,725	285,202
Musharaka	274,763	41,875	316,638
Investments	232,878	153,961	386,839
Other assets	45,871	6,339	52,210
	1,611,104	85,803	1,696,907

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 30 December 2019:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	107,988	173,229	281,217
Receivables	571,596	(127,541)	444,055
Ijara Muntahia Bittamleek	241,195	3,852	245,047
Musharaka	191,991	5,570	197,561
Investments	242,227	12,009	254,236
Other assets	27,486	(12,755)	14,731
	1,382,483	54,364	1,436,847

Table – 31. Movement in investment risk reserve

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US $ '000	%age	US $ '000	%age
2020	**87,437**	**5.37%**	**63,761**	**3.91%**
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,553	3.52%
2016	61,137	4.53%	44,558	3.30%
2015	69,244	5.40%	51,696	4.03%

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

c) Equity of Investment Accountholders (IAH) (Continued)

Table - 35. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2020:

	RWA US $ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	**1,745**	**524**	**66**
Claims on PSEs	**2,276**	**683**	**85**
Claims on Banks	**122,123**	**36,637**	**4,580**
Claims on Corporates	**399,323**	**119,797**	**14,975**
Mortgage	**168,718**	**50,615**	**6,327**
Regulatory Retail Portfolio	**89,337**	**26,801**	**3,350**
Past due facilities	**44,969**	**13,491**	**1,686**
Investment in securities	**464**	**139**	**17**
Holding of Real Estates	**17,368**	**5,210**	**651**
Other Assets	28,346	8,504	1,063
	874,669	**262,401**	**32,800**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2019:

	RWA US $ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	51,130	15,339	1,917
Claims on PSEs	715	215	27
Claims on Banks	29,389	8,817	1,102
Claims on Corporates	369,431	110,829	13,854
Mortgage	133,956	40,187	5,023
Regulatory Retail Portfolio	67,724	20,317	2,540
Past due facilities	56,439	16,932	2,117
Investment in securities	644	193	24
Holding of Real Estates	20,150	6,045	756
Other Assets	59	18	2
	729,637	218,892	27,362

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 36. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products

	31 December 2020	31 December 2020
Wakala Bi Al-Istithmar Pool		
Receivables	-	97.11%
Investments	-	2.89%
*On balance sheet jointly finanaced assets**		
Others		
Receivables	85.73%	46.83%
Investments	14.27%	53.17%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Table – 37. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	31 December 2020	31 December 2020
Wakala Bi Al-Istithmar Pool		
Banks	-	91.34%
Corporate	-	8.66%
*On balance sheet jointly finanaced assets**		
Others		
Banks	22.86%	16.59%
Corporate	62.87%	32.92%
Sovereigns	14.27%	50.49%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

d) Off-balance sheet equity of Investment Accountholders (Continued)

Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 31 December 2020:

	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Wakala Bi Al-Istithmar Pool			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,305	(161,305)	
*On balance sheet jointly finanaced assets**	177,397	186,747	364,143
	177,397	186,747	364,143
Others			
Receivables	142,262	(5,904)	136,357
Investments	161,509	(138,803)	22,705
	303,771	(144,707)	159,062
	642,473	(119,265)	523,205

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2019:

	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Wakala Bi Al-Istithmar Pool			
Receivables	-	156,650	156,650
Investments	-	4,655	4,655
	-	161,304	161,304
*On balance sheet jointly finanaced assets**	325,763	(148,366)	177,397
	325,763	(148,366)	177,397
Others			
Receivables	77,236	65,026	142,262
Investments	9,522	151,987	161,509
	86,758	217,013	303,771
	412,521	229,951	642,472

Additional Public Disclosures

31 December 2020

3. RISK MANAGEMENT (Continued)

d) Off-balance sheet equity of Investment Accountholders (Continued)

Table – 39. Off-balance sheet equity of Investment Accountholders historical returns

The following table summarises the historical returns over the past five year:

	December 2020 US$ '000	December 2019 US$ '000	December 2018 US$ '000	December 2017 US$ '000	December 2016 US$ '000	December 2015 US$ '000
Gross Income	17,153	23,830	1,175	1,491	1,810	1,782
Mudarib Fee	(3,821)	(11,563)	91	105	118	77

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

   i) Ensure diversification of funding by origin and by term structure. For example, guarding against concentration of funding by individuals, groups, type of instruments, geography, term/maturity, and currencies etc., Where concentrations occur, the Bank manage their assets and liquidity profile to mitigate the risk; and

   ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments.

Additional Public Disclosures
31 December 2020

3. RISK MANAGEMENT (Continued)

e) Liquidity risk (Continued)

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2020	31 December 2020
Liquid assets to total assets	17.19%	16.09%
Short term assets to short term liabilities	48.00%	56.14%

Table – 41. Quantitative indicators of financial performance and position

	December 2020* US$ '000	December 2019 US$ '000	December 2018 US$ '000	December 2017 US$ '000	December 2016 US$ '000	December 2015 US$ '000
Return on average equity	2.8%	2.0%	-8.2%	-2.7%	1.2%	3.5%
Return on average assets	0.3%	0.2%	-0.8%	-0.2%	0.1%	0.3%
Cost to Income Ratio	67.7%	75.6%	82.8%	103.1%	82.5%	88.5%

* Return based on total income and equity (including non-controlling interest)

4. OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

Subject to the provisions thereof, deposits held with the Bahrain office of Al Baraka Islamic Bank B.S.C.(c) are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2020 financial year. The AGM has approved the reappointment of the external auditor for the year 2020 on 24 February 2020 and the related regulatory approval were taken.

For the year 2020, annual audit and quarterly review services amounted to US$ 176,658 and other non-audit services amounted to US$ 54,775.

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation

At 31 December 2020

	Common Disclosure Template	PIRI	Reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	136,458	E
2	Retained earnings	(12,381)	G
3	Accumulated other comprehensive income (and other reserves)	(2,797)	H-L
4	Not applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	13,471	N
6	**Common Equity Tier 1 capital before regulatory adjustments**	**134,751**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	31,132	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	6,039	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	10,354	C1
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	1,221	C2
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**48,746**	
29	**Common Equity Tier 1 capital (CET1)**	**86,005**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	111,000	F
31	of which: classified as equity under applicable accounting standards	111,000	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	132	O
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**111,132**	

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation

At 31 December 2020

	Common Disclosure Template	PIRI	Reference
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	
44	**Additional Tier 1 capital (AT1)**	**111,132**	
45	Hair Cut due to shortage in CET-1 Capital	-	
46	**Net Available Capital after regulatory adjustments and haircut**	**111,132**	
47	**Tier 1 capital (T1 = CET1 + AT1)**	**197,137**	
	Tier 2 capital: instruments and provisions		
48	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
49	Directly issued capital instruments subject to phase out from Tier 2	-	
50	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	4,541	D
51	of which: instruments issued by subsidiaries subject to phase out	-	
52	Assets revaluation reserve - property, plant, and equipment	-	P
53	Provisions	12,286	Q
54	**Tier 2 capital before regulatory adjustments**	**16,827**	
	Tier 2 capital: regulatory adjustments		
55	Investments in own Tier 2 instruments	-	
56	Reciprocal cross-holdings in Tier 2 instruments	-	
57	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
58	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
59	National specific regulatory adjustments	-	
60	**Total regulatory adjustments to Tier 2 capital**	**-**	
61	**Tier 2 capital (T2)**	**16,827**	
62	**Total capital (TC = T1 + T2)**	**213,964**	
63	**Total risk weighted assets**	**822,555**	
	Capital ratios and buffers		
64	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.46%	
65	Tier 1 (as a percentage of risk weighted assets)	23.97%	
66	Total capital (as a percentage of risk weighted assets)	26.01%	
67	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	12.5%	
68	of which: capital conservation buffer requirement	2.5%	
69	of which: bank specific countercyclical buffer requirement	N/A	
70	of which: D-SIB buffer requirement	N/A	
71	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.0%	

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation

At 31 December 2020

	Common Disclosure Template	PIRI	Reference
	National minima including CCB (where different from Basel III)		
72	CBB Common Equity Tier 1 minimum ratio	9%	
73	CBB Tier 1 minimum ratio	10.5%	
74	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
75	Non-significant investments in the capital of other financials	-	
76	Significant investments in the common stock of financials	-	
77	Mortgage servicing rights (net of related tax liability)	-	
78	Deferred tax assets arising from temporary differences (net of related tax liability)	8,722	
	Applicable caps on the inclusion of provisions in Tier 2		
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12,286	Q
80	Cap on inclusion of provisions in Tier 2 under standardised approach	7,303	
81	N/A		
82	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
83	Current cap on CET1 instruments subject to phase out arrangements	-	
84	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
85	Current cap on AT1 instruments subject to phase out arrangements	-	
86	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
87	Current cap on T2 instruments subject to phase out arrangements	-	
88	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

CBB - Composition of Capital Disclosure Requirements

Statement of Financial Position

Appendix PD-2, Step-1

	As per published financial statements 31 December 2020 US $ '000	As per Consolidated PIRI Return 31 December 2020 US $ '000
Assets		
Cash and balances with banks and financial institutions	294,877	296,380
Receivables	557,436	569,234
Ijara Muntahia Bittamleek &I jara receivables	321,510	322,630
Musharaka	350,280	354,670
Investments	988,091	948,378
Investments in real estate	9,813	11,562
Investment in joint venture & associates	14,631	14,639
Premises and equipment	46,338	47,363
Goodwill	14,050	31,132
Other assets	54,949	56,079
Total Assets	**2,651,975**	**2,652,067**
Liabilities		
Current accounts	384,137	384,137
Murabaha and other payables	185,209	185,209
Other liabilities	105,411	109,018
Total liabilities	**674,757**	**678,364**
Equity of Investment Account Holders	**1,696,907**	**1,696,907**
Subordinated debt	**12,883**	**11,172**
Shareholders' Equity		
CET 1		
Share capital	**136,458**	136,458
Perpetual Tier1 capital	**111,000**	111,000
Retained earnings	**(3,502)**	(29,798)
Reserves	**(2,361)**	19,985
Total Shareholders' Equity	**241,595**	**237,645**
Non controlling interest	**25,833**	27,979
Total Liabilities, URIA and shareholders' equity	**2,651,975**	**2,652,067**

CBB - Composition of Capital Disclosure Requirements

Statement of Financial Position

Appendix PD-2, Step-2

	As per published financial statements 31 December 2020 US $ '000	As per Consolidated PIRI Return 31 December 2020 US $ '000	
Assets			
Cash and balances with banks and financial institutions	294,877	296,380	
Receivables	557,436	569,234	
Ijara Muntahia Bittamleek & Ijara income receivable	321,510	322,630	
Musharaka	350,280	354,670	
Investments carried at fair value through profit & loss	3,423	17,373	
Investments carried at amortized cost	889,106	889,760	
Investments carried at fair value through equity	95,562	41,245	
Investments in real estate	9,813	11,562	
Investment in joint venture & associates	14,631	14,639	
Premises and equipment	46,338	47,363	
of which intangibles	6,039	6,039	A
Goodwill	14,050	31,132	B
Other assets	54,949	54,858	
of which deferred tax subject to direct deduction		10,354	C1
of which deferred tax subject to threshold deduction		1,221	C2
Total Assets	**2,651,975**	**2,652,067**	
Liabilities			
Current accounts	384,137	384,137	
Murabaha and other payables	185,209	185,209	
Other liabilities	105,411	102,097	
Total liabilities	**674,757**	**671,443**	
Equity of Investment Account Holders	1,696,907	1,696,907	
Subordinated debt	12,883	11,172	
of which allowed as T2			D
Shareholders' Equity			
CET 1			
Share capital	136,458	136,458	E
Perpetual AT1 Capital	111,000	111,000	F
Accumulated losses	(3,502)	(12,381)	G
Statutory reserve	23,831	23,831	H
General reserves	8,687	8,687	I
Foreign exchange reserve	(36,345)	(36,343)	J
Revaluation reserve on investments	1,560	1,121	K
Other reserves	(94)	(93)	L
Non controlling interest	25,833	27,979	M
NCI CET1		13,471	N
NCI AT1		132	O
Tier 2			
Revaluation reserve on premises and equipment			
Expected credit losses for stage1 and stage2			
Total Shareholders' Equity			
Total Liabilities, URIA and shareholders' equity			

Name	Activities	Total Assets	Total Equity
Itqan Capital Company	Fund management and investment advisory	19,367	12,678

CBB - Composition of Capital Disclosure Requirements

Disclosure template for main features of regulatory capital instruments

Appendix PD-3

1	Issuer	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
3	Governing law(s) of the instrument	Kingdom of Bahrain	Kingdom of Bahrain	Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan	All applicable laws and regulations of the Islamic Republic of Pakistan
	Regulatory treatment					
4	Transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
5	Post-transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
6	Eligible at solo/group/group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated Mudaraba debt	Subordinated Mudaraba debt	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	136,458	81,000	30,000	3,498	9,385
9	Par value of instrument	100	Not Applicable	Not Applicable	NA	NA
10	Accounting classification	Equity	Equity	Equity	Liability - amortized cost	Bullet Payment after 7 Years
11	Original date of issuance	Various	2018	2019	2014	2017
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	Not Applicable	Perpetual	Perpetual	2021	2024
14	Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Coupons / dividends					
17	Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Fixed	Floating	Floating
18	Coupon rate and any related index	Not Applicable	Various	Various	KIBOR	6 Month Kibor + 0.75%
19	Existence of a dividend stopper	Not Applicable	Yes	Yes	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Applicable	No	No	Not Applicable	Not Applicable
22	Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative	Non-cummulative
23	Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
30	Write-down feature	Not Applicable	Yes	Yes	No	No
31	If write-down, write-down trigger(s)	Not Applicable	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation.	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation.	Not Applicable	Not Applicable
32	If write-down, full or partial	Not Applicable	Full	Full	Not Applicable	Not Applicable
33	If write-down, permanent or temporary	Not Applicable	Permanent	Permanent	Not Applicable	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities
36	Non-compliant transitioned features	Not Applicable	No	No	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable