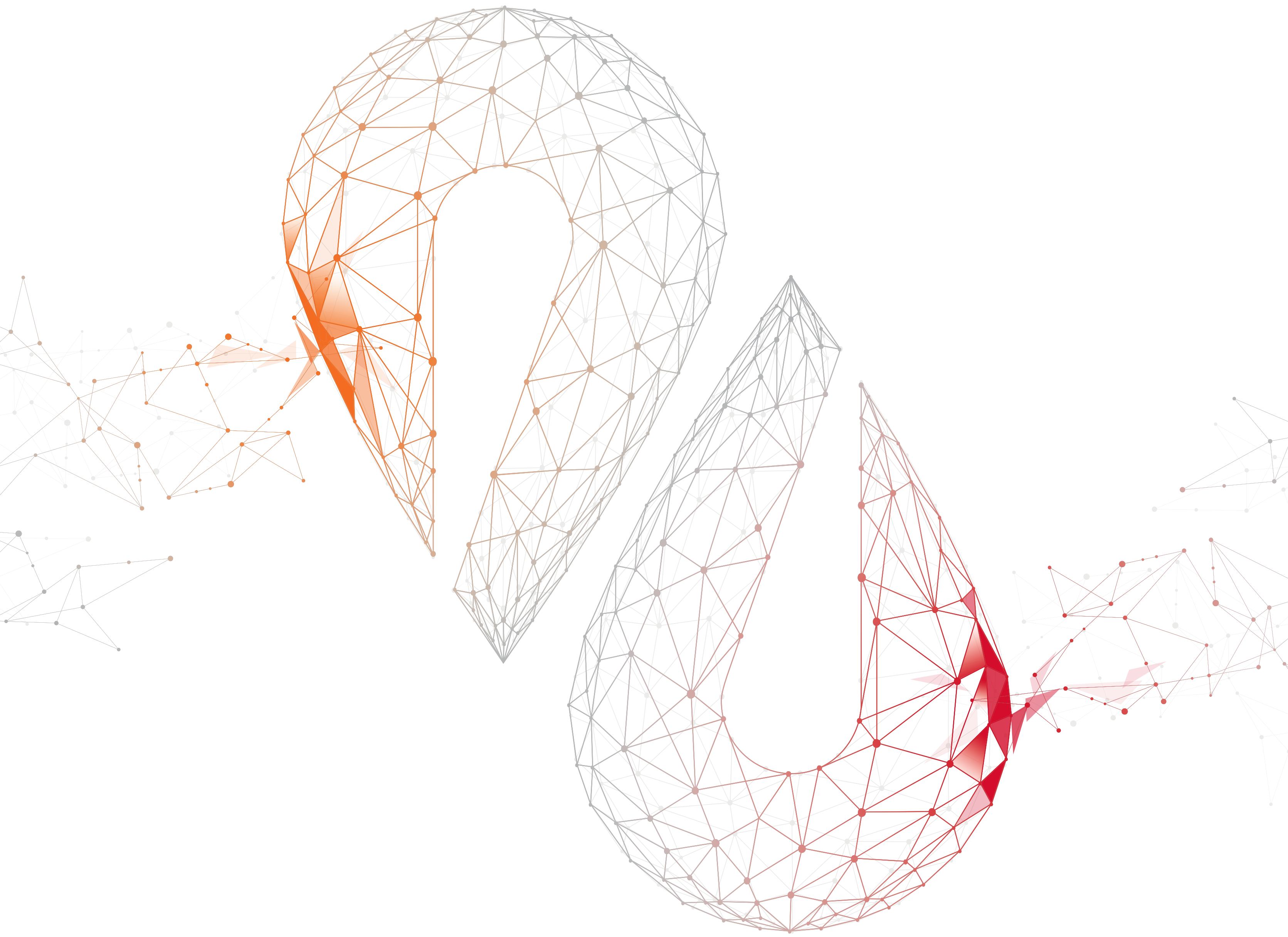
alBaraka



Agility - Efficiency - Transparency

Annual Report 2019

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

Agility - Efficiency - Transparency

We aim to provide the best Agility digital banking experience on a high level of Efficiency that ever globally by making banking simple, smart and Transparent.

Contents

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: +97317 533 993
Diplomatic Area	Tel: +973 17 542 255	Fax: +97317 533 996
Isa Town Branch	Tel: +973 17 788 388	Fax: +973 17 687 838
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
Mr. 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

3. Danat Al Baraka
Mr. Tariq Mahmood Kazim
Chairman
Flat 10, Building 2504,
Road 2832. Block 428
Kingdom of Bahrain.
Tel: +973 17 535300
Fax:+973 17 533993

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

His Royal Highness
Prince Khalifa bin Salman Al Khalifa

The Prime Minister

His Majesty King
Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa

The Crown Prince,
Deputy Supreme Commander and First Deputy Prime Minister

Corporate Profile

Al Baraka Islamic Bank offers innovative financial products, including investments, international trading, management of short-term liquidity and consumer financing, all of which are all based on Islamic financing modes.

Al Baraka Islamic Bank ("AIB" or "the Bank") is one of leading financial institutions in the Islamic banking sector. 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 the Islamic finance industry and publicizing its merits. The Bank enjoys a good reputation and high standing with the community in the Kingdom of Bahrain in particular, and in the GCC, Arab and Islamic worlds in general.

AIB offers innovative financial products, including investments, international trading, management of short-term liquidity and consumer financing, all of which are all based on Islamic financing modes. 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 on behalf of many large financial institutions and high net worth clients (who sought rewarding long-term and financial returns) by deploying Sharia compliant instruments.

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 the issued 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. This step represents AIB and ABG's strategy to enter key regional markets, as Saudi Arabia is considered the largest Arab economy with strong fundamentals and stable financial and investment environment, which presents the Bank with significant business and investment opportunities.

As for its strategic plans, the Bank continued to maintain the pace of growth in its business operations with particular focus on commissions and fee-based income. The Bank also expanded its investment portfolio, continued to develop its infrastructure, particularly in modernizing its information technologies (IT) and related services, improved its customer services, provided training and coaching to its employees and maintained its special relationship with its customers as "Partners in Achievement".

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 AIB, 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

Vision

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

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 natural benefits with the customers, staff and shareholders who participate in our business success.

Five years highlights

2019 saw one of the most challenging business years in some time but we made significant progress required as we continue to develop to maintain stability to ensure the future sustainability of the business.

Total Assets
(USD Million)

USD 2,180

2014	1,631
2015	1,855
2016	2,385
2017	2,297
2018	2,180
2019	**2,214**

Financing & Investments
(USD Million)

USD 958

2014	1,008
2015	887
2016	1,158
2017	1,202
2018	1,086
2019	**958**

Total Deposits
(USD Million)

USD 1,839

2014	1,416
2015	1,589
2016	2,041
2017	1,921
2018	1,805
2019	1,839

Total Equity
(USD Million)

USD 266

2014	165
2015	174
2016	207
2017	192
2018	244
2019	**266**

Operational highlights

Credit Rating

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

Islamic Banking Services

In compliance with the Central Bank of Bahrain new requirements, the Bank established Internal Sharia Internal Audit Department to enhance the quality of Islamic banking services offers to customers.

Core Banking System

Among important projects started during 2019 was replacing the Bank's existing core banking system with a new system that will allow us provide our clients with best quality service.

Voice Guidance ATM's

Moreover, we equipped our branches with necessary facilities to service customers with special needs, including the installation of ATM's offering a voice guidance for cash withdrawals and balance enquiry.

ATMs

The Bank added two new ATMs during 2019 bring the total to 31 ATM's.

Awards

The Bank received the Best Islamic Financial Institution Award of 2019 from the Global Finance magazine.

The Bank won the Most Innovative Islamic Bank Award for 2019 from International Finance Magazine.

The Bank received a prestigious award from Master Card in recognition of its role in achieving the highest international use of Master Card credit cards in Bahrain for 2019

Board of Directors

Mr. Khalid Rashid Al Zayani
Chairman

Mr. Adnan Ahmed Yousif
Vice Chairman

Mr. Abdul Latif Abdul Rahim Janahi
Board Member

*Refer to page 45-47 for Board of Directors profiles.

Mr. Moosa Abdul Aziz Shehada
Board Member

Mr. Ashraf Ahmed El Ghamrawy
Board Member

Mr. Maqbool Habib Khalfan
Board Member

Mr. Yousef Ali Fadil bin Fadil
Board Member

Mr. Abdulrahman Abdulla Mohamed
Board Member

Dr. Khalid Abdulla Ateeq
Board Member

*Refer to page 45-47 for Board of Directors profiles.

Shari'a Supervisory Board

Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha
Chairman

Shaikh Essam Mohammed Ishaq
Member

Shaikh Nizam Mohammed Yaqoobi
Member

List of Committees & Shari'a Supervisory Board

Executive Committee

Mr. Adnan Ahmed Yousif
Chairman

Mr. Abdulatif Abdulrahim Janahi
Member

Mr. Abdul Rahman Abdulla Mohammed
Member

Audit & Corporate Governance Committee

Mr. Maqbool Habib Khalfan
Chairman

Mr. Musa Abdel - Aziz Shihadeh
Member

Mr. Yousif Ali Fadil bin Fadil
Member

Sheikh Essam Mohammed Ishaq
Shari'a Member

Remuneration & Board Affairs Committee

Mr. Yousif Ali Fadil bin Fadil
Chairman

Dr. Khalid Abdulla Ateeq
Member

Mr. Maqbool Habib Khalfan
Member

Risk Management Committee

Dr. Khalid Abdulla Ateeq
Chairman

Mr. Maqbool Habib Khalfan
Member

Mr. Ashraf Ahmed El Ghamrawi
Member

Shari'a Supervisory Board

Shaikh Dr. Abdul Sttar Abdul Karim Abu-Ghoudha
Chairman

Shaikh Essam Mohammed Ishaq
Member

Shaikh Nizam Mohammed Yaqoobi
Member

External Auditors

Ernest & Young

External Legal Compliance Auditor

KPMG Fakhro

Directors Report

Despite challenges the bank managed to return to profitability this year by booking net profit of USD 5.1 million comparing to net losses of USD 18 million last year.

"The Bank is working on a numerous initiatives to develop contemporary solutions meeting duly customized with requirements of various customer segments. Successful implementation of such projects provide dynamism and strengthen our competitive position in the market."

MR. KHALID RASHID AL ZAYANI
Chairman

Operating Income
USD89 mn

Financing Portfolio
USD958 mn

In the name of Allah, the most beneficent, the most merciful. Prayers and peace be upon the last Apostle and Messenger, Prophet Muhammad (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 "Bank" or the "Group") for the year ended 31 December 2019.

Economic Review

Pursuant to prolonged trade disputes and wide-ranging policy uncertainties, the world economy has seen a significant and broad-based deterioration during the financial year 2019. World gross product growth slipped to 2.4% in 2019, the lowest rate since the global financial crisis, as per latest reports published by United Nations. This slowdown is occurring alongside growing discontent with the social and environmental quality of economic growth, amid pervasive inequalities and the deepening climate crisis. This weakness was widespread, affecting both advanced economies, particularly the Euro Area, and emerging market and developing economies. Various key indicators of economic activity declined in parallel, approaching their lowest levels. In particular, global trade in goods was in contraction for a significant part of 2019, and manufacturing activity slowed markedly over the course of the year. To a lesser extent, services activity also moderated. A broad range of economies has experienced feeble growth during 2019. As per the World Bank's "Global Economic Prospects Report", the Global growth projected to rise by 2.5% in 2020, a small uptick from 2.4% in 2019, as trade and investment gradually recover.

Growth in Middle East and North Africa decelerated to 0.1% in year 2019 as per the above report. Geopolitical and policy constraints on oil sector production slowed growth in oil-exporting economies, despite support from public spending. Growth in oil importers remained stable, as reform progress and resilient tourism activity were offset by structural and external headwinds.

Despite its diversified economy, Bahrain nonetheless faced pressures in recent years as a result of decline in demand and prices of hydrocarbon in recent financial years. In this regards, the overall economic growth expected to further decelerate (4.1% in 2017 to 2.2% in 2018) to 1.8%-2.1% in 2019 as per latest surveys issued by domestic and global agencies. However, an aid package from other Gulf states, announced late in 2018, accompanied by fiscal reformation plan, as well as growth on the back of a partial oil price recovery and a recent major oil and gas discovery, provided a support in such a testing times. Further, the increase in manufacturing activity after addition of ALBA's sixth line and continued investment on mega infrastructure projects will stimulate the growth in coming financial periods.

Pakistan's GDP growth slowed as economic policies to address the twin deficits took effect. Growth slowed to 3.3% in 2019, 2.2% decline compared to the previous year, due to the stabilization measures undertaken by the authorities as per reports published by World Bank. Over the past year, the exchange rate was allowed to substantially depreciate, the development budget was cut, energy prices were increased, and the policy rate sharply raised. As a result, private consumption growth decelerated and investments were also materially contracted.

Directors Report (continued)

On the supply side, the industrial and services sectors growth was slowed in 2019 compared to 2018. Adverse weather conditions have dampened agricultural performance and reduced growth to in 2019, significantly lower than the targeted growth of 3.8%. Average headline inflation increased to 7.3% in 2019 compared with 3.9% in 2018, primarily because of the exchange rate pass-through. Moving forwards, the real GDP growth is projected to decelerate to 2.4% in 2020 as the government tightens fiscal and monetary policies.

Performance Review

Despite challenges the bank managed to return to profitability this year by booking net profit of USD 5.1 million comparing to net losses of USD 18 million last year. The Bank maintained a continuous growth momentum throughout the financial year ended 31 December 2019 despite of significant depreciation of Pakistani Rupee (down stating such balances in reporting currency terms). In this regard, the size of financial position was reached to USD 2,214 million by end of financial year 2019 as compared to USD 2,180 million maintained at end of preceding year. Further, the funds under agency and fiduciary management were reached to levels of USD 642 million by end of reporting year 2019 in comparison with corresponding position of USD 413 million. Such growth in operations emphasized our strong presence in domestic and regional market and trust reposed by our esteemed customer base. The Bank maintained excellent liquidity ratio of 21%, average return on assets at 0.2%, and average return on equity at 2.0%.

Revenues earned during 2019 grown by 19% to reach USD 167 million, compared to USD 140 million reported in 2018. Such increase is attributable to building of core banking assets and improved liquidity management. Alongside, the profit distribution to equity of investments account holders and other investors as well as fund providers also reached to USD 78 million in comparison with USD 53 million paid in previous year. In due course, operating income increased to USD 89 million from USD 87million reported in 2018.

Investments towards securities issued by domestic and regional sovereign entities marked a sharp increase and reached to USD 774 million by end of 2019 against such balances amounted to USD 565 million carried at end of 2018. However, the financing assets closed at USD958 million in 2019 compared with USD 1,086 million at 2018. It is hereby emphasized that the core focus in financial year 2019 was to improve the quality and risk profile of such assets, which is clearly eminent from financial results.

The Bank regained the growth momentum in liability-base during 2019. These balances were flourished to levels of USD 2,000 million at end of 2019 as compared to USD 1,805 million carried at end of prior year (i.e. a growth of 10.8%). Such growth was attributable to our wide geographical presences, availability of customized solution and provision of competitive returns on investments.

During the year 2019, the Bank concluded a capitalization plan with the support of our Parent company (Al Baraka Banking Group) to improve the Bank's capital position. This plan was approved by the Central Bank of Bahrain.

The Bank secured a commendable growths in revenues earned during the financial year 2019 reaching to levels of USD 167 million (an increase of 19% as compared to income generated amounts to USD 140 million in 2018). Moreover, a considerable drop in operating cost was observed in current financial year 2019. Its hereby mentioned that these expenses incurred in 2019 amounted to USD 67 million were below by 6% from USD 72 million paid for such activities in 2018, despite of challenges posed by consumer price inflation, imposition of indirect taxes and rise in prices of utilities in domestic markets. As being a core strategic focus, the Bank continued to increase coverage against the identified and expected losses from portfolio of assets. The Bank has further incorporated net provision amounted to USD 17 million.

Credit rating

The Islamic International Rating Agency (IIRA), a well-known Bahrain-based rating agency, has maintained an international scale investment grade credit rating of BBB- (long term)/A3 (short term) and a national scale rating of BBB+ (long term)/A3(short term) to the Bank.

At the same time, Al Baraka Bank Pakistan Limited has sustained local currency long-term and short-term rating entity A, and A1, respectively, as assigned by Pakistan Credit Rating Agency (PACRA). While the JCRvis reaffirmed short term/ long term credit rating A+/A-1 to ABPL.

The Bank will invest heavily to move with rapid changes in technology/ Fintech to sustain competitive position and capitalize prospective opportunities available in such field.

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

Sustainability and Social Responsibility

Sustainability and social responsibility is corner stone of our business philosophy. The essence behind each business transaction executed by the Bank is to generate real business activity being transformed into resources/ capital for our communities to improve their quality of living. It is hereby emphasized that the sustainability and responsibility is base for development of our business plans, which focused on deployment of resources for job creation opportunities, provision of support for implementation of projects of social importance (like financing education, healthcare, etc.) and participate with sovereign or other entities in supporting local communities (like building affordable houses for low income citizens, etc.).

As being core obligation to our community, a significant amount was being provided as a direct donation to educational institutions, hospitals, orphanage and other charitable institutions. Further, the Bank provides on-job training to students of universities and continues to provide support to organizations in the field of Islamic banking and finance research. Furthermore, the Bank remained partner and key sponsor in many Islamic finance and banking events and conferences, more particularly, the World Islamic Banking Conference organized by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), etc.

Future Outlook

We have every reason to be positive to continue our journey towards the acclamation of strategic outcomes of fostering growth, moderation of riskiness and rationalization of efficiencies of operations. Further, the Bank will invest heavily to move with rapid changes in technology/ Fintech to sustain competitive position and capitalize prospective opportunities available in such field. Furthermore, the development of skill levels within the organization will remain our utmost priority in coming financial periods.

Alongside, the Bank is working on a numerous initiatives to develop contemporary solutions meeting duly customized with requirements of various customer segments. Successful implementation of such projects provide dynamism and strengthen our competitive position in the market.

Acknowledgment

All praises for master of Universe for sailing us through such a testing time and bestowed us with another year with achievements and successes on many fronts. We are really grateful to Allah for providing strength, wisdom and plenty of resources to our organization.

On behalf of Board of Directors, I would like to express my gratitude to His Majesty King Hamad bin Isa Al-Khalifa, His Royal Highness Prince Khalifa bin Salman Al-Khalifa (the Prime Minister), and His Royal Highness Prince Salman bin Hamad Al-Khalifa (the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy Prime Minister), for their unlimited support.

Our deepest gratitude to the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the State Bank of Pakistan, and other government agencies for their continues assistance and counsel. We are really grateful to our shareholders, valued customers, and business partners for faith reposed on the Bank. We offer since regards to our parent company, Al Baraka Banking Group and our Sharia Supervisory Board, for their patronage and priceless guidance. We cannot go without accrediting the dedicated efforts, hard work and continuous contribution of our team that supported the organization to sustain its progress aligned with strategic directions in such a testing times.

Khalid Rashid Al-Zayani
Chairman

Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain
24 February 2020

www.albaraka.bh

Agility

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

Fouad Lakhdar El Ouzani
Assistant General Manager - Head of Credit Department

Maisoon Mohammed BenShams
Assistant General Manager - Head of Risk Management Department

Fatima Moosa AlAlawi
Assistant General Manager – Head of Retail Banking and Domestic Branches

*Refer to page 47-49 for Executive Management profiles.

Hassan Abdulwahab Al Khan
Assistant General Manager- Operations

Adel Jassim Al Manea
Assistant General Manager - Head of Remedial and Collection

Sama Abdulhameed Al Alawi
Executive Senior Manager - Head of Human Resources and Administration

Bader Isa Al Shetti
Senior Manager – Head Of AntiMoney laundering & Compliance

Mohammed Jasim Ebrahim
Senior Manager - The Sharia Officer & Secretary of Sharia Supervisory Board

Duaij Khalifa Abulfateh
Senior Manager - Head of Internal Sharia Audit

Mohammed Ali Qudrat
Manager – Acting Head of Treasury

Hasan Abdulaziz Al Qasimi
Manager – Acting Head of Internal Audit

*Refer to page 47-49 for Executive Management profiles.

During 2019, the Bank demonstrated well on its strong foundations, and turning the last year's losses into decent net income.

"In view of the rapid advances in information technology, we are very keen on modernizing its network infrastructure, increase its capacity and introduce modern technologies with high-speed data transfer capabilities."

HAMAD ABDULLA AL OQAB
Chief Executive Officer

OVERVIEW

The regional challenges in business and economic environment continued during 2019. The Bank was very cautious and conservative in performing its business activities, efforts were made to consolidate the operations. In particular, the focus was to improve the composition of financial positions, rationalize the risk profile of the bank and moderate the cost of operations.

As evident from operating results, the key performance measures (denominating the quality and efficiency of financial position) has moved the bank in the positive direction during 2019. The Bank's efforts shifted to mitigate the impacts of prevailing market conditions on assets portfolio of the Bank during 2019. In this regards, the Bank restrained the businesses in high risk markets and segments. In parallel, the bank strengthened its monitoring processes and increased the collateralization to of high risk assets from any expected credit losses. Further, the Bank revamped its customer selection and appraisal process by applying very stringent prudential criteria. Most of the assets were predominantly booked with sovereigns/ under arrangements duly secured by government entities and under modes secured by tangible collaterals, to effectively cope with challenging market conditions.

Further, in order to maximize the revenues, available resource were allocated towards building of low risk, high yield, investments portfolio, predominantly, in securities issued by domestic and regional sovereigns. These securities carry low risk as evident from minimal expected credit losses and risk weightages assigned by regulators. Further, these securities are either listed or actively traded in market and provides leveraging advantages (if required) and opportunity to record capital gains from fluctuation in market prices.

FINANCIAL PERFORMANCE

Total consolidated assets reached USD 2.21bn in 2019 compared to USD 2.18bn reported in 2018 (an increase of 1.6%) reflecting the Bank strategy to consolidate its financial position and focus on keeping a healthy capital adequacy ratio. Focus was also made to improve qualitative aspects such as, efficiency, diversification, composition of core banking assets.

In Bahrain, the competition to secure the collateralized/ low risk retail exposure was intensified during 2019. Also, the Banks refrained from certain retail segments which were carrying relatively higher risk upon implementation of consolidation initiatives. Therefore, a restrained growth was stipulated in financing business during the current financial period.

In Pakistan Operation, the country is moving into a phase of fiscal consolidation, which will result in slowdown of majority of segments of the economy. Therefore, the Bank became very selective and preferred business relationships with blue chip companies or obligors demonstrating sound financial health. Simultaneously, the massive depreciation in Pakistani Rupee resulted in down statement of such balances in reporting currency.

The above factors lead the Bank's financing portfolio decreased by 24% during 2019 to reach USD 959 mn compared to USD 1.27 bn in 2018. As at the end of the year, this portfolio comprises Murabaha contracts, Ijara Muntahia Bittamleek and Musharaka contracts.

Due to the prevailing market conditions, investments securities issued by domestic and regional sovereign entities became the primitive option for the Bank to deploy its available resources; yields on such securities were very attractive due to increase in market rates or rise in policy rates by issuing monetary agencies. Further, such securities have positive impact on overall risk profile and leveraging support in capitalization. The investment portfolio of the Bank showed a remarkable increase of 37% to reach USD 774 mn in 2019 compared to USD 565 mn in 2018.

The Bank is managing a well-diversified portfolio of investments comprising of subsidiaries, associates, real estate funds,

Chief Executive's Report (continued)

The Bank received the Best Islamic Financial Institution Award of 2019 from the Global Finance magazine.

properties, structured products and sukuk. Such investments are located in various parts of the world. Furthe; these investments are either adequately collateralized or made with investee carrying credit rating of investment grade or above. At the same time, the majority of these assets are either listed or actively traded in secondary markets maintaining an instant source of liquidity for the Bank, which further ensure the strength and dynamism of said portfolio. These Investments made a pivotal contribution towards the achieving the strategic objective of improving operating efficiencies and moderating the risk profile of the financial position.

Equity of investment accountholders represents the main external source of funds of the Bank. These accounts reached USD 1.44bn in 2019 compared to 1.41bn in 2018, an increase of 1.8%. Aligned with approved business strategies, the Bank continued to build the liability base from low cost sources such as current account, saving account and institutional deposits to provide liquidity for current and prospective business requirements and boost the spread management activity . Simultaneously, a significant amount of such liquidity raised was utilized to pay off the high cost, term deposits carried by the Bank and which moderate the cost of funds of the bank. Such increase in deposits was result of our strong presence in domestic & regional markets, launch of aggressive marketing campaigns and availability of a broad range of investments solutions such as AlBarakat saving investment account.

In addition, the wholesale / institutional business segments took the lead and contributed a sharp growth in such balances from previous period. Such increase is attributable to fresh relationships along-with capitalization of existing relationships within Middle East and North African Region.

During 2019, managing available surplus funds became very challenging due to rise in market liquidity levels, curtailment of investment opportunities and shrinking spreads resulted from reduction in policy rates by leading monetary agencies. Efforts were made to improve the utilization of such resources by exploiting limits with segments providing relatively higher returns; such excessive liquidity was used to rationalize the expensive deposits carried by the Bank.

As an integral part of core business strategies, the Bank made strong efforts on multiple initiatives to sustain compliance with Minimum Capital Requirements and Capital Adequacy Ratio requirements prescribed by regulatory authorities. During the year the Bank increased the ordinary share capital by USD 14 mn (through issuance of shares). The bank also received Additional Tier1 Capital amount of USD 30 mn. At the end of 2019, total owners' equity reached USD 266.37 mn compared to USD 244.14 mn in 2018, an increase of 9.11%.

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

Despite of challenges posed by operating environment and the depreciation of Pakistani Rupee, the Bank was able to secure a considerable improvement in financial performance during 2019. Such gains are attributable to successful implementation of cost rationalization initiatives, strategic decision to enhance exposures in Sukuk issued by sovereign entities and increased revenue contribution from the spread & liquidity management activities. In this regards, the majority of key financial measures enumerating profitability such as efficiency ratio. marked a significant improvement during the current financial period.

Total income from jointly-financed assets reached USD 99.5 mn in 2019 compared to USD 92.8 mn in 2018, an increase of 7.2%. In line with this increase, return on equity of investment accountholders went up by 25.7% from USD 59.79 mn 2018 to USD 75.16 mn in 2019. Income from self-financed assets increased by 57% to reach USD 48.2 mn and income from banking services increased by 1.7% to reach USD 16.5 mn in 2019. As a result, total operating income increased by 2.8% from USD 86.5 mn in 2018 to USD 88.9 mn in 2019.

Total operating expenses decreased by 6.1% from USD 71.6 mn 2018 to USD 67.3 mn in 2019. This decrease in operating expenses incurred during the year resulted mainly from rationalization of operation costs. As a result, the Bank reported net operating income before provisions and taxes of USD 21.7 mn in 2019 compared to USD 14.9 mn reported in 2018, an impressive increase of 45.7%.

Aligned with approved strategies and complying the regulatory requirements especially with implementation of FAS30, the Bank incorporated a significant amount of provisions. However, the Bank made large collection and remedial efforts during the year to collect non-performing debts, resulting in the settlement of couple of large non-performing cases, which reduced the impact of massive provisioning against non-performing assets in 2019.

After provisions and taxes, the Bank reported a net profit of USD 5.12 mn in 2019 compared to net loss of USD 18.23 mn reported in 2018.

OUR HUMAN CAPITAL

During 2019, the Bank continued its efforts to create an effective work environment and to improve the values and principles with the aim of working as an integrated team with strong capabilities appropriate to satisfy the market's and customer's 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 training programs, external training programs and professional certificates with the aim to improve staff performance and increase awareness of key business skills and 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 of the employee's loyalty, the bank honored staff members who served the bank for periods ranging from five & twenty years by granting them certificates of appreciation and prizes.

INFORMATION TECHNOLOGY AND DIGITALIZATION

In view of the rapid advances in information technology, we are very keen on modernizing its network infrastructure, increase its capacity and introduce modern technologies with high-speed data transfer capabilities. Sunch initiatives included revamping the Bank Website; enhancing credit card portal; improving ATM connectivity; Deploying open banking infrastructure and connectivity; in addition to successful validation of Business continuity and recertification of PCI-DSS Standard and compliance with Swift CSP.

STRONG CORPORATE IDENTITY

During 2019, 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 Group 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 of this, 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

During 2019, the Bank was awarded the Islamic Finance News Awards 2018 through the annual comprehensive referendum conducted by the Islamic Finance News magazine. The Bank also received the Best Islamic Financial Institution Award of 2019 from the Global Finance magazine. The Bank also received a prestigious award from MasterCard in recognition of its role in achieving the highest international use of MasterCard credit cards in Bahrain for the year 2019.

OUR SOCIAL RESPONSIBILITY

We at Al Baraka Islamic Bank (being an Islamic financial institution, and as a 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. Being considered as 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 social clubs as well as charitable institutions. 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 (2016-2020), which are linked with the United Nations goals of sustainable development. Under this program, Al Baraka Banking Group ("ABG") pledges more than USD 822mn to finance and support these goals with the aim of creating thousands of new jobs. During 2018, ABG and its subsidiaries were able to contribute to the creation of 7,631 jobs, which was 75% of the 2018 target, provided an amount of USD40.4 mn to fund and finance education, which was 106% of the 2018 target of USD 38.2 mn, and provided an amount of USD 153.6 mn to fund and finance healthcare, which was 177% of the 2018 target of USD 86.7 mn.

CONCLUSION

During 2019, the Bank demonstrated well on its strong foundations, and turning the last year's losses into decent net income. In addition, key performance indicators of the Bank showed remarkable improvement, such as NPA coverage, efficiencies, diversification, as well as regulatory risk weightings have considerably improved during 2019.

Since the beginning of 2020, the corona pandemic added more and wide-spread challenges to all communities and businesses, including banks, in the world. But we believe that economic fundamentals of Bahrain and GCC countries will remain resilient, and can cope with the pandemic's repercussions.

Hamad Abdulla Al Oqab
Chief Executive Officer

www.albaraka.bh

Efficiency

Corporate Governance

Philosophy, Strategy and objectives

AlBaraka Islamic Bank "AIB/the bank" strongly believes that good corporate governance and its ongoing development is an important part of stability and will enhance solid foundation 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 our promise to clients, reporting our 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 Unit at AIB works closely with 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 seeking 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, AIB conducts annual detailed self-assessments to ensure compliance with the requirements of Module HC, and sets specific milestone for implementation of any shortfalls whenever exist, including continuous review and upgrades for strong corporate governance practices included AIB's subsidiaries. AIB complies with the principles as set out in Module-HC. CBB, AIB's shareholders, the Board of Directors and Executive and Senior management have been fully apprised of the amendments to the requirements and the milestones set. Starting from 2011, Corporate Governance was an item on the agenda of the annual shareholder meeting for information and any questions from shareholders regarding the Islamic Bank's governance.

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2019. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

Governance Framework

Ownership Structure

Al Baraka Islamic Bank B.S.C. 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. AIB can also confirm 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 Banks Shares during the year by the Directors or senior management. However, the Bank has increased its paid up capital by USD 14 mm. Only the major shareholder of the Bank underwritten in the new share capital As at 31st December 2019, distribution schedule of shares, setting out the number and percentage of holders were in the following categories:

SR No	Name	Relationship	Position	Domicile	# of Shares	Share %
1	ABG	Parent Company	-	Bahraini	1,255,755	92.0252%
2	Abdullatif A. Rahim Janahi	Non-Executive Independent Board Member	BoD Member	Bahraini	1,250	0.091%

Governance Framework (Continued)

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 related corporations during the financial year. Other shareholders are as under:

SR No	Name	Relationship	Position	Domicile	# of Shares	Share %
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%**

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 by practicing pursuit of excellence in corporate life.

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 shareholder; the management is accountable to the Board. Directors apply skill 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 shareholder, 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 the business is properly managed by a management team of the highest caliber.

Corporate Governance (continued)

Governance Framework (Continued)

The principal functions of the Board are as follows:

- reviews and approves the Management's proposals on long-term strategic plans of the Bank 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 for the Bank 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 Senior 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 Senior 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 the Bank's operations;
- institutes comprehensive policies, processes and infrastructure to ensure Shari'a compliance in all aspects of the Bank's operations, products and activities;
- sets up an effective audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the 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;
- 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 senior management to approve certain transactions. The Board has delegated specific authority 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, 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 USD 15m and/or tenor more than 10years
2. Investments in quoted equities and investment in funds above USD5m and/or tenor more than 7 years
3. Write-offs or discharge of the Bank's debts
4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above USD 1m, and/or tenor above 3months.
6. Exceptional waivers in relation to security value or cash margin, if the original authority is the board.

Board meetings are held on a scheduled basis in 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 the need arose.

Re-election of Directors

The current Board of Directors was elected on 11 May 2017 for a term of three years ending in 2020.

A new Board of Directors is expected to be elected in the General Meeting of Shareholders in March 2020. Election of Directors takes place in accordance with the rules and procedures as set out in the Commercial Companies Law and AIB's Articles of Association. However, two factors will affect the appointment of the new Board of Directors. The first is the amendment in the Companies Law for the method of election where it will be conducted through accumulative voting and the second factor is the new requirements for independent directors by the CBB Rulebook.

Governance Framework (Continued)

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 office 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.

The Board Composition

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has 10 members, comprising 6 independent non-executive directors (including the Chairman) and 4 executive directors.

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 business practice.

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

Board composition, Independence of Directors, and Membership in the Board Committees are set out below:

		Board Membership		Committee Membership			
Director Name	Nationality	Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk Management
Mr. Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Mr. Adnan Ahmed Abdulmalek	Bahraini	Executive Director	Vice Chairman			Chairman	
Mr. Abdullatif A.Raheem Janahi	Bahraini	Independent Director	Member			Member	
Mr. Abdulrahman Abdulla Mohamed	Bahraini	Independent Director	Member	Chairman			Member
Mr. Musa Abdel - Aziz Shihadeh	Jordanian	Executive Director	Member	Member			
Dr. Khalid Abdulla Ateeq	Bahraini	Independent Director	Member		Member		Chairman
Mr. Ashraf Ahmed El Ghamrawi	Egyptian	Executive Director	Member			Member	
Mr. Yousef Ali Fadel Ben Fadel	UAE	Independent Director	Member	Member	Chairman		
Mr. Maqbool Habib Khalfan	Qatar	Independent Director	Member		Member		Member

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

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy with copy for their reference, and meetings with other Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

Governance Framework (Continued)

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 2019, the Board held 5 meetings, and the number of meetings attended by each member was as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Khalid Rashid Al-Zayani (Chairman)	4	5	9 January 2019 21 February 2019 14 May 2019 05 August 2019 13 November 2019	5/5
2	Mr. Adnan Ahmed Abdulmalek				5/5
3	Mr. Abdullatif A.Raheem Janahi				5/5
4	Mr. Abdulrahman Abdulla Mohamed				5/5
5	Mr. Musa Abdel - Aziz Shihadeh				5/5
6	Dr. Khalid Abdulla Ateeq				5/5
7	Mr. Ashraf Ahmed El Ghamrawi				5/5
8	Mr. Yousef Ali Fadel Ben Fadel				5/5
9	Mr. Maqbool Habib Khalfan				5/5

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.

Performance Evaluation

In line with the Bank's Corporate Governance Policy, the Bank adopts formal procedure in order that the Board could undertake a formal evaluation of its own performance and that of its committees and individual Directors. The Board will distribute Evaluation Forms to all its members to evaluate their performance in the board and its committees and to evaluate the board itself. The results of the Report are presented to the shareholders in the Annual 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 Affair 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 Senior 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 senior 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 will be 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.

Governance Framework (Continued)

Remuneration Strategy (Continued)

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 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 45 thousand [2018: USD 18 thousand] for two meeting held in current and prior year.

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 2019	Shareholding at 31 December 2019	Changes in shareholding
Abdullatif A.Raheem Janahi	1,250	1,250	-

Governance Framework (Continued)

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

	2019	2018
Directors:		
Remuneration*	-	-
Sitting Fees	320	333
Allowances and others**	52	27
Total	**372**	**360**
Staff inclusive of Chief Executive Officer: **Fixed Remuneration**		
Approved persons and material risk takers-business line	2,741	1,839
Approved persons-others	2,757	1,936
Other staff in Bahrain	8,032	11,969
Staff of overseas subsidiary	15,890	17,289
Total fixed remuneration	**29,420**	**33,033**
Variable Remuneration		
Approved persons and material risk takers-business line	293	-
Approved persons-others	361	-
Other staff in Bahrain	485	
Staff of overseas subsidiary	352	650
Total variable remuneration	1,491	650
Total remuneration to staff	**30,911**	**33,683**
Shari'a Committee Members	**73**	**73**

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

** Others include the reimbursement of tickets and per diem for attending Board of Directors and Board Committees meetings.

Total fixed remuneration for covered persons affected by the policy, having salaries & benefits exceeding BD 100,000, amounts to USD 1,936 thousand (2018: USD 2,072 thousand) and the number of persons affected: 6 (2018:4). The total variable remuneration for 2019 paid to these persons was USD 458 thousand (2018: nil). Said variable remuneration comprises of upfront cash amounted to USD 183 thousand (2018: nil) and deferred shares amounted to USD 275 thousand (2018: nil). Further, the total amount of deferred remuneration outstanding as at 31 December 2019 are USD 275 thousand (2018: nil). The two officials from such covered person category duly retired from their job responsibilities during the financial year 2018.

The amount paid as severance/ retirement benefits to covered persons retiring in year 2018 were USD 874 thousands.

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.

Governance Framework (Continued)

Variable Remuneration for Staff (Continued)

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 it's 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.

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.

Corporate Governance (continued)

Governance Framework (Continued)

Alignment with Risk (Continued)

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 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 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	Constitution	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

Governance Framework (Continued)

Incentive plans (Continued)

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 salary exceeding BD 100, 000, 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 the Board Charter, the Board principally through Board 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.

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.

Governance Framework (Continued)

Board Committees (Continued)

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

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Abdul Rahman Abdulla Mohamed (Chairman)	4	4	03 Feb 2019 05 May 2019 04 Aug 2019 13 Nov 2019	4/4
2	Mr. Musa Abdel -Aziz Shihadeh				4/4
3	Mr. Yousif Ali Fadil bin Fadil				4/4

Sheikh Esam 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 senior 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:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Yousef Ali Fadel Ben Fadel (Chairman)	2	5	09 January 2019 20 February 2019 05 May 2019 04 August 2019 12 November 2019	5/5
2	Dr. Khalid Abdulla Ateeq				5/5
3	Mr. Maqbool Habib Khalfan				5/5

The remuneration committee has two meetings in prior year.

Governance Framework (Continued)

Board Committees (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 meeting held, and attendance of members are as follows:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Adnan Ahmed Abdulmalek (Chairman)	4	5	05 February 2019 17 June 2019 02 September 2019 27 October 2019 02 December 2019	5/5
2	Mr. Abdullatif A.Raheem Janahi				5/5
3	Mr. Ashraf Ahmed El Ghamrawi				5/5

4. Board Risk Management Committee

The Board Risk Management Committee 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 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 process 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 Risk Committee consists of three members. The Risk Committee has its own Board approved charter. The Chairman of the Risk Committee invites members of management or others to attend the committee meetings, as appropriate. The members, number of meeting held, and attendance of members are as follows:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Dr. Khalid Abdulla Ateeq (Chairman)	4	4	24 February 2019 27 May 2019 04 September 2019 09 December 2019	4/4
2	Mr. Maqbool Habib Khalfan				4/4
3	Mr. Abdul Rahman Abdulla Mohamed				4/4

Governance Framework (Continued)

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 of them. The members of committees comprise the Heads of Departments who are drawn from relevant and related functions:

- **Senior Executive Management Committee**

The 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.

- **Executive Management Committee**

The 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, while experienced senior credit officers at branches are given authority to approve financing with lower risk exposure.

- **Asset and Liability Committee (ALCO)**

The ALCO is the primary committee responsible for liquidity and funding risk management. Alco make decisions and propose guidance to force the strucrt of the bank's assets and liabilities, funding requirements, and liquidity management in line with the bank's overall strategic objectives.

- **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 technologies 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 Risk Management 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.

There is a clear division of responsibility between the Board and the management. The CEO is supported by his team of senior 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 Bank's daily operations and that the Bank's operations 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 Audit Committee. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit 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 Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit 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 to ensure Shari 'a compliance and on 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

AIB continued to be committed in complying with the best practices informed by Basel and IFSB guidelines and adhering to CBB requirements. Our 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 risk management processes are continuously reviewed and enhanced to facilitate a comprehensive risk assessment of the various types of risk that the bank may be exposed to apart from the traditional Pillar 1 credit, market and operational risks. During 2019, the Bank initiated and completed the implementation of the CBB's Liquidity Risk Management Module (LM-Model), including monitoring and reporting the enhanced requirements of Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) computations. The bank successfully met the effective dates of the LCR and NSFR, respectively on 30 June 2019 and 31 December 2019. Furthermore, the bank is in the process of implementing an ambitious and holistic Liquidity Risk Management overhaul, including an Internal Liquidity Adequacy Assessment Process (ILAAP) framework, along with industry and regulatory best practices.

The Bank further aimed, and was successful, at enhancing its Internal Capital Adequacy Assessment Process (ICAAP), with an exhaustive and comprehensive redevelopment of the framework. The Stress testing forms an integral part of the ICAAP and the Risk Management Process. Respectively, the Bank improved its existing Stress-testing framework and integrated assessment, successfully meeting the CBB's ICAAP and Stress testing requirements during 2019.

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 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.

Risk Management (Continued)

The Board has overall responsibility for validating and approving the policies and procedures, defining the risk tolerance, and establishing the risk strategy for effective risk management framework. The responsibility of risk governance lies with the different Board's and management's 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 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 going 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 risk ERM is based on three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit:

- **Business Management.** Each of the Bank's business units, including material-risk taker personals, own and manage the risks, including compliance risks, inherent in or arising from the business, and are responsible for having controls in place to mitigate key risks, performing manager assessments of internal controls, and promoting a culture of compliance and control.
- **Independent Control Functions.** The Bank's independent control functions, including Compliance, Finance, 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 Bank's Head of Credit and Head of Risk Management Departments both are 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). They are 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. Risk management also provides subject matter expertise on their respective risk areas and report directly to the CEO and Board Risk Committee. 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 those standards.
- **Internal Audit.** 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.

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 perspective 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, lending and investment standards as laid out in the internal risk policies and procedures manual,
- capital and liquidity benchmarks which are monitored in the Asset Liability Management Committee 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. Our 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. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals

Further, the Board annually or periodically, reviews the risk management policies, procedures, limits, and risk strategies to cope with the changing economic environment and AIB's risk appetite.

We believe 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 market and credit 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. Back-up and recovery procedures are defined and business continuity plans approved and communicated to promote resilience and minimize the impact of an incident.

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department continued in 2019 to carry out its activities inherent to its area ensuring the bank's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations, etc.

Management of Credit Risk

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

- The credit risk 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 must be escalated to the Board for approval; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

The Credit Risk Management 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.

During 2017, the bank has engaged in the process of developing and upgrading most of the major operating policies and procedures to satisfy good practices and the new credit standards related to IFRS 9. Sustainability guidelines have been established for use in the credit process. Moody's rating system is introduced to support the internal credit models to estimate PD, LGD and EAD parameters.

Our 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 daily and are evaluated on product, branch, industry, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

Proactive credit risk management practices in the form of studies of rating-wise distribution, Portfolio Analysis of retail lending assets, periodic industry review, Review of Country, Currency, Counter-party and Single-Obligor exposures are only some of the prudent measures, the Bank is engaged in mitigating risk exposures.

The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion, which will ensure advanced level of sophistication in the Credit Risk Measurement and Management in the years ahead.

Management of Liquidity and Market Risk

The Bank manages liquidity and market risk via its Asset and Liability Committee (ALCO) process. 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.

Bank has well-established framework for Liquidity and Market Risk management with the Asset Liability Management Policy and the Treasury Policy 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 market value of the equity 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 important aspect of the Market Risk includes profit rate risk management and the pricing of assets and liabilities. Further, Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

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, 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 (ORM) 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.

Risk Management (Continued)

ORM within the bank 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 (Op. Risk 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 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.

A key component of the Op. 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 implemented SunGard 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 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 Risk Management Framework (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. We use an integrated approach and manage dependencies for our core banking transformation, front-to-back processes and systems.

We closely monitor cyber threats and data privacy and as mitigating actions:

- We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks. Specifically, we continue to enhance our 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.
- We 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 us and our peers within our industry.

Compliance in the Bank is centrally controlled under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. 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 is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data center, and branches locations.

AIB continually refines and strengthens existing policies, procedures and internal controls 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. AIB has also adopted the Basel II Standardized Approach to measure regulatory capital requirement on credit risk and market risk. For operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. AIB has adopted "Pillar I Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like credit concentration risk, 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, provides 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

AIB's maintain 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 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 section 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 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 Committee and the Chairman of the Corporate Governance Committee. Violations will be investigated by the Board or by a person or persons 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 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 does demand 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.*

Corporate Governance (continued)

CODE OF BUSINESS CODUCT AND ETHICS FOR MEMEBRS OF THE BOARD OF DIRECTORS (Continued)

- ***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:*
  - *o Using the Bank property, information or position for personal gain;*
  - *o 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 the 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 Company and any other confidential information about the Company 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 Company.

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.

Our 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.albarak.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 attaches a high degree of importance to 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 provide for 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 our 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 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 senior 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 making continuous efforts for enhancing the level of customers' satisfaction by leveraging technology to provide e-Banking in 2013 and alternative delivery channels best suited 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 "Customer Care" page available on the website. The query is automatically channeled to the appropriate department responsible to handle their issues.

The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing and Customer Complaints Team for handling of 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 Bank endeavors to address all complaints within five working days. Wherever this is not possible, 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 core value. 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 policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank according to regulation 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 practice. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff.

Sharia Compliance and Supervision

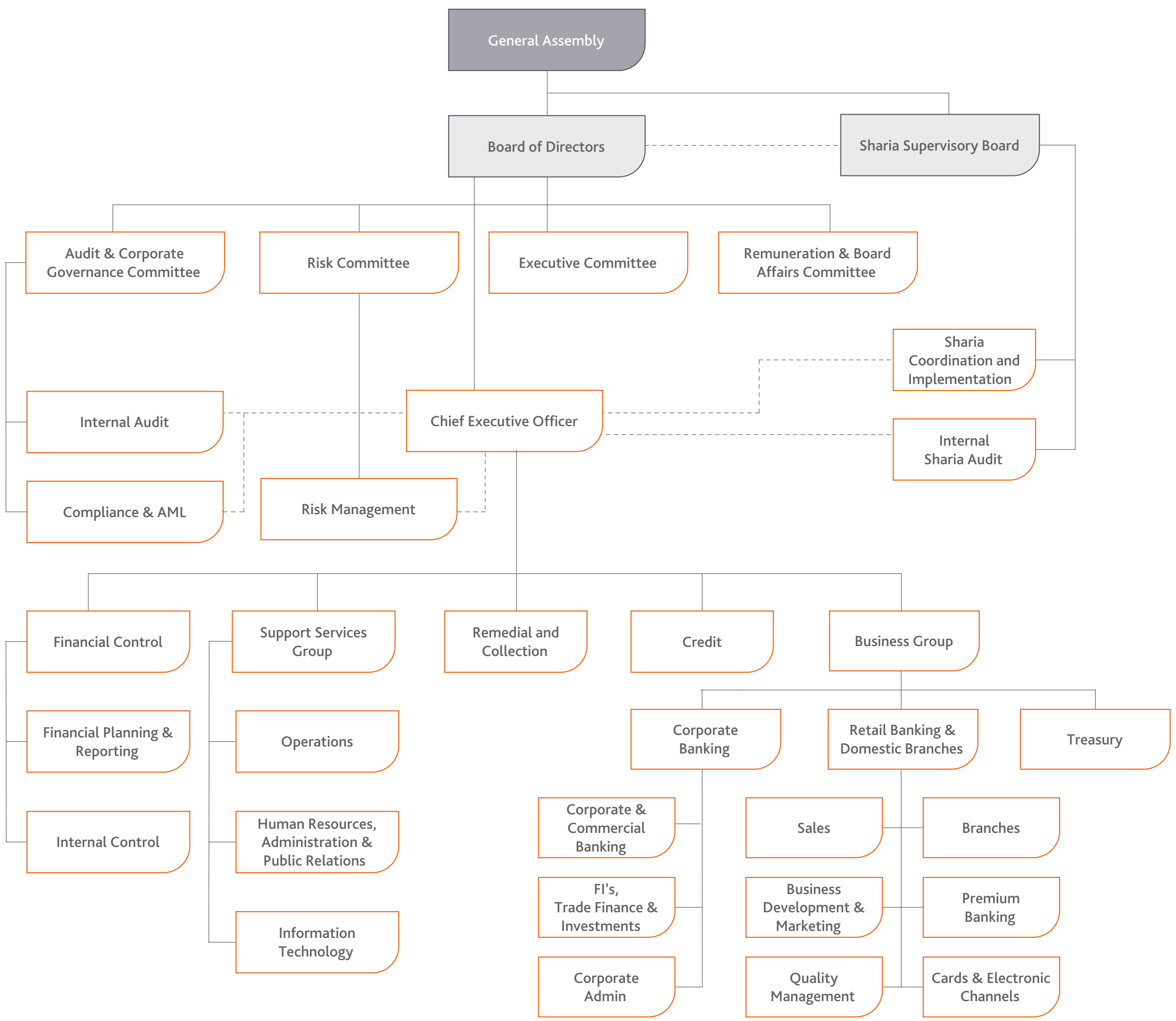
The Shari'a Supervisory Board of the AIB is elected for a three years term by the shareholders during the AGM based on recommendations from the Board of Directors. The Shari'a Board has the following responsibilities:

- Overseeing the operations and activities of the AIB 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 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 and advising on Shari'a compliance in all products and services. It is worth noting that the Internal Shari'a Audit has been established as an independent department reporting functionally to the Shari'a Board, and administratively to the Chief Executive. Also, the "Shari'a Officer" also in place; the Shari'a Officer reports functionally to the Shari'a Board and administratively to the Chief Executive. 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 Central Bank.

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 Centralized Shari'a Supervisory Board. 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.

ORGANIZATIONAL CHART



Management committees chaired by CEO:

- Senior Executive Management Committee
- Executive Management Committee
- Credit Committee
- Asset and Liability Committee (ALCO)
- Remedial Committee
- Provisioning Committee
- Information Technology Steering Committee
- Strategic Planning Steering Committee
- Human Resources and Compensation Committee
- Transformation and Process Reengineering Committee
- Zakat & Charity Committee
- Cost Rationalization Committee
- Executive Risk Management Committee
- Cyber Security Risk Management Committee

BOARD OF DIRECTORS PROFILES

1. Khalid Rashid Al Zayani

Chairman
Experience: 51 Years

Mr. Khalid Rashid Al Zayani is the Honorary OBE in the 2014 Queen's Honours List and also involved in other business & Government Activities viz;Chairman of Al Baraka Islamic Bank, Midal Cables Ltd, First Motors, Aluwheel, Metal Form Co., Intersteel, Gulf Closures, Imerys Al Zayani Fused Minerals, Bahrain British Business Forum, Bahrain Businessmen's Association and Rashid Al Zayani Charitable Foundation. Mr. Al Zayani is the Honorary Chairman of the Board of Directors of Al Zayani Investments BSC ©, Zayani Motors, Euro Motors, Zayani Properties, Zayani Leasing, Bodyworks, Al Zayani Industries, Orient Motors and Bahrain Voluntary Work Society; Vice Chairman of Investcorp Bank,; Board Member of BCCI, Founding Member & Co- Chairman of U.S. Bahrain Business Council; President of CISI-Bahrain Advisory Council and Honorary Board Member of Bahrain India Society. His contributions to social and charitable activities include being a Founder and Former President of AmCham; Board Member of EDB; Founding Member & Vice Chairman of BISB; Founding member & Board Member of BKIC & NMC and Board Member of Takaful Intl. & Bahrain Credit.

2. Mr. Adnan Ahmed Yousif

Deputy chairman
Experience: 47 Years

Mr. Adnan Ahmed Yousif possesses over three 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 Bank Sudan, Al Baraka Turk Participation Bank, 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 B.S.C.(c), 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 was previously with Arab Banking Corporation (B.S.C.) for over 20 years, last serving as a Director on its Board.

In 2011, he received the Medal of Efficiency, a unique honour 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 honour 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.

3. Abdul Latif Abdul Rahim Janahi

Board member
Experience: 48 Years

Mr. Abdul Latif Abdul Rahim Janahi 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. Mr. Janahi 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.

4. Musa Abdel - Aziz Shihadeh

Board member
Experience: 59 Years

Mr. Musa Abdel - Aziz Shihadeh holds a Master degree in Business Administration (MBA) from USA. Worked in conventional banks from 5 /1961 until 5 /1980. He then joined Jordan Islamic Bank on June 1, 1980 till now. He is currently the.Chairman of Jordan Islamic Bank from 29/4/2019 In addition to being a board member of some Islamic banks. Mr. Shihadeh is currently a member of the Board of Directors of the General Council for Islamic Banks, a Board Member of the Jordanian Businessmen Association and Chairman and Board Member of several public and private companies in various sectors (industrial, educational, investment and insurance sector).

He was also a Board Member of the Association of Banks in Jordan since 1983 and has been the association's Vice-President for the period 1997 to 2005 and Chairman of the Board of Directors of Association of Banks in Jordan for the period 11/10/2015- 26/3/2018. A member of several investment, social, humanitarian and international organizations and committees. Mr. Shihadeh Participates and lectures in seminars related to the banking sector and the Islamic financial institutions regionally and internationally. Former member of the Accounting and Auditing Standards Board for Islamic Financial Institutions and the Chairman of the Accounting Committee (1990 to 2002). A member of the Board of Trustees of the Arab Thought Forum and Advisory Board Member of the International union of Arab Bankers. Honor- permanent member of the society of friends of Jordan Eye Bank and the prevention of blindness.

BOARD OF DIRECTORS PROFILES (Continued)

5. Mr. Ashraf Ahmed El Ghamrawi

Board member
Experience: 43 years

Mr. Ashraf El Ghamrawy is the Vice Chairman and Chief Executive Officer of Al Baraka Bank Egypt since 2010. He has over 43 years' experience in the Banking and Financial Sector, starting as a Legal Accountant in 1977 until joining the Banking Sector in 1979. Hence, occupying various senior management positions till his appointment as the CEO and Managing Director of Al Baraka Bank Egypt in 2003 the then-Egyptian Saudi Finance Bank. By that time the number of branches were 10 with total budget of LE3.3 billion.

Under his management, Mr. El Ghamrawy set Al Baraka Bank Egypt as an Islamic Financial Institution in the forefront of the Egyptian banking sector. As a subsidiary of Al Baraka Banking Group, the pioneer of Islamic banking in the region, the number of branches expanded reaching 32 in addition to 2 Exchange Offices in Giza, and Hurghada. By 2019, the Total Budget reached 72.5 billion EGP, and the Net Profit exceeded 1.07 billion EGP.

Awards:

1. The Gold Medal of Merit for his leadership in the Arab region from the Academy of Excellence in December 2014.
2. The Islamic Finance Awards from IFN in March 2018
3. The Best Practice Award from The European society For Quality Research in May 2018.
4. The Arabian Eagle Award as a Leading Banking Figure from Tatweej Academy in 2018.
5. Otherways Management & Consulting Paris - France:
   - The Global Award for Perfection Quality & Ideal Performance in July, 2017.
   - The International Achievement Award for Quality and Business Excellence in September 2018.
   - The Golden Europe Award for Quality & Commercial Prestige in 2019.
6. The International Diamond Prize for Excellence in Quality from European Society for Quality Research (ESQR) in 2019.
7. The Best Islamic Bank in Egypt for 2019 from World Union of Arab Bankers in 2019.

Positions:

1. Member of the Board of Directors and the Executive Committee of Al Baraka Islamic Bank, Kingdom of Bahrain.
2. Board member of the Egyptian Company for the establishment and management of commercial centers.
3. Member of the Board of Trustees and Treasurer of the Egyptian Zakat Foundation.
4. Board Member & Chairman of Board Credit Committee of Al-Tawfiq Leasing Company (A.T Lease).
5. Board Member & Chairman of the Audit Committee at the Egyptian Takaful Insurance- Properties.
6. Chairman of Employee's Insurance Funds of Al Baraka Bank Egypt.

Memberships:

1. Member of the International Union of Arab Bankers.
2. Member of the American Chamber of Commerce in Cairo.

6. Maqbool Habib Khalfan

Board member
Experience: 46Years

Businessman and former Banker. Born in 1955 in state of Qatar. Graduated in Commerce (B Com.) from Cairo University in 1977. Started banking career in 1968 with Eastern Bank (standard Chartered Bank at present) in 1970 joined United Bank Ltd., in Qatar, at the time of opening the branch in the country. Joined Doha Bank, February 1979.

Played major role in establishing and promoting the developments of Doha Bank. Promoted as General Manager of Doha Bank in December 1987. Held many high posts in Doha Bank before promoted to the General Manager. Left Doha Bank in July 1997. Joined Qatar industrial Development Bank as a General Manager in February 1997, and played significant roles in establishing such a noncommercial bank in State of Qatar. Left Qatar Industrial Development Bank at the end of May 2001 for concentration on his own Business. He is chairman of Arabian Exchange Company Board of directors & Managing director of Gulf Colors, and holds 50% Stakes of the establishment.

7. Yousef Ali Fadil Bin Fadil

Board member
Experience: 36 Years

Mr. Yousef Bin Fadil 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 34 years of experience in the banking field. Mr. Bin Fadil, a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

8. Abdulrahman Abdulla Mohamed

Board member
Experience: 48 Years

Mr. Abdulrahman holds a Master of Business Administration Degree (MBA) from Universityof Hull, United Kingdom, around 48 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).

BOARD OF DIRECTORS PROFILES

9. 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 before (BMA) 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 Bahrain University. 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 Group.

EXECUTIVE MANAGEMENT PROFILES

1. Hamad Abdulla Al Oqab

Chief Executive Officer
Experience 25 years

Mr. Hamad Abdulla Al Oqab has over 25 years' experience in banking, finance and auditing. In addition to his role as Chief Executive Officer of Al Baraka Islamic Bank, he holds the responsibility of the Deputy Chief Executive of Al Baraka Banking Group "The major shareholder of the Bank".

Mr. Al Oqab represents Al Baraka Banking Group in several Boards of Al Baraka's subsidiary Banks, which include, Al Baraka Turk Participation Bank, Jordan Islamic Bank, Banque Al Baraka D'Algerie, Algeria and Albaraka Egypt. Additionally, he serves as a member of the Audit Committees of Jordan Islamic Bank and Banque Al Baraka D'Algerie, a member of the Board of Sustainability & Social Responsibility Committee and Credit Committee of Jordan Islamic Bank, a Member of the Board Executive Committee and Observing Member of the Board Audit Committee of Al Baraka Turk Participation Bank, and is the Chairman of Executive committee and Salaries and Remuneration Committee of Al BarakaBank Egypt.

Mr. Hamad Al Oqab is also 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, Mr. Al Oqab worked in different institutions including Shamil Bank "Currently Itmaar Bank", Arthur Andersen, Unilever and Bahrain Monitory Agency "Currently Central Bank of Bahrain".

Mr. Al Oqab is a Certified Public Accountant and a Chartered Global Management Accountant.

2. Tariq Mahmood Kazim

General Manager – Business Group
Experience: 36 Years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 36 years of experience in Banking, Support Service, implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include 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, Chairman of Board Executive Committee and Social Responsibility in ABPL, and Member of ABPL Board HR & Remuneration Committee

3. 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, Mr. Khalid was General Manager - Head of Internal Audit at Bahrain Islamic Bank, at the beginning of his career Mr. Khalid 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) Michigan, USA, and attended the Leadership Development Program at Darden School of Business, University of Virginia, USA.

4. Mohamed Abdulla Abdulrahim

Assistant General Manger & Chief Financial Officer
Experience: 19 years

Mr. Mohamed Abdulrahim joined Al-Baraka Islamic Bank in December 2016. He has over 19 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, Mr. Abdulrahim worked for 9 years with Khaleeji Commercial Bank and 6 years with Kuwait Finance House. Mr. Abdulrahim holds a Bachelor 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) and sponsored by Waqf Fund of Central Bank of Bahrain.

EXECUTIVE MANAGEMENT PROFILES (Continued)

5. Fouad Lakhdar El Ouzani

Assistant General Manager - Head of Credit Department
Experience: 18 Years

Mr. El Ouzani main responsibilities includes the development and updating of policies and monitoring the credit risk and administration processes like limit establishments, transaction booking, customer rating and to supervise all credit departments sub-units business processing. Mr. El Ouzani held several managerial positions prior to joining Al Baraka Islamic Bank in Gulf International Bank, The Arab Investment Co. and Arab Banking Corporation (ABC Islamic) Bahrain. Mr. El Ouzani holds a BSc Degree Chemical Engineering from University of Bahrain and a

Master in Finance from DePaul University - USA.

6. Maisoon Mohammed BenShams

Assistant General Manager - Head of Risk Management Department
Experience: 39 Years

Mrs. Maisoon heads Risk Management Department of Al Baraka Islamic Bank and is responsible of monitoring, and evaluating all the bank's risks (credit risk, market risk, liquidity risk, and operational risks). She commenced her banking career in 1981 with Central Bank of Bahrain (CBB) where she worked in various capacities and held several positions. In 2007, she joined Liquidity Management Centre as the Head of Risks & Compliance Department. She joined AIB In 2009 as Head of Risk and Compliance, in addition, served as acting compliance officer for Al Baraka Banking Group(ABG) for 3 years (2010-2013). She holds Masters of Business Administration from the University of Strathclyde - UK, BSc in Accounting from University of Bahrain, Certified in Strategic leadership and Executive Management Program from Beyster Institute, California – USA, Certificate in Islamic Studies from Imam Malik Institute, Certified arbitrator in securities disputes at GCC Commercial Arbitration Center, and other professional Certificates in her filed. Mrs. Maisoon is a member of Risk Management Committee which is one of the permanent committees establish by Bahrain Association of Bankers (BaB).

7. Fatima Moosa AlAlawi

Assistant General Manager – Head of Retail Banking and Domestic Branches
Experience: 20 years

Mrs. Fatema AlAlawi is the Head of Retail of Albaraka Islamic Bank of Bahrain. In a 20+ year career Mrs. Fatema AlAlawi 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 15M USD 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 BisB, Fatema introduced 22 products to the Islamic banking industry. Prior to that she was Vice President of the Islamic International Rating Agency 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 950 million for the Fund. 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.

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

8. Hassan Abdulwahab Al Khan

Assistant General Manager- Operations
Experience : 20 years

Mr. Hassan Al Khan has over 20 years' experience in retail & Banking Operations. He took up his current position as AGM – Operations at Al Baraka Islamic Bank 2018. He hold the position of Head of Central operations at BisB in 2016. Mr. Alkhan holds an MBA degree (Al Ahlia University) & BS in accounting (UOB), in addition to CIPA (Certified of Islamic professional accountant AAOIFI) and CITF (Certified in International trade finance).

9. Adel Jassim Al Manea

Assistant General Manager - Head of Remedial and Collection
Experience: 30 Years

Mr. Adel Al Manea is Assistant General Manager – Head of Remedial and Collection. Mr. Al-Manea is a holder of Associated Accounting Technician from the Board of AAT - United Kingdom and Banking Studies (Diploma) from University of Bahrain. He has over 30 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 18 years banking experience with Ithmaar Bank. Various managerial and banking courses inside and outside Bahrain. Joined

Al Baraka Islamic Bank in August 2008.

10. Sama Abdulhameed Al Alawi

Executive Senior Manager - Head of Human Resources and Administration
Experience: 20 years

Sama AbdulHameed Al Alawi is a highly qualified Human Resources professional with over two decades of experience in HRM roles. Mrs. Al Alawi has a rich background in the field, having had worked in multiple sectors including banking, aviation training, and telecommunications.

Prior to joining Al Baraka Banking Group in 2019, Mrs. Al Alawi held the role of Head of Human Resources at several organizations; including Ibdar Bank for five and a half years, where she also acted as the secretary

EXECUTIVE MANAGEMENT PROFILES (Continued)

of the Nominations, Renumerations and Corporate Governance committee, Gulf Aviation Academy from establishment stage for four and a half years, and Kuwait Financial House - Bahrain for one year.

Mrs. Al Alawi holds several academic qualifications, including Master of Science in Human Resources from DePaul University with honors, a Bachelor's in Business and Management from Maryland University, and an Associate Diploma in Accounting from the University of Bahrain. Professionally, Mrs. Al Alawi holds level 5 and 7 qualification from the Chartered Institute of Personnel and Development (CIPD), a Six Sigma Black Belt holder, and is a certified Psychometric profiler. Mrs. Al Alawi has extensive experience and practice of Corporate Social Responsibility, as she is a member in many International and National Social Responsibilities Organizations.

11. Bader Isa Al Shetti

Senior Manager – Head Of AntiMoney laundering & Compliance
Experience: 16 years

Mr. Al Shetti has joined Al Baraka Islamic Bank management team in 2016. Prior to his appointment as Head of Compliance and AML with Al Baraka Islamic Bank, Mr. Al Shetti 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 of Ernst & Young Bahrain. As an expert practice member, Mr. Al Shetti 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. Al Shetti 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.

12. Mohammed Jasim Ebrahim

The Sharia Officer & Secretary of Sharia Supervisory Board
Experience: 11 Years

Mr. Mohammed Jassim is The Sharia Officer of Al Baraka Islamic Bank - Bahrain. He has Bachelor in Islamic Law (Comparative Fiqh and principles of Fiqh), from the Shari'a College of the Islamic University in Al Madinah Al Monawarah - KSA. Mr. Mohammed Jassim is a Certified Shari'a Adviser and Auditor (CSAA), from AAOIFI- Bahrain, and he is a Permanent lecturer at alBaraka Academy. Mr. Mohamed Jassim has more than 11 years of experience in Islamic Banking.

13. Duaij Khalifa Abulfateh

Head of Internal Sharia Audit
Experience: 11 Years

Mr. Duaij Khalifa Abulfateh has over 10 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 since February 2008. Currently is responsible to establish and Lead Internal Sharia Audit Department in AL Baraka Islamic Bank.

Mr. Duaij Abulfateh 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.

14. Mohammed Ali Qudrat

Manager – Acting Head of Treasury
Experience: 16 years

Mr. Mohammed Qudrat is a banking professional with more than 16 years of Islamic banking experience in various capacities. Mr. Qudrat joined Al Baraka Islamic Bank in 2015 and is currently heading the Treasury department with a mandate of handling FX, MM as well as the Bank's sukuk portfolio. Prior joining Al-Baraka Islamic Bank, Mr. Qudrat worked for 8 years with Bahrain Islamic Bank and years with Shamil Bank of Bahrain gaining in-depth knowledge FX, MM, ALM, Corporate Treasury sales & handled of 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).

15. Hasan Abdulaziz Al Qasimi

Manager – Acting Head of Internal Audit
Experience: 10 years

Mr. Hasan AbdulAziz AlQasimi has almost 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 B.S.C and EY as an internal auditor and external auditor. Currently, Mr. Hasan AlQasimi is Acting Head of Internal Audit Department since June 2019. He is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy.

COMMITTED TO 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."

Al Baraka Bahrain 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 2018. The total amount contributed in Philanthropic Program is USD278 thousand which was invested in Education, Community Development Projects and Economically Challenged Communities.

Philanthropic Program 2018	USD000
Education	**112**
Community Development Projects	
Healthcare	35
Individuals with Special Needs	**8**
Economically Challenged Communities	**123**
Total	**278**

Al Baraka Bahrain participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of USD17,232 thousand where USD8,734 thousand spent on Community Development Projects and USD8,498 thousand on SMEs and Micro businesses in 2018.

Economic Opportunities and Social Investments Program 2018	USD000
Community Development Projects	
Housing	8,734
Local Industries, Micro and SMEs	
Industrial	6,498
Construction & Real Estate	2,000
Total	**17,232**

Total of Programs by Al Baraka Bahrain(Philanthropic and Economic Opportunities & Social Investments) USD17,510,000.

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Transparency

Shari'a Supervisory Board's Report

Date: 08 Jumada Al-Thani 1441 A.H.

Corresponding to: 02 February 2020

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

Report of the Fatwa and Sharia Supervisory Board From 01.01.2019 to 31.12.2019

To the Shareholders of Al Baraka 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 2019. 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, we have reviewed the report of the IESCA that was issued by KPMG and reviewed the points mentioned therein.

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: ("86" documents), (audits on "646" executed transactions), (Sharia training program for staff, trainees), ("31" new advertisement and promotional material), (re-arrangement the profit distribution mechanism).

We have 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 2019 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 management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Sharia Supervisory Board, which is equivalent to USD 0.213 per share.

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

Shaikh Dr. Abdulsattar Abughuddah
Chairman of Sharia Supervisory Board

Shaikh Esam Mohamed Ishaq
Member of Sharia Supervisory Board

Shaikh Dr. Nedham Yaqoobi
Member of sharia Supervisory Board

Mr. Mohammed Jassim Ebrahim
Sharia Officer & Secretary of Sharia Supervisory Board

Financial Statements

For the year ended 31 December 2019

Contents

Independent Auditors' Report to the Shareholders of

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary ("the Group") as of 31 December 2019 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. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2019, the results of its 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 the Financial Accounting Standards issued by AAOIFI.

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; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

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 2019 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no. 244

24 February 2020

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 US$ '000	2018 US$ '000
ASSETS			
Cash and balances with banks and financial institutions	3	344,747	187,329
Receivables	4	449,729	712,375
Ijara Muntahia Bittamleek and Ijara receivables	5	282,709	284,696
Musharakas	6	237,493	271,890
Investments	7	744,069	544,640
Investment in joint venture	8	14,715	14,671
Investments in real estate	9	15,358	5,238
Premises and equipment	10	47,295	55,611
Goodwill	11	14,502	16,172
Other assets	12	63,617	87,800
TOTAL ASSETS		2,214,234	2,180,422
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		86,433	57,624
Current accounts		276,882	275,588
Medium term financing		39,029	61,076
Other liabilities	13	94,005	113,737
Total liabilities		496,349	508,025
Equity of investment accountholders (IAH)	14	1,436,847	1,410,782
Subordinated debts	15	14,667	17,478
Owners' Equity	16		
Share capital		136,458	122,458
Additional tier-1 capital		111,000	110,000
Reserves		(4,070)	4,791
Accumulated losses		(2,010)	(21,778)
Equity attributable to parent's shareholders		241,378	215,471
Non-controlling interest		24,993	28,666
Total owners' equity		266,371	244,137
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		2,214,234	2,180,422
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		642,471	86,757
CONTINGENCIES AND COMMITMENTS	17	337,306	302,095

Khalid Rashid Al-Zayani
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Hamad Abdulla Aloqab
Chief Executive Officer

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2019

	Notes	2019 US$ '000	2018 US$ '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	91,075	87,175
Investments	19	8,422	5,613
Income from jointly financed assets		**99,497**	**92,788**
Return on equity of investment accountholders before Group's share as a Mudarib		(75,160)	(59,786)
Group's share as a Mudarib		9,244	16,477
Return on equity of investment accountholders		**(65,916)**	**(43,309)**
Group's share as a Mudarib and Rabalmal		**33,581**	**49,479**
INCOME FROM SELF FINANCED ASSETS			
Financings	18	10,106	8,547
Investments	19	38,089	22,077
Income from self financed assets		**48,195**	**30,624**
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	8,660	12,276
Other income	21	6,420	3,880
Group's mudarib / agency fee from off-balance sheet equity of investment account holders		1,438	91
Income from banking services and others		**16,518**	**16,247**
TOTAL INCOME		**98,294**	**96,350**
Other financing costs		(9,371)	(9,843)
TOTAL OPERATING INCOME		**88,923**	**86,507**
OPERATING EXPENSES			
Staff expenses		(30,664)	(33,683)
Depreciation	10	(5,656)	(5,614)
Other operating expenses	22	(30,931)	(32,336)
TOTAL OPERATING EXPENSES		**(67,251)**	**(71,633)**
NET OPERATING INCOME		**21,672**	**14,874**
Allowances for impairment - net	23	(17,383)	(32,454)
Recovery from written off financing		2,012	-
INCOME / (LOSS) BEFORE TAXATION		**6,301**	**(17,580)**
Taxation	24	(1,183)	(653)
INCOME / (LOSS) FOR THE YEAR		**5,118**	**(18,233)**
Attributable to:			
Equity shareholders of the parent		5,297	(18,523)
Non-controlling interest		(179)	290
		5,118	(18,233)

Khalid Rashid Al-Zayani	Adnan Ahmed Yousif	Hamad Abdulla Aloqab
Chairman	Deputy Chairman	Chief Executive Officer

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

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Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2019

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital US$ '000	Additional tier-1 capital US$ '000	Statutory US$ '000	General US$ '000	Employee defined benefit plan US$ '000	Cumulative changes in fair value of investments US$ '000	Revaluation of premises and equipment US$ '000	Foreign exchange US$ '000	Accumulated losses US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
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)
Foreign currency translation reserve	-	-	-	-	-	-	-	(6,407)	-	(6,407)	(3,477)	(9,884)
Issuance of share capital	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**
Restated balances as at 1 January 2018	122,458	-	22,699	8,687	(117)	965	1,193	(13,914)	81	142,052	35,848	177,900
Cumulative changes in fair value	-	-	-	-	-	70	-	-	-	70	49	119
Foreign currency translation reserve	-	-	-	-	-	-	-	(14,399)	-	(14,399)	(7,580)	(21,979)
Changes in fair value of premises and equipment	-	-	-	-	-	-	(479)	-	-	(479)	-	(479)
Net (loss) / income for the year	-	-	-	-	-	-	-	-	(18,523)	(18,523)	290	(18,233)
Remeasurement gain on defined benefit plan	-	-	-	-	86	-	-	-	-	86	59	145
Issuance of additional Tier 1 Capital	-	110,000	-	-	-	-	-	-	-	110,000	-	110,000
Profit distribution on additional Tier 1 Capital	-	-	-	-	-	-	-	-	(3,336)	(3,336)	-	(3,336)
Balance at 31 December 2018	122,458	110,000	22,699	8,687	(31)	1,035	714	(28,313)	(21,778)	215,471	28,666	244,137

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 US$ '000	2018 US$ '000
OPERATING ACTIVITIES		
Net income / (loss) before taxation	6,301	(17,580)
Adjustments for:		
Depreciation	5,656	5,614
Provision for impairment - net	17,383	32,454
Gain on sale of premises and equipment	(49)	(13)
Share of income from investment in joint venture	(44)	(35)
Gain on sale of investments	(10,383)	(1,422)
Unrealized loss on revalution of investment properties	-	736
Operating profit before changes in operating assets and liabilities	18,864	19,754
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	(64,452)	(21,027)
Receivables	76,676	(6,622)
Ijara Muntahia Bittamleek and Ijara receivables	395	12,644
Musharakas	33,484	63,628
Other assets	18,612	20,839
Other liabilities	(19,523)	(14,256)
Due to banks and other financial institutions	28,809	5,537
Current accounts	1,294	(19,049)
Equity of investment accountholders	26,066	(61,141)
Taxation paid	(1,184)	(250)
Net cash generated from operating activities	119,041	57
INVESTING ACTIVITIES		
Purchase of investments	(592,604)	(148,816)
Investments sold / matured	430,771	119,451
Purchase of premises and equipment	(4,404)	(1,842)
Sale of premises and equipment	82	134
Net cash used in investing activities	(166,155)	(31,073)
FINANCING ACTIVITIES		
Repayment of subordinated debts	(2,811)	(8,555)
Receipt of additional tier-1 capital	-	50,000
Dividend distribution on additional tier-1 capital	-	(3,336)
Repayment of medium term financing	(22,047)	(38,740)
Net cash used in financing activity	(24,858)	(631)
Foreign currency translation adjustments	(6,451)	(13,063)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(78,423)	(44,710)
Cash and cash equivalents at 1 January	275,069	319,779
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 25)	196,646	275,069

The attached explanatory notes 1 to 31 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 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 finanaced 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

	Balance at 1 January 2018 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 2018 US$ '000
Wakala Bi Al-Istithmar (note 27)						
On Balance sheet equity of Investment Accountholders	236,313	-	82,875	22,717	(16,142)	325,763
Others						
Receivables	76,009	-	142	1,175	(91)	77,235
Investments	9,594	-	(72)	-	-	9,522
	85,603	-	70	1,175	(91)	86,757

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 seven commercial branches in the Kingdom of Bahrain. The Bank is 92% (2018: 91%) 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.

The consolidated financial statements were approved by the Board of Directors on 24 February 2020.

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 equity and land owned by the Bank (classifed 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 are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

2.3 Share Capital

During the year, the Bank has issued 140,000 ordinary shares against cash consideration of USD 14 million through right issuance, to reinstate compliance with the consolidated core equity ratio ("CET1"), which is to maintain the minimum requirements of 9% prescribed as per rule CA-2.2.1 of Volume II of CBB rule book.

2.4 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.

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Notes to the Consolidated Financial Statements
At 31 December 2019

2. ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

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

Bank	Ownership for 2019 / 2018	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2019 / 2018
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	192/ 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.

2.5 New 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 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019.

2.5.1 Adoption of FAS 28 - Murabaha and Other Deferred Payment Sale

The Group has adopted FAS 28 which is effective for periods begnining on or after 1 January 2019. This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements except for additional disclosure that has been added in the relevant section (note 4).

2.5.2 Adoption of FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)

The Group has early adopted FAS 31, from 1 January 2019 which has a mandatory date of initial application of 1 January 2020. This standard provides detailed guidance on recognition and disclosures requirements for Islamic finance transactions entered under such mode.

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 – as a preferred option; or

ii. Wakala venture.

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.

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.

2. ACCOUNTING POLICIES (continued)

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

b) Wakala as Wakeel (Agent)

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.

c) 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.

d) Transition

The Bank has applied the off balance sheet approach on transaction executed after the creation of a separate Wakala Pool during the current financial period. The deals entered before creation of the pool were being duly reported as investment in On Balance Sheet Jointly Financed Assets under multilevel arrangements under the consolidated statement of changes in Off balance sheet Equity of Investment Account Holders. Accordingly transition impact on adoption of FAS 31 is disclosed on "Consolidated statement of Off Balance Sheet Equity of Investment Accountholders".

Off balance sheet Wakala pool assets as at creation date - 30 June 2019	USD '000
Murabaha	41,756
Wakala	70,127
Investments	7,671
Commodities	35,493
	155,047

2.6 Summary of significant accounting policies

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

2.6.1 Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

2.6.2 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.

2.6.3 Receivables

Murabaha receivable

Murabaha receivable are stated net of deferred profits and allowances for ECL, if any.

Murabaha receivables consist mainly of murabaha and international commodities stated net of deferred profits and provision for doubtful amount. The Group considers promise made in murabaha receivables to the purchase orderer as obligatory.

Wakala receivable

Wakala receivable are stated cost plus accrued profit, less expected credit losses.

Salam receivable

Salam receivable is the outstanding amount at the end of the year less any expected credit losses.

Istisna'a receivable

Istisna'a receivable is the outstanding amount at the end of the year less any expected credit losses.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.4 Mudaraba financing and Musharaka

Mudaraba financing and Musharaka are partnerships in which the Group contributes capital. These contracts are stated at the fair value of consideration given less impairment.

2.6.5 Ijara Muntahia Bittamleek and Ijara income receivable

Ijara muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease) term, provided that all Ijarah instalments are settled.

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivable represent outstanding rentals at the end of the year less any expected credit losses.

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

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

FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss (ECL) model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity type investments.

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.

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 carring 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 borrower will enter bankruptcy or other financial reorganization.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

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

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 computaion

- 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'.

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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

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

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.

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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

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

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:

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 liabilites; 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. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.7 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.

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'.Investments classified as 'fair value through statement of income' 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.

2.6.8 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. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.9 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.

2.6.10 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.

2.6.11 Equity of investment accountholders

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled.

2.6.12 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.

2.6.13 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.

2.6.14 Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders include Wakala funds (as explained earlier) and 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.15 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 90 days overdue 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 above 90 days 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.

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 investments

Income from investments is recognised when earned.

Rental income

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

2.6.16 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.

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].

2.6.17 Investment pool expenses

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

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.18 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.

2.6.19 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.

2.6.20 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.

2.6.21 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.

2.6.22 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. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.23 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.

2.6.24 Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders. 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.

2.6.25 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".

2.6.26 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.

2.6.27 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.

2.6.28 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 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.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the reporting date.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

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 is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2. ACCOUNTING POLICIES (continued)

2.7 Judgements and estimates (continued)

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 INSTITUTIONS

	2019 US$ '000	2018 US$ '000
Cash in hand	36,420	35,171
Balances with State Bank of Pakistan		
Current account	7,529	7,054
Mandatory reserves	132,867	69,355
	140,396	76,409
Balances with CBB		
Current account	5,165	5,878
Mandatory reserves	26,836	25,897
	32,001	31,775
Balances with other banks and financial institutions	135,930	43,974
	344,747	187,329

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

4. RECEIVABLES

	2019			2018		
	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	-	11,603	11,603	4,654	178,823	183,477
Salam financing	-	96,164	96,164	-	77,323	77,323
Istisna'a financing	-	113,499	113,499	-	91,053	91,053
Murabaha and others	2,006	226,692	228,698	2,533	332,107	334,640
Bills receivable and others	-	72,613	72,613	-	127,646	127,646
Gross receivables	2,006	520,571	522,577	7,187	806,952	814,139
Deferred profits	(54)	(20,063)	(20,117)	(57)	(26,719)	(26,776)
	1,952	500,508	502,460	7,130	780,233	787,363
Allowances for expected credit losses	(372)	(52,359)	(52,731)	(372)	(74,616)	(74,988)
Net receivables	1,580	448,149	449,729	6,758	705,617	712,375

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.

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Good (1-4)	194,559	1,068	-	195,627	224,133
Satisfactory (5-7)	93,213	142,118	-	235,331	468,891
Default (8-10)	-	-	71,502	71,502	94,339
	287,772	143,186	71,502	502,460	787,363

4. RECEIVABLES (continued)

Movements in deferred profit from murabaha contracts:

	2019 US$ '000	2018 US$ '000
Deferred profit at the beginning of the year	19,611	18,604
Murabaha sales revenue during the year	379,680	886,665
Murabaha cost of sales	(334,502)	(848,619)
Profit accrued during the year	(37,315)	(34,329)
Deferred profit written off during the year	(698)	-
Deferred profit waived during the year	(5,831)	(2,710)
Deferred profit at the end of the year	**20,945**	**19,611**

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

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Balance at 1 January	1,339	8,151	65,498	74,988	60,384
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 credit-impaired	(13)	(13)	26	-	-
Net remeasurement of loss allowance	(172)	2,379	14,488	16,695	24,182
Recoveries / write-backs	-	-	(2,114)	(2,114)	(2,733)
	(189)	2,393	12,377	14,581	21,449
Reclassification to Wakala Pool	(184)	(264)	-	(448)	-
Amounts written off during the year	-	-	(33,566)	(33,566)	(35)
FX translation	(38)	(63)	(2,723)	(2,824)	(6,810)
Balance at 31 December	928	10,217	41,586	52,731	74,988

Notes to the Consolidated Financial Statements

At 31 December 2019

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2019			2018		
	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	27,754	221,388	249,142	28,177	235,362	263,539
Ijara receivables	10,027	31,404	41,431	5,877	30,287	36,164
	37,781	252,792	290,573	34,054	265,649	299,703
Allowance for expected credit losses	(119)	(7,745)	(7,864)	(116)	(14,891)	(15,007)
	37,662	245,047	282,709	33,938	250,758	284,696

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.

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Good (1-4)	237,140	81	-	237,221	229,999
Satisfactory (5-7)	1,617	23,866	-	25,483	43,566
Default (8-10)	-	-	27,869	27,869	26,138
	238,757	23,947	27,869	290,573	299,703

5.1 Ijara muntahia bittamleek

	2019			2018		
	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	-	294,557	294,557	-	299,237	299,237
Accumulated depreciation	-	(74,783)	(74,783)	-	(75,850)	(75,850)
Net book value	-	219,774	219,774	-	223,387	223,387
Equipment						
Cost	43,500	1,136	44,636	37,327	6,623	43,950
Accumulated depreciation	(15,746)	(587)	(16,333)	(9,150)	(3,741)	(12,891)
Net book value	27,754	549	28,303	28,177	2,882	31,059
Others						
Cost	-	6,381	6,381	-	17,535	17,535
Accumulated depreciation	-	(5,316)	(5,316)	-	(8,442)	(8,442)
Net book value	-	1,065	1,065	-	9,093	9,093
TOTAL						
Cost	43,500	302,074	345,574	37,327	323,395	360,722
Accumulated depreciation	(15,746)	(80,686)	(96,432)	(9,150)	(88,033)	(97,183)
Net book value	27,754	221,388	249,142	28,177	235,362	263,539

Notes to the Consolidated Financial Statements

At 31 December 2019

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.2 Ijara receivables

	2019			2018		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Ijara receivable	10,027	31,404	41,431	5,877	30,287	36,164
Allowances for expected credit losses	(119)	(7,745)	(7,864)	(116)	(14,891)	(15,007)
	9,908	23,659	33,567	5,761	15,396	21,157

5.3 Allowances for credit losses

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

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Balance at 1 January	221	754	14,032	15,007	8,761
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 credit-impaired	-	(271)	271	-	-
Net remeasurement of loss allowance	(59)	121	1,946	2,008	7,691
Recoveries / write-backs	-	-	(417)	(417)	(509)
Allowances for credit losses	(44)	(165)	1,800	1,591	7,182
Amounts written off during the year	-	-	(8,388)	(8,388)	-
FX translation	(4)	(25)	(317)	(346)	(936)
Balance at 31 December	173	564	7,127	7,864	15,007

6. MUSHARAKAS

	2019			2018		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Musharakas	39,933	205,300	245,233	48,178	231,327	279,505
Allowances for expected credit losses	-	(7,740)	(7,740)	-	(7,615)	(7,615)
	39,933	197,560	237,493	48,178	223,712	271,890

6. MUSHARAKAS (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Good (1-4)	208,866	2,304	-	211,170	247,649
Satisfactory (5-7)	14,956	8,370	-	23,326	24,905
Default (8-10)	-	-	10,737	10,737	6,951
	223,822	10,674	10,737	245,233	279,505

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

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Balance at 1 January	1,542	1,187	4,886	7,615	8,497
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	1,481
Recoveries / write-backs	-	-	(309)	(309)	(622)
	(266)	469	708	911	859
FX translation	(159)	(123)	(504)	(786)	(1,741)
Balance at 31 December	1,117	1,533	5,090	7,740	7,615

7. INVESTMENTS

	2019			2018		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
i) Equity-type instruments at fair value through statement of income						
Quoted						
Listed equity shares	-	204	204	-	786	786
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	279,283	27,152	306,435	184,363	91,214	275,577
Unquoted						
Sukuk	121,527	226,728	348,255	179,553	15,199	194,752
	400,810	253,880	654,690	363,916	106,413	470,329
Allowances for expected credit losses	(237)	(61)	(298)	(2,340)	(365)	(2,705)
	400,573	253,819	654,392	361,576	106,048	467,624
iii) Equity-type instruments at fair value through equity - note 7.2						
Quoted						
Listed equity shares	28,646	333	28,979	8,786	371	9,157
Unquoted						
Unlisted equity shares	63,333	337	63,670	60,263	376	60,639
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	1,636	-	1,636	9,437	1,500	10,937
	94,615	670	95,285	79,486	2,247	81,733
Provision for impairment	(5,330)	(482)	(5,812)	(5,015)	(488)	(5,503)
	89,285	188	89,473	74,471	1,759	76,230
Total investments	489,858	254,211	744,069	436,047	108,593	544,640

The investments in quoted equity type instruments, amounted to US$ 25.7 million (2018: US$ 6.8 million) are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to US$ 64.0 million (2018: US$ 70.2 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$ 654.4 million (2018: US$ 467.6 million) has a fair value amounting to US$ 667.8 million (2018: US$ 466.9 million).

Investments stated at a carrying amount of US$ 298.7 million (2018: US$ 252.4 million) are placed in custody of a financial institution to secure a financing line.

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.

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Good (1-4)	171,819	-	-	171,819	165,983
Satisfactory (5-7)	482,871	-	-	482,871	302,044
Default (8-10)	-	-	-	-	2,302
	654,690	-	-	654,690	470,329

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

	2019				2018
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Balance at 1 January	584	227	1,894	2,705	2,294
Changes during the year					
- transferred to Stage 1: 12 month ECL	38	(38)	-	-	-
Net remeasurement of loss allowance	(324)	(189)	408	(105)	412
	(286)	(227)	408	(105)	412
Amounts written off during the year	-	-	(2,302)	(2,302)	-
FX translation	-	-	-	-	(1)
Balance at 31 December	298	-	-	298	2,705

7.2 Provision for impairment on equity type investments

	2019 US$ '000	2018 US$ '000
Balance at 1 January	5,503	2,610
Charge for the year	996	3,189
Reversal for the year	(339)	-
Exchange difference	(348)	(296)
Balance at 31 December	5,812	5,503

8. INVESTMENT IN JOINT VENTURE

	2019 US$ '000	2018 US$ '000
Balance at 1 January	14,671	14,636
Net share of income for the year	44	35
Balance at 31 December	14,715	14,671

		Ownership	
Name	Nature of Business	2019	2018
Danat-al- Barakat	Real estate development	51.00%	51.00%

Summarised statement of financial position

	2019 US$ '000	2018 US$ '000
Non-current assets	27,501	18,509
Current assets	1,545	10,486
Current liabilities	(195)	(230)
Net assets	28,851	28,765
Group's ownership in equity	14,715	14,671
Net carrying amount	14,715	14,671
Summarised statement of profit and loss		
Total income	139	216
Total expenses	(53)	(147)
Total comprehensive income	86	69
Group's net share of profit	44	35

9. INVESTMENTS IN REAL ESTATE

	2019 US$ '000	2018 US$ '000
Balance at 1 January	5,238	5,974
Transfer from other assets (note 12.1)	5,565	-
Transfer from premises and equipment (note 10)	4,555	-
Unrealized loss on remeasurement	-	(736)
Balance at 31 December	15,358	5,238

Notes to the Consolidated Financial Statements

At 31 December 2019

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 2019	46,627	18,600	36,250	708	102,185
Additions	2,219	712	1,449	24	4,404
Disposals	(33)	(8)	(160)	(90)	(291)
Revaluation	(714)	-	-	-	(714)
Transfer to investment properties	(10,000)	-	-	-	(10,000)
Exchange difference	(1,412)	(1,114)	(1,521)	(47)	(4,094)
At 31 December 2019	36,687	18,190	36,018	595	91,490
Accumulated depreciation:					
At 1 January 2019	10,053	13,405	22,496	620	46,574
Depreciation for the year	1,483	1,209	2,934	30	5,656
Related to disposals	(18)	(2)	(152)	(87)	(259)
Transfer to investment properties	(5,445)	-	-	-	(5,445)
Exchange difference	(478)	(651)	(1,163)	(39)	(2,331)
At 31 December 2019	5,595	13,961	24,115	524	44,195
Net book values:					
At 31 December 2019	31,092	4,229	11,903	71	47,295
At 31 December 2018	36,574	5,195	13,754	88	55,611
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

11. GOODWILL

	2019 US$ '000	2018 US$ '000
Balances at 1 January	16,172	20,338
Foreign exchange translation	(1,670)	(4,166)
Balances at 31 December	14,502	16,172

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 senior 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

At 31 December 2019

12. OTHER ASSETS

	2019 US$ '000	2018 US$ '000
Collaterals pending sale (12.1)	14,889	21,747
Deferred tax (12.2)	22,918	25,207
Advance against financing transactions	-	14,481
Advance against capital expenditure	4,034	5,847
Accounts receivable	10,602	3,574
Advance tax	1,493	2,265
Income receivable	1,623	306
Others	10,627	17,253
Total	66,186	90,680
Provision for impairment	(2,569)	(2,880)
	63,617	87,800

12.1 At 31 december 2018, this included collaterals acquired against settlement of claim amounted to US$ 5.6 million, which in 2019 have been reclassified to "Investment Properties" because of change in management plan for holding such assets for capital appreciation and generation of rental income.

12.2 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

	2019 US$ '000	2018 US$ '000
Accounts payable	14,428	14,995
Margins received	37,647	61,593
Security deposit against Ijara Muntahia Bittamleek	3,405	5,925
Bills payable	20,819	9,947
Provision for employees benefits	5,722	7,821
Charity fund	625	553
Allowance for expected credit losses-unfunded facilities	770	597
Others	10,589	12,306
	94,005	113,737

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.

Notes to the Consolidated Financial Statements

At 31 December 2019

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

	2019 US$ '000	2018 US$ '000
IAH - Non-banks	1,171,616	1,044,687
IAH - Banks	265,002	365,980
Profit equalisation reserve (note 14.1)	229	115
Investment risk reserve (note 14.2)	-	-
	1,436,847	1,410,782

14.1 Movement in profit equalisation reserve

	2019 US$ '000	2018 US$ '000
Balance at 1 January	115	572
Amount apportioned from income allocable to equity of investment accountholders	114	115
Amount utilised during the year for expected credit losses	-	(572)
Balance at 31 December	229	115

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.

14.2 Movement in investment risk reserve

	2019 US$ '000	2018 US$ '000
Balance at 1 January	-	1,701
Amount apportioned to expected credit losses	-	(1,701)
Balance at 31 December	-	-

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% (2018: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US$ 8.8 million (2018: US$ 10.6 million) to equity of investment account holders for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

At 31 December 2019

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.3 Equity of Investment Accountholders by type

	2019 US$ '000	2018 US$ '000
Saving Accounts	616,732	575,254
One Month Investment Account	115,765	163,806
Three Months Investment Account	176,650	269,620
Six Months Investment Account	141,005	47,155
Nine Months Investment Account	10,544	763
1 Year Investment Account	310,741	293,447
2 Years Investment Account	7,975	11,912
3 Years Investment Account	39,265	27,218
4 Years Investment Account	22	25
5 Years Investment Account	18,148	21,582
	1,436,847	1,410,782

14.4 Equity of Investment Accountholders by maturity

	2019 US$ '000	2018 US$ '000
Accounts on demand	616,732	575,254
Accounts on a contractual basis *	820,115	835,528
	1,436,847	1,410,782

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

15. SUBORDINATED DEBTS

	2019 US$ '000	2018 US$ '000
Subordinated Mudaraba Sukuk	14,667	17,478
	14,667	17,478

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

16. OWNERS' EQUITY

	2019 US$ '000	2018 US$ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2018: 6,000,000) of US$ 100 each	600,000	600,000

	2019 US$ '000	2018 US$ '000
Issued and fully paid 1,364,578 ordinary shares (2018: 1,224,578) of US$ 100 each	136,458	122,458

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

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

	2018		
Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,115,755	91.11%

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

Following is the distribution schedule of shares, setting out the number and percentage of other shareholders along with categories:

	2019			2018		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	58,823	12	4.31%	58,823	12	4.81%
1% up to less than 5%	50,000	1	3.66%	50,000	1	4.08%
	108,823	13	7.97%	108,823	13	8.89%

(ii) Additional Tier 1 (AT1) Capital	2019 US$ '000	2018 US$ '000
Subordinated Mudaraba debt	111,000	110,000

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) requirements as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to USD $ 81 million against cash considertation 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 such 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.

16. OWNERS' EQUITY (continued)

(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.

(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

	2019 US$ '000	2018 US$ '000
Letters of credit	63,673	87,074
Guarantees	56,500	59,114
Foreign exchange contracts	172,274	122,666
Acceptances	43,333	31,496
Taxation	1,489	1,661
Others	37	84
	337,306	302,095

18. INCOME FROM FINANCINGS

	2019 US$ '000	2018 US$ '000
Sales and other receivables	49,941	46,807
Ijarah Muntahia Bittamleek	16,143	18,551
Musharakas	35,097	30,364
	101,181	95,722

	2019 US$ '000	2018 US$ '000
Income from jointly financed financings	91,075	87,175
Income from self financed financings	10,106	8,547
	101,181	95,722

Notes to the Consolidated Financial Statements

At 31 December 2019

19. INCOME FROM INVESTMENTS

	2019 US$ '000	2018 US$ '000
Yield, coupon or return on investments	35,799	25,821
Gain on sale of investments	10,383	1,422
Dividends	209	296
Rental income	120	151
	46,511	27,690

	2019 US$ '000	2018 US$ '000
Income from jointly financed investments	8,422	5,613
Income from self financed investments	38,089	22,077
	46,511	27,690

20. REVENUE FROM BANKING SERVICES

	2019 US$ '000	2018 US$ '000
Fees and commissions	6,294	6,256
Letters of credit and acceptances	1,908	5,488
Guarantees	458	532
	8,660	12,276

21. OTHER INCOME

	2019 US$ '000	2018 US$ '000
Foreign exchange gain - net	5,389	3,732
Unrealised fair value loss on investment in real estate (note 9)	-	(736)
Others	1,031	884
	6,420	3,880

22. OTHER OPERATING EXPENSES

	2019 US$ '000	2018 US$ '000
Administrative expenses	6,592	6,806
Premises costs	11,039	13,013
Business expenses	11,478	10,668
General expenses	1,822	1,849
	30,931	32,336

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Notes to the Consolidated Financial Statements

At 31 December 2019

23. ALLOWANCES FOR IMPAIRMENT - NET

	2019 US$ '000	2018 US$ '000
Receivables (note 4)	(14,581)	(21,449)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	(1,591)	(7,182)
Musharakas (note 6)	(911)	(859)
Investments at amortized cost (note 7)	105	(412)
Investments at fair value through equity (note 7.2)	(657)	(3,189)
Contingencies and commitments	252	637
	(17,383)	(32,454)

24. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2019 US$ '000	2018 US$ '000
Consolidated statement of financial position:		
Advance tax - net	1,493	2,265
Consolidated statement of income:		
Current tax	(1,572)	(825)
Deferred tax	389	172
	(1,183)	(653)

25. CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:

	2019 US$ '000	2018 US$ '000
Cash in hand	36,420	35,171
Balances with central banks (unrestricted accounts)	12,694	12,932
Balances with other banks and financial institutions	135,930	43,974
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	11,602	182,992
	196,646	275,069

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	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Assets:						
Cash and balances with banks and financial institutions	93	43	5,506	181	5,599	224
Receivables	-	-	194	8,034	194	8,034
Ijara Muntahia Bittamleek	-	-	62	204	62	204
Musharaka	-	218	1,623	1,901	1,623	2,119
Ijara receivables	-	-	23	53	23	53
Investments	18,361	-	78,621	86,848	96,982	86,848
Other assets	7,844	655	100	159	7,944	814
	26,298	916	86,129	97,380	112,427	98,296
Liabilities:						
Due to banks and financial institutions	6,715	4,096	5,592	624	12,307	4,720
Current account	146	158	28,133	19,319	28,279	19,477
Other liabilities	4	5	480	258	484	263
	6,865	4,259	34,205	20,201	41,070	24,460
Equity of investment accountholders	6,707	8,994	127,803	85,552	134,510	94,546
Subordinated debts	111,000	110,000	-	-	111,000	110,000
Off-balance sheet equity of investment accountholders	153,379	-	139,906	63,653	293,285	63,653
Contingencies and commitments	-	-	2,711	3,826	2,711	3,826

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

	Shareholders		Other Related Parties		Total	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Income						
Financings	-	-	237	632	237	632
Investments	-	-	537	1,045	537	1,045
Other income	320	318	-	1	320	319
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	18	46	45	45	63	91
	338	364	819	1,723	1,157	2,087
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	201	608	3,575	1,745	3,776	2,353
Other expenses	318	901	1,559	2,301	1,877	3,202
	519	1,509	5,134	4,046	5,653	5,555

26. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel is as follows:
Key management personnel includes the staff in grade of senior manager and above.

	2019 US$ '000	2018 US$ '000
Salaries	3,510	4,132
Other benefits	2,107	2,299
	5,617	6,431

27. WAKALA BI AL-ISTITHMAR

	2019 US$ '000	2018 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	177,397	325,763
Total wakala bi al-istithmar financed assets	338,702	325,763

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 2019 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion 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										
Due to banks and financial institutions	70,515	15,918	-	-	-	-	-	-	-	86,433
Current accounts	276,882	-	-	-	-	-	-	-	-	276,882
Medium term financing	1,029	-	-	38,000	-	-	-	-	-	39,029
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

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 2018 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

ASSETS	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
Cash and balances with banks and financial institutions	73,514	-	-	18,563	-	-	-	-	95,252	187,329
Receivables	397,748	177,106	57,506	40,043	15,476	5,145	-	-	19,351	712,375
Ijara Muntahia Bittamleek and Ijara Receivables	1,495	7,832	16,406	61,198	36,063	54,656	79,934	15,981	11,131	284,696
Musharakas	427	1,381	13,232	92,891	113,796	34,236	13,864	-	2,063	271,890
Investments	64,859	37,649	24,664	116,042	14,681	222,175	1,000	-	63,570	544,640
Investments in real estate	-	-	-	5,238	-	-	-	-	-	5,238
Investment in Joint Venture	-	-	-	-	-	14,671	-	-	-	14,671
Premises and equipment	-	-	-	-	-	-	-	-	55,611	55,611
Goodwill	-	-	-	-	-	-	-	-	16,172	16,172
Other assets	30,865	9,064	4,962	11,693	27,465	-	-	-	3,751	87,800
Total assets	568,908	233,032	116,770	345,668	207,481	330,883	94,798	15,981	266,901	2,180,422
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	40,960	16,664	-	-	-	-	-	-	-	57,624
Current accounts	275,588	-	-	-	-	-	-	-	-	275,588
Medium term finance	1,076	-	22,000	38,000	-	-	-	-	-	61,076
Other liabilities	106,235	498	3,078	3,766	160	-	-	-	-	113,737
Total liabilities	423,859	17,162	25,078	41,766	160	-	-	-	-	508,025
Equity of investment accountholders	795,252	142,481	188,939	138,793	70,091	56,419	18,807	-	-	1,410,782
Subordinated debts	1,555	-	1,002	4,119	-	10,802	-	-	-	17,478
Total owners' equity	-	-	-	-	-	-	-	-	244,137	244,137
Total liabilities, Equity of investment accountholders subordinated debts and owner's equity	1,220,666	159,643	215,019	184,678	70,251	67,221	18,807	-	244,137	2,180,422
Net gap	(651,758)	73,389	(98,249)	160,990	137,230	263,662	75,991	15,981	22,764	-
Cumulative net gap	(651,758)	(578,369)	(676,618)	(515,628)	(378,398)	(114,736)	(38,745)	(22,764)	-	-
Off-balance sheet equity of investment accountholders	41,923	35,313	9,521	-	-	-	-	-	-	86,757

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 incentivise 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*

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

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

Notes to the Consolidated Financial Statements

At 31 December 2019

28. RISK MANAGEMENT (continued)

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 peri od of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2019 Total equivalent US$ '000
Pakistani Rupees	103,201
Euro	(1,798)
Kuwaiti Dinars	2,258
Pound Sterling	(5,229)

	2018 Total equivalent US$ '000
Pakistani Rupees	94,201
Euro	(2,744)
Kuwaiti Dinars	2,317
Pound Sterling	(6,001)

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	Particular	Change	Exposures in US$ '000	Effect on equity/ Income Statement in US$ '000
2019				
Pakistani Rupees	Net long Position	20.00%	103,201	20,640
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)

Currency	Particular	Change	Exposures in US$ '000	Effect on equity/ Income Statement in US$ '000
2018				
Pakistani Rupees	Net long Position	20%	94,201	18,840
Euro	Net short Position	20%	(2,744)	(549)
Kuwaiti Dinars	Net long Position	20%	2,317	463
Pound Sterling	Net short Position	20%	(6,001)	(1,200)

Notes to the Consolidated Financial Statements

At 31 December 2019

28. RISK MANAGEMENT (continued)

b) Market risk (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 2019 %	Effect on equity/ Income Statement 2019 US$ '000	Change in equity price 2018 %	Effect on equity/ Income Statement 2018 US$ '000
Pakistan Stock Exchange	10%	395,240	10%	994
Egyption Stock Exchange	10%	339,561	-	-
Jordan Stock Exchange	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 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

31 December 2018	*GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	28,370	36,257	64,627
Government	234,560	110,441	345,001
Investment companies	82,463	-	82,463
Manufacturing	-	10,334	10,334
Real estate	8,369	6,300	14,669
Others	2,958	24,588	27,546
	356,720	187,920	544,640

* 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.

Notes to the Consolidated Financial Statements

At 31 December 2019

28. RISK MANAGEMENT (continued)

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.

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 2019 US$ '000	2018 US$ '000
Receivables	449,729	712,375
Musharakas	237,493	271,890
Ijara Muntahia Bittamleek and Ijara receivables	282,709	284,696
Investments at amortized cost	654,392	467,624
Balances with banks and financial institutions	308,327	152,158
Other assets	22,852	21,133
Contingencies and commitments	335,780	300,350
	2,291,282	2,210,226

Notes to the Consolidated Financial Statements

At 31 December 2019

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 2019	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	Total US$ '000
Type of Islamic Financing Contract				
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

31 December 2018	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	Total US$ '000
Type of Islamic Financing Contract				
Receivables	664,190	28,834	94,339	787,363
Musharakas	270,583	1,971	6,951	279,505
Ijara Muntahia Bittamleek and Ijara receivables	272,775	790	26,138	299,703
	1,207,548	31,595	127,428	1,366,571

Aging analysis of past due but performing Islamic financing contracts

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

31 December 2018	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Type of Islamic Financing Contracts				
Receivable	21,578	5,254	2,002	28,834
Musharaka	1,454	420	97	1,971
Ijara Muntahia Bittamleek and Ijara receivable	494	239	57	790
	23,526	5,913	2,156	31,595

Notes to the Consolidated Financial Statements

At 31 December 2019

28. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

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

	31 December 2018				
	3-6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	3 Years & Above US$ '000	Total US$ '000
Receivable	25,752	11,965	19,477	37,145	94,339
Musharaka	1,933	987	1,235	2,796	6,951
Ijara Muntahia Bittamleek and Ijara receivable	3,482	6,407	13,265	2,984	26,138
	31,167	19,359	33,977	42,925	127,428

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

At 31 December 2019

28. RISK MANAGEMENT (continued)

c) Credit risk (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

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 organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

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	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Geographical region						
Middle East	1,125,946	1,151,292	159,653	175,626	577,223	601,784
Europe	28,806	59,661	7,087	2,693	9,181	1
Asia	970,198	889,664	258,943	278,961	670,201	543,258
Others	89,284	79,805	85,333	68,223	180,242	265,739
	2,214,234	2,180,422	511,016	525,503	1,436,847	1,410,782

Notes to the Consolidated Financial Statements

At 31 December 2019

29. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Industry sector						
Trading and manufacturing	368,287	351,150	56,124	66,534	124,152	107,692
Banks and financial institutions	1,064,394	880,992	191,563	197,458	320,944	430,396
Construction	25,080	41,894	10,673	10,181	5,599	8,373
Others	756,473	906,386	252,656	251,330	986,152	864,321
	2,214,234	2,180,422	511,016	525,503	1,436,847	1,410,782

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 dislcosed 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.

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	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Assets	1,200,709	1,271,206	1,013,525	909,216
Liabilities, equity of investment accountholders, and Subordinated debt	1,017,443	1,113,384	930,420	822,901
Total income	46,116	43,157	42,807	43,350
Total operating expenses	(33,166)	(33,598)	(34,085)	(38,035)
Net operating income	12,950	9,559	8,722	5,315
Provision for impairment - net and write back of written off	(7,398)	(28,501)	(7,973)	(3,953)
Taxation	-	-	(1,183)	(653)
Income / (loss) for the year	5,552	(18,942)	(434)	709

32. SOCIAL RESPONSIBILITY

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

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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

Contents

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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 seven 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 2019, 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.

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Basel III, Pillar III Disclosures

For the period ended 31 December 2019

2. CAPITAL ADEQUACY (continued)

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 2019			31 December 2018		
	CET 1 US$ '000	AT1 US$ '000	Tier 2 US$ '000	CET 1 US$ '000	AT1 US$ '000	Tier 2 US$ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	136,458			122,458		
General reserves	8,687			8,687		
Statutory reserves	23,228			22,699		
Retained earnings	(17,681)			(6,347)		
Current cumulative net income/ (losses)	936			(22,936)		
Unrealized gains and losses on available for sale financial instruments	(1,645)			595		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(34,717)			(28,312)		
Other reserves	(58)			(30)		
Total CET1 capital before minority interest	115,208			96,814		
Minority interest in banking subsidiaries	13,267			16,898		
Total CET1 capital prior to regulatory adjustments	128,475			113,712		
Less:						
Goodwill	31,585			33,255		
Intangible other than mortgage servicing rights	4,230			4,158		
Deferred tax assets	15,314			18,576		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	77,346			57,723		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		111,000	-		110,000	-
Instruments issued by banking subsidiaries to third parties		145	7,348		139	10,041
Assets revaluation reserve - property, plant, and equipment		-	-		-	714
Expected Credit Losses (ECL) Stages 1 & 2		-	6,240		-	2,921
Regulatory adjustment due to breach in CET1		-	-		(97,405)	-
Total Available AT1 & T2 Capital		111,145	13,588		12,734	13,676
Total CET 1 Capital	77,346			57,723		
Total T1 Capital		188,491			70,457	
Total Capital			202,079			84,133

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 2019 Capital requirements US$ '000	31 December 2018 Capital requirements US$ '000
Type of islamic financing contracts		
Receivables	16,347	22,043
Ijara Muntahia Bittamleek & Ijara receivables	7,354	7,437
Musharaka	11,799	13,859
	35,500	43,339

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 2019		31 December 2018	
	Self Financed US$'000	Financed by IAH US$'000	Self Financed US$'000	US$'000
Market risk - standardised approach				
Foreign exchange risk	8,468	-	7,741	-
Total of market risk - standardised approach	8,468	-	7,741	-
Multiplier	12.50	12.50	12.50	12.50
	105,850	-	96,763	-
Eligible Portion for the purpose of the calculation	100%	100%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	105,850	-	96,763	-
Total market RWE		105,850		96,763
		12.50%		12.50%
Minimum capital requirement		13,231		12,095

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 2019 US$'000	31 December 2018 US$'000
Indicators of operational risk		
Average gross income	79,595	72,416
Multiplier	12.5	12.5
	994,938	905,200
Eligible Portion for the purpose of the calculation	15%	15%
Total operational R WE	149,241	135,780
	12.50%	12.50%
Minimum capital requirement	18,655	16,973

Table – 5. Capital adequacy ratios

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

	31 December 2019			31 December 2018		
	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	23.86%	22.25%	9.13%	9.91%	8.30%	6.80%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	21.42%	16.51%	13.54%	22.82%	16.66%	13.60%
Itqan Capital Company	26.91%	26.91%	26.91%	31.06%	31.06%	31.06%

** Minimum required by CBB regulations under Basel III*

***The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.*

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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. The Group's financial subsidiary capital adequacy ratios

The following is the Group's financial subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2019			31 December 2018		
	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	13.34%	10.63%	10.63%	11.73%	9.23%	9.23%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	11.90%	7.50%	6.00%

**There are no capital conversion buffer required as per SBP requirements.*

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.

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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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 2019				31 December 2018			
	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	63,986	96,670	281,217	163,984	94,148	122,234	93,598	74,106
Receivables	1,579	1,837	444,055	539,635	6,758	17,448	705,617	713,568
Ijara Muntahia Bittamleek and Ijara receivables	37,662	35,413	245,047	244,486	33,938	32,158	250,758	259,405
Musharaka	39,933	40,944	197,561	201,799	48,178	55,876	223,712	247,452
Investments	464,767	431,445	254,236	222,825	412,486	421,271	108,593	119,645
Investment in real estate	17,159	12,141	-	-	7,754	7,691	-	-
Premises and equipment	48,553	56,360	-	-	56,668	61,128	-	-
Other assets	51,341	58,969	14,731	22,641	61,799	71,714	28,504	28,582
Unfunded exposure								
Contingencies and commitments	163,505	156,322	-	-	177,684	200,107	-	-
	888,485	890,101	1,436,847	1,395,370	899,413	989,627	1,410,782	1,442,758

Average balances are computed based on quarter end balances.

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 2019				31 December 2018			
	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	-	92,762	62,544	189,898	-	129,030	56,436	2,280
Receivables	1,579	-	188,764	255,291	6,758	-	458,162	247,455
Ijara Muntahia Bittamleek and Ijara receivables	37,662	-	239,018	6,030	33,937	-	237,749	13,010
Musharaka	-	39,933	-	197,561	-	48,178	-	223,711
Investments	297,629	138,363	267,796	15,216	307,650	104,835	78,225	30,369
Investment in real estate	17,159	-	-	-	7,754	-	-	-
Premises and equipment	31,453	17,101	-	-	-	-	-	-
Other assets	4,529	46,810	14,670	59	10,952	72,635	44,697	18,688
	390,011	334,969	772,792	664,055	367,051	354,678	875,269	535,513

* 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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

3. RISK MANAGEMENT (continued)

a) 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 2019				31 December 2018			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000	Funded US$'000	Unfunded US$'000
Cash items	17,351	-	19,069	-	35,171	-	-	-
Claims on Sovereigns	290,139	-	501,675	-	313,916	-	191,774	-
Claims on Public Sector Entities	137,613	-	11,367	-	169,867	-	41,870	-
Claims on banks	98,870	40,577	73,432	-	26,548	45,217	281,814	-
Claims on corporate	20,673	122,922	449,710	-	20,699	132,272	506,376	-
Mortgage	-	-	228,798	-	-	-	220,996	-
Past dues receivables	1,579	6	55,609	-	2,515	196	51,323	-
Regulatory Retail Portfolio	-	-	91,699	-	-	-	89,997	-
Equity investment	31,553	-	392	-	8,957	-	1,048	-
Investment in Funds	3,939	-	-	-	2,840	-	-	-
Holding of Real Estate	61,470	-	5,038	-	72,763	-	6,538	-
Other assets	61,795	-	59	-	68,453	-	19,046	-
	724,982	163,505	1,436,848	-	721,729	177,685	1,410,782	-

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 2019		31 December 2018	
	Self financed Funded US$'000	Financed by IAH Funded US$'000	Self financed Funded US$'000	Financed by IAH Funded US$'000
Cash and balances with bank	-	5,599	-	224
Receivables	-	194	-	8,034
Musharaka	-	1,623	-	2,119
Ijara Muntahia Bittamleek and Ijara Receivables	-	85	-	257
Investments	42,471	168	14,671	17,826
Other Assets	7,945	-	814	-
Contingencies and commitments	2,711	-	3,826	-
	53,127	7,669	19,311	28,460

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 2019 Self financed US$'000	31 December 2018 Self financed US$'000
Assets		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	148,543	148,543
Contingencies and commitments		
Letters of credit	2,019	2,433
Acceptances	4,140	1,265
	6,159	3,698

The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gainst/ 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 2019:

Counterparties *	Funded 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.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2018:

* Counterparties	Funded US$'000
Counterparty # 1	217,102
Counterparty # 2	76,409
Counterparty # 3	59,086
Counterparty # 4	57,939
Counterparty # 5	43,997
Counterparty # 6	42,785
Counterparty # 7	39,158
Counterparty # 8	31,774
Counterparty # 9	31,480
Counterparty # 10	29,824
Counterparty # 11	28,147
Counterparty # 12	27,032

* 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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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:

2019	
Counterparty # 1	12,999
Counterparty # 2	38
Counterparty # 3	7
Counterparty # 4	221

2018	
Counterparty # 1	43,205
Counterparty # 2	21,053
Counterparty # 3	8,194
Counterparty # 4	7,743

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 2019					31 December 2018				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US$'000	Non-performing Islamic financing contracts US$'000	90 days to 1 year US$'000	1 year to 3 years US$'000	Over 3 years US$'000	Past due but performing US$'000	Non-performing Islamic financing contracts US$'000	90 days to 1 year US$'000	1 year to 3 years US$'000	Over 3 years US$'000
Banks	262	-	-	-	-	-	-	-	-	-
Corporates	31,203	68,793	36,337	16,844	15,611	22,355	83,280	40,176	23,835	19,269
Investment Firms	-	-	-	-	-	-	15,418	-	-	15,418
Individuals	3,746	30,360	12,802	12,079	5,478	747	12,966	6,421	5,095	1,450
Others	6,593	10,954	5,741	1,591	3,621	8,492	15,764	3,929	5,047	6,788
	41,804	110,107	54,880	30,514	24,710	31,594	127,428	50,526	33,977	42,925

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 2019:

	Specific allowances								
	Opening Balance US$'000	IFRS-9 Implement. during the period US$'000	Charges during the year US$'000	Transit in Stage3 during the year US$'000	Write-Back during the year US$'000	Write-offs during the year US$'000	Transferred to investment risk reserve US$'000	Exchange difference on opening balance US$'000	Balance at the end of the year 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)	-
Individuals	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

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2018:

	Specific allowances								
	Opening Balance US$'000	IFRS-9 Implement. during the period US$'000	Charges during the year US$'000	Transit in Stage3 during the year US$'000	Write-Back during the year US$'000	Write-offs during the year US$'000	Transferred to investment risk reserve US$'000	Exchange difference on opening balance US$'000	Balance at the end of the year US$'000
Corporates	31,851	4,810	27,873	543	(1,645)	-	-	(5,947)	57,485
Investment Firms	13,382	-	-	-	-	-	-	(95)	13,287
Individual	2,520	459	2,644	352	(359)	(35)	-	(374)	5,207
Others	8,794	1,365	815	-	(1,506)	-	-	(2,081)	7,387
	56,547	6,634	31,332	895	(3,510)	(35)	-	(8,497)	83,366

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 2019			31 December 2018		
	Non-performing Islamic financing contracts US$'000	ECL for Stage 3 US$'000	ECL for Stage 1 and 2 US$'000	Non-performing Islamic financing contracts US$'000	ECL for stage 3 US$'000	ECL for Stage 1 and 2 US$'000
Middle East	50,147	16,044	10,636	77,762	50,138	9,206
Other Asian countries	59,960	36,660	4,993	49,666	33,228	5,039
	110,107	52,704	15,629	127,428	83,366	14,245

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 2019 Total US$'000	31 December 2018 Total US$'000
Restructured Islamic financing contracts	96,388	13,735

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.

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 2019		31 December 2018	
	Gross positive FV of contracts US$'000	* Collateral held US$'000	Gross positive FV of contracts US$'000	* Collateral held US$'000
Cash and balances with banks and financial institutions	345,203	-	187,746	-
Receivables	445,634	405,612	712,375	406,318
Ijara Muntahia Bittamleek	282,709	295,976	284,696	299,066
Musharaka	237,494	237,494	271,890	271,889
Investments	719,003	-	521,079	-
Investment in real estate	17,159	-	7,754	-
Ijara income receivables	-	-	-	-
Premises and equipment	48,553	-	56,668	-
Other assets	66,072	-	90,303	-
	2,161,827	939,082	2,132,511	977,273

* 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 2019		31 December 2018	
	Gross positive FV of contracts US$'000	Collateral held US$'000	Gross positive FV of contracts US$'000	Collateral held US$'000
Ijara Muntahia Bittamleek & Ijara income receivable	282,709	24,577	284,696	35,817

b) Market risk

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

Table – 19. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2019 Foreign exchange risk US$'000	31 December 2018 Foreign exchange risk US$'000
RWE	105,848	96,764
Capital requirements (12.5%)	13,231	12,095
Maximum value of RWE	105,848	96,764
Minimum value of RWE	96,711	86,708

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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 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 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 2018:

	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	28,145	32,711	9,401	18,743	2,582
Real estate related	24,312	24,285	-	24,312	12,198
	53,457	57,996	9,401	44,055	14,805

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 (2018: USD 6.8 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:

	31 December 2019 US$'000	31 December 2018 US$'000
Cummulative realised gains arising from sale or liquidation	10,383	1,422
Total unrealised gains recognised in the balance sheet but not through P&L	(1,645)	595
Unrealised gross gains included in Tier One Capital	(1,645)	595
Assets revaluation reserve - property, plant, and equipment	-	714

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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

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:

	31 December 2019				
	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	Over 3 years 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
Medium term financing	1,029	-	-	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	732,719	136,653	173,551	195,604	252,016
Profit rate gap	(511,993)	171,257	(80,087)	79,778	474,825
Profit rate sensitivity (200bps)	(10,240)	3,425	(1,602)	1,596	9,497

	31 December 2018				
	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	Over 3 years US$'000
Receivables	390,400	177,106	57,506	40,043	47,319
Ijara Muntahia Bittamleek and	8,239	7,271	14,771	56,724	176,534
Ijara Income Receivables	427	1,381	13,232	92,891	163,960
Musharaka	4,468	97,082	21,420	113,072	231,578
Investments-Sukuk					
Profit rate sensitive assets	403,534	282,840	106,929	302,730	619,391
Medium term financing	1,076	-	22,000	38,000	-
Equity of investment accountholders	795,252	142,481	188,939	138,793	145,317
Subordinated debt	1,555	-	1,002	4,115	10,807
Profit rate sensitive liabilities	797,883	142,481	211,941	180,908	156,124
Profit rate gap	(394,349)	140,359	(105,012)	121,822	463,267
Profit rate sensitivity (200bps)	(7,887)	2,807	(2,100)	2,436	9,265

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.

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:

	31 December 2019 Total equivalent US$'000
Pakistani rupees	103,201
Euro	(1,798)
Kuwaiti dinars	2,258
Pound sterling	(5,229)
Others	388

	31 December 2018 Total equivalent US$'000
Pakistani rupees	94,201
Euro	(2,744)
Kuwaiti dinars	2,317
Pound sterling	(6,001)
Others	245

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 2019

Currency	Particular	Change	Exposures in US$'000	Effect on profit and loss/Equity US$'000
Pakistani rupees	Net long Position	20%	103,201	20,640
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)

At 31 December 2018

Currency	Particular	Change	Exposures in US$'000	Effect on profit and loss/Equity US$'000
Pakistani Rupees	Net long Position	20%	94,201	18,840
Euro	Net short Position	20%	(2,744)	(549)
Kuwaiti Dinars	Net long Position	20%	2,317	463
Pound Sterling	Net short Position	20%	(6,001)	(1,200)

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].

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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Penalty charges

	31 December 2019 US$'000	31 December 2018 US$'000
Central Bank of Bahrain		
Discrepancies in credit, risk and compliance procedures		
and reporting of past dues	-	265
Delays in settlement of ATM balances*	-	29
Wrong disclosure of penalties in prior periods	-	13
Discrepancies in corporate governance disclosure	1	
Anomalies in standing orders, EFTS and other electronic channels	5	2
	6	310
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	189	49

* This penalty was paid in year 2018 but was waived off subsequent to yearend.

*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$ 115 thousand (2018: US$ 326 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

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 2019 US$'000	31 December 2018 US$'000
IAH - Non-banks	267,266	1,044,687
IAH - Banks	1,169,352	365,980
Profit equalisation reserve	229	115
Investment risk reserve	-	-
	1,436,847	1,410,782

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 2019	31 December 2018
PER to IAH (%)	0.02%	0.01%
IRR to IAH (%)	Nil	0.00%

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

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 2019	31 December 2018
Receivables	30.90%	50.02%
Musharaka	13.75%	15.86%
Ijara Muntahia Bittamleek & Ijara income receivable	17.05%	17.77%
Investments	17.69%	7.70%
Other assets	20.60%	8.65%

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 2019	31 December 2018
Banks	18.60%	26.09%
Investment Firms	3.34%	3.83%
Corporates	20.78%	16.93%
Residentials	48.93%	44.90%
Others	8.34%	8.26%

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 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Administrative expenses charged to equity of investment accountholders	8,863	10,577	7,079	5,755	3,405
Share of profits earned by IAH, before transfers to/from reserves	84,531	69,629	71,861	61,137	69,244
Percentage share of profit earned by IAH before transfer to/from reserves	6.06%	4.83%	4.73%	4.53%	5.40%
Share of profit paid out to IAH after					
Mudarib fee and transfer to/from reserves	75,287	53,151	53,553	44,558	51,696
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	5.40%	3.68%	3.52%	3.30%	4.03%
Share of profit paid out to Bank as mudarib	9,244	16,477	18,308	16,579	17,547
Mudarib Fee to total Investment Profits	10.94%	23.66%	25.48%	27.12%	25.34%

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 30. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the year ended:

	31 December 2019 US$'000	31 December 2018 US$'000	31 December 2017 US$'000	31 December 2016 US$'000	31 December 2015 US$'000
Balance at 1 January	115	572	551	558	575
Amount utilized on initial implementation of FAS 30		(572)			-
Restated balances as on 01 January	115	-	551	558	575
Amount apportioned from income	114	115	-	-	-
Foreign exchange gain / (loss)	-	-	21	(7)	(17)
	229	115	572	551	558
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	0.13%	0.17%	0.00%	0.00%	0.00%

Table – 31. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2019 US$'000	31 December 2018 US$'000	31 December 2017 US$'000	31 December 2016 US$'000	31 December 2015 US$'000
Balance at 1 January	-	1,701	2,339	2,339	2,338
Amount utilized on initial implementation of FAS 30	-	(1,701)	-	(2,339)	-
Restated balances as on 01 January	-	-	2,339	-	2,338
Exchange difference	-	-	1	-	(1)
Amount apportioned to provision	-	-	(639)	-	2
	-	-	1,701	-	2,339
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 2018: up to 70%) as per the terms of IAH agreements.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 32. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average 31 December 2019 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	0.00%	0.00%	11.26%
5 Years Term Deposits	2.37%	1.66%	11.97%

	Average 31 Dec 2018 Rate of return %		
	Bahrain		Pakistan
	BD	US$	
Saving Accounts	0.11%	0.08%	4.27%
One Month Term Deposits	0.56%	0.49%	3.74%
Three Months Term Deposits	0.65%	0.53%	4.24%
Six Months Term Deposits	0.77%	0.62%	4.27%
Nine Months Term Deposits	0.81%	0.69%	0.00%
1 Year Term Deposits	0.89%	0.72%	5.75%
2 Years Term Deposits	1.00%	0.78%	6.08%
3 Year Term Deposits	1.55%	0.00%	6.65%
4 Years Term Deposits	-	0.00%	6.15%
5 Years Term Deposits	-	1.00%	7.01%

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 2019:

	Opening Actual Allocation US$'000	Movement US$'000	Closing Actual Allocation 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
Ijara income receivables	-	-	-
Other assets	28,504	(13,773)	14,731
	1,410,782	26,065	1,436,847

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 33. Equity of Investment Accountholders by type of assets (continued)

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 2018:

	Opening actual allocation US$'000	Movement US$'000	Closing actual allocation US$'000
Cash and balances with banks	48,393	45,205	93,598
Receivables	723,820	(18,203)	705,617
Ijara Muntahia Bittamleek	279,392	(28,634)	250,758
Musharaka	275,513	(51,801)	223,712
Investments	114,126	(5,533)	108,593
Ijara income receivables	-	-	-
Other assets	32,956	(4,452)	28,504
	1,474,200	(63,418)	1,410,782

Table – 34. Equity of Investment Accountholders profit earned and paid

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
2019	**61,137**	**4.53%**	**44,558**	**3.30%**
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%
2014	72,635	6.05%	58,786	4.90%

* Annualised

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 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**

3. RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table - 35. Treatment of assets financed by Equity of Investment Accountholders (continued)

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 2018:

	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges *US$ '000*
Type of Claims			
Claims on Sovereign	77,345	23,204	2,901
Claims on PSEs	6,085	1,826	228
Claims on Banks	150,052	45,016	5,627
Claims on Corporates	439,298	131,789	16,474
Mortgage	155,870	46,761	5,845
Regulatory Retail Portfolio	62,196	18,659	2,332
Past due facilities	53,408	16,022	2,003
Investment in securities	1,368	410	51
Holding of Real Estates	26,150	7,845	981
Other Assets	19,047	5,714	714
	990,819	297,246	37,156

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 2019	31 December 2018
Wakala Bi Al-Istithmar		
Pool		
Receivables	**97.11%**	-
Investments	**2.89%**	-
On balance sheet jointly finanaced assets*		
Others		
Receivables	**46.83%**	89.02%
Investments	**53.17%**	10.98%

* 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".

3. RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

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 2019	31 December 2018
Wakala Bi Al-Istithmar		
Pool		
Banks	91.34%	-
Corporate	8.66%	-
On balance sheet jointly finanaced assets*		
Others		
Banks	49.51%	84.42%
Corporate	-	15.58%
Sovereigns	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".

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 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

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 2018:

	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Wakala Bi Al-Istithmar			
On balance sheet jointly finanaced assets	236,313	89,450	325,763
Receivables	76,009	1,227	77,236
Investments	9,594	(72)	9,522
	85,603	1,155	86,758
	321,916	90,605	412,521

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 2019 US$ '000	Dec 2018 US$ '000	Dec 2017 US$ '000	Dec 2016 US$ '000	Dec 2015 US$ '000	Dec 2014 US$ '000
Gross Income	23,830	1,175	1,491	1,810	1,782	1,772
Mudarib Fee	(11,563)	91	105	118	77	99

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.

Table – 40. Off-balance sheet equity of Investment Accountholders Foreign currency translation risk

At 31 December 2019

Currency	Exposure	Sensitivity	Amount
Euro	30,107	20%	6,021

At 31 December 2018

Currency			
Euro	6,195	20%	1,239

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 term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments 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. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Basel III, Pillar III Disclosures

For the period ended 31 December 2019

3. RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

Table – 41. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2019	31 December 2018
Liquid assets to total assets	16.09%	16.98%
Short term assets to short term liabilities	56.14%	57.59%

Table – 42. Quantitative indicators of financial performance and position

	Dec 2019	Dec 2018*	Dec 2017	Dec 2016	Dec 2015	Dec 2014
Return on average equity	2.0%	-8.2%	-2.7%	1.2%	3.5%	1.2%
Return on average assets	0.2%	-0.8%	-0.2%	0.1%	0.3%	0.1%
Cost to Income Ratio	75.6%	82.8%	103.1%	82.5%	88.5%	92.7%

* 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.

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation

As at 31 December 2019

	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	(16,744)	G
3	Accumulated other comprehensive income (and other reserves)	(4,505)	H-L
4	*Not applicable*	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	13,267	N
6	Common Equity Tier 1 capital before regulatory adjustments	128,476	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	31,584	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	4,230	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	14,196	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)	1,118	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**	**51,128**	
29	**Common Equity Tier 1 capital (CET1)**	**77,348**	
	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)	145	O
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**111,145**	

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation (continued)

As at 31 December 2019

	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)**	111,145	
45	Hair Cut due to shortage in CET-1 Capital	-	
46	**Net Available Capital after regulatory adjustments and haircut**	111,145	
47	**Tier 1 capital (T1 = CET1 + AT1)**	188,493	
	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)	7,348	D
51	*of which: instruments issued by subsidiaries subject to phase out*	-	
52	*Assets revaluation reserve - property, plant, and equipment*	-	P
53	Provisions	6,239	Q
54	**Tier 2 capital before regulatory adjustments**	13,587	
	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)**	13,587	
62	**Total capital (TC = T1 + T2)**	202,080	
63	**Total risk weighted assets**	847,021	
	Capital ratios and buffers		
64	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.13%	
65	Tier 1 (as a percentage of risk weighted assets)	22.25%	
66	Total capital (as a percentage of risk weighted assets)	23.86%	
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	

CBB - Composition of Capital Disclosure Requirements

PD-1 Regulatory Capital Reconciliation

As at 31 December 2019

	Common Disclosure Template	PIRI	Reference
71	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.6%	
	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)	7,846	
	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)	6,239	Q
80	Cap on inclusion of provisions in Tier 2 under standardised approach	7,400	
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 2019 US$ '000	As per Consolidated PIRI Return 31 December 2019 US$ '000
Assets		
Cash and balances with banks and financial institutions	344,747	345,203
Receivables	449,729	460,875
Ijara Muntahia Bittamleek &I jara receivables	282,709	283,445
Musharaka	237,493	240,143
Investments	744,069	704,579
Investments in real estate	15,358	17,159
Investment in joint venture & associates	14,715	14,723
Premises and equipment	47,295	48,553
Goodwill	14,502	31,584
Other assets	63,617	66,074
Total Assets	**2,214,234**	**2,212,338**
Liabilities		
Due to banks and financial institutions	86,433	86,433
Current accounts	276,882	276,882
Medium Term Financing	39,029	39,029
Other liabilities	94,005	99,734
Total liabilities	**496,349**	**502,078**
Equity of Investment Account Holders	**1,436,847**	**1,436,847**
Subordinated debt	**14,667**	**13,377**
Shareholders' Equity		
CET 1		
Share capital	**136,458**	136,458
Perpetual Tier1 capital	**111,000**	111,000
Retained earnings	**(4,070)**	(26,104)
Reserves	**(2,010)**	11,094
Total Shareholders' Equity	**241,378**	**232,448**
Non controlling interest	**24,993**	27,588
Total Liabilities, URIA and shareholders' equity	**2,214,234**	**2,212,338**

CBB - Composition of Capital Disclosure Requirements Statement of Financial Position - Appendix PD-2, Step-2

	As per published financial statements 31 December 2019 US$ '000	As per Consolidated PIRI Return 31 December 2019 US$ '000	
Assets			
Cash and balances with banks and financial institutions	344,747	345,203	
Receivables	449,729	460,875	
Ijara Muntahia Bittamleek & Ijara income receivable	282,709	283,445	
Musharaka	237,493	240,143	
Investments carried at fair value through profit & loss	204	14,758	
Investments carried at amortized cost	654,392	654,666	
Investments carried at fair value through equity	89,473	35,155	
Investments in real estate	15,358	17,159	
Investment in joint venture & associates	14,715	14,723	
Premises and equipment	47,295	48,553	
of which intangibles	4,230	4,230	A
Goodwill	14,502	31,584	B
Other assets	63,617	64,953	
of which deferred tax subject to direct deduction		14,196	C1
of which deferred tax subject to threshold deduction		1,118	C2
Total Assets	**2,214,234**	**2,212,335**	
Liabilities			
Due to banks and financial institutions	86,433	86,433	
Current accounts	276,882	276,882	
Medium Term Financing	39,029	39,029	
Other liabilities	94,005	99,731	
Total liabilities	**496,349**	**502,075**	
Equity of Investment Account Holders	**1,436,847**	**1,436,847**	
Subordinated debt	**14,667**	**13,377**	
of which allowed as T2		7,348	D
Shareholders' Equity			
CET 1			
Share capital	136,458	136,458	E
Perpetual AT1 Capital	111,000	111,000	F
Accumulated losses	(2,010)	(16,744)	G
Statutory reserve	23,228	23,228	H
General reserves	8,687	8,687	I
Foreign exchange reserve	(34,720)	(34,718)	J
Revaluation reserve on investments	(1,206)	(1,643)	K
Other reserves	(59)	(59)	L
Non controlling interest	24,993	27,588	M
NCI CET1		13,267	N
NCI AT1		145	O
Tier 2			
Revaluation reserve on premises and equipment	-	-	P
Expected credit losses for stage1 and stage2	-	6,239	Q
Total Shareholders' Equity	**266,371**	**260,036**	
Total Liabilities, URIA and shareholders' equity	**2,214,234**	**2,212,335**	

Legal entities included within the regulatory scope of consolidation but excluded from the accounting scope of consolidation:

Name	Activities	Total Assets	Total Equity
Itqan Capital Company	Fund management and investment advisory	20,529	15,327

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	3,690	9,687
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