STRENGTHENING CONNECTIONS

ANNUAL REPORT 2018

Al Baraka Islamic Bank - Bahrain

Contents

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You can find more information on our corporate website

www.albaraka.bh

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain

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

Al Baraka Islamic Bank is one of leading financial institutions in the Islamic banking sector.

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 129 billion Pakistani Rupees and a workforce of more than 2,500 professionals in addition to a network of 188 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 122.5 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

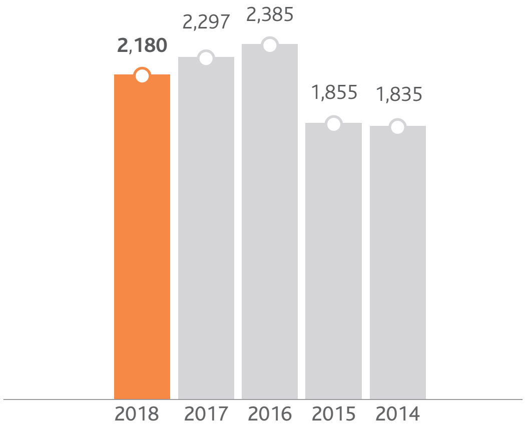
We believe society needs a fair and equitable financial system: one which rewords effort and contributes to the development of the community.

Mission

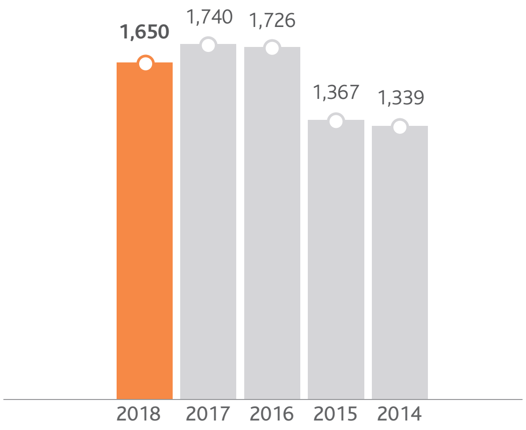
To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the natural benefits with the customers, staff and shareholders who participate in our business success.

Five years highlights

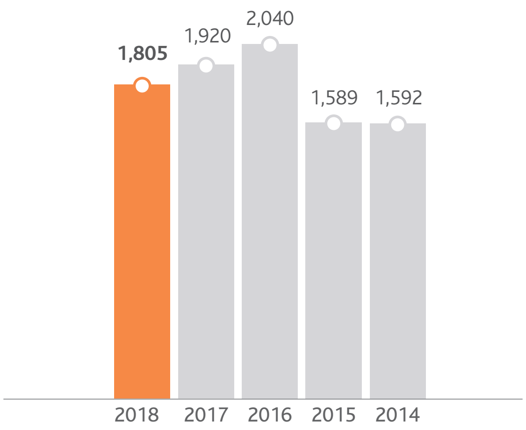
Total Assets (USD Million)



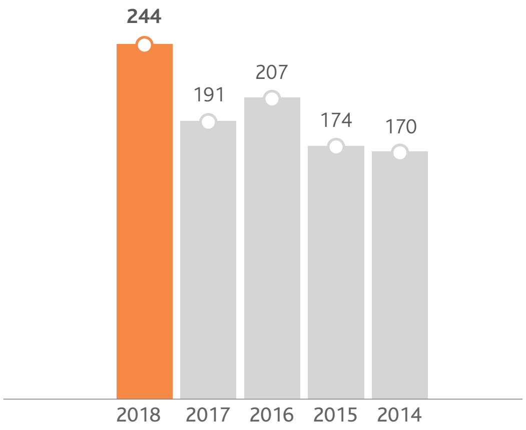
Financing & Investments (USD Million)



Total Deposits (USD Million)



Total Equity (USD Million)



Operational highlights

- 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.
- 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.
- Among important projects started during 2018 was replacing the Bank's existing core banking system with a new system that will allow us provide our clients with best quality service.
- 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.
- The Bank added two new ATMs during 2018 bring the total to 31 ATM's.
- The Bank also received the Best Islamic Financial Institution Award of 2018 from the Global Finance magazine.
- The Bank also won the Most Innovative Islamic Bank Award for 2018 from International Finance Magazine.

Board of Directors

Mr. Khalid Rashid Al Zayani
Chairman

Mr. Adnan Ahmed Yousif
Vice Chairman

Mr. Abdul Latif Abdul Rahim Janahi
Board Member

*Please refer to page 44-46 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 Mohammed
Board Member

Dr. Khalid Abdulla Ateeq
Board Member

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. Mousa Abdulaziz Shehadeh
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 Al 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

EMBRACING CHANGE

By surmounting all kinds of challenges, the Bank is well-poised to embark on journey towards achieving its strategic outcomes, sustainable growth along-with improvement in operating efficiencies, with renewed enthusiasm and commitment as we believe the daunting challenges has made us even stronger.

MR. KHALID RASHID AL ZAYANI
Chairman

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 2018.

The Bank will continue to explore new avenues, new market or business segments, aligned with approved business strategies, in coming periods. Such initiatives will provide diversity and improve our competitive position in market.

ECONOMIC REVIEW

Global economy maintained a steady growth during 2018. The fiscal acceleration in the US economy offset the slow growth in other large economies. Developed economies expanded at a steady pace, and growth rates in many countries have risen closer to their prospects, unemployment rates have dropped to historical lows. South-East Asian economies remained relatively strong and on a growth direction. Oil exporting countries are continuing a gradual recovery while remaining exposed to volatile prices and high debt levels. Uncertainty about economic and fiscal policies affected market sentiment. Any expected credit events or changes to US fiscal policy (leading to interest rate hikes) would distress financial markets, resulting in slowdowns especially in highly indebted countries.

Growth in Middle East and North Africa followed a recovery in 2018. Rising investments and easing fiscal consolidation initiatives are supporting the recovery of some oil exporters, while oil importers continued to benefit from policy reforms. However, geopolitical instability, strong external trade competition, abrupt tightening of global financing conditions, and slow reforms pace significantly reduced the growth in the region below its potential.

Project spending from multilateral and private sector commitments driving the economic growth in Kingdom of Bahrain during the current financial year. Further, the slight improvement in oil prices also contributed in sustaining such growth. Furthermore, the countercyclical effect of global growth have also giving a positive momentum to the local economy. However, the government is facing fiscal management challenges due to reduction in revenues and volatility in oil prices and as a result, it has undertaken fiscal consolidation measures (such as review of subsidy framework, austerity initiatives, diversification of source of revenues) which restrained such growth momentum. Moving forward, GCC countries announced support package for Bahrain to ease the fiscal burden.

Due to political transition and structural imbalances, Pakistan's economy lost growth momentum gained from reinstatement of peace and resolution of energy crises. Further, the raised uncertainties about future policies of new political party (gaining first time control of the country) shaken the investors' confidence. Further, the inclusion of Pakistan in the Financial-Action-Task-Force "FATF" grey list further increased such challenges. Moreover, the increase in oil prices exerted strong pressure on the country's very limited foreign exchange reserves. Thereafter, the emergency measures taken by the new government (like depreciation of local currency, increase in import tariffs and duties, increase in policy interest rate, increase in taxes) further slowdown the economic activities in the country. However, the mega spending on infrastructure under China Pakistan Economic Corridor Program maintained the positive trajectory in economic growth during the year. Further, the government incentivised the growth-oriented industry, through energy subsidies to meet current account deficit and minimize the impact of such slowdown. Furthermore, joining the IMF program and the fiscal support provided by Pakistan friends (KSA, UAE and China), will ease burden on balance payments and stimulate the growth in economic activity.

USD87 mn
Operating Income

USD1,086 mn
Financing Portfolio

PERFORMANCE REVIEW

The Bank is steering with great resilience and is running beside the tide of time by effectively coping with challenges posed by difficult operating conditions. The robust risk management practices, invigorated remedial function, and strong presence in domestic and regional market, were the key drivers in maintaining our journey towards achieving strategic outcomes in such a testing time. The Bank continued to invest in its employee skillset, development of new products that satisfies customer and business needs, and in automation and enhancement in quality of services.

More specifically, the focus is diverted towards consolidation and rationalization of operations. Efforts are underway to rebalance the financial position to achieve multidimensional objectives such as rationalizing operating costs. Alongside, the Pakistani Rupee depreciated by more than 25% during the year, due to deterioration in macroeconomic fundamentals, resulting in decline in asset values reported in US Dollar terms. Therefore, the size of financial position reduced from USD 2,297mn maintained at 2017 to USD 2,180mn at 2018, but with significant improvement in key measures denominating quality and efficiency of operations observed during the year.

Pursuant to consolidation measures taken by the Bank (due to prevailing market conditions) as well as the depreciation in Pakistani Rupee, financing assets closed at USD 1,086mn at 2018 compared to USD 1,202mn reported at 2017. During the current year, efforts were made to improve robustness and quality of assets through increased collateralization, building provision and reserves, and focus on high rated obligors.

Investments (predominantly in securities issued by sovereign entities) became the optimal option for the Bank to secure growth due to prevailing market conditions. Such securities carry descent returns, are easily liquefiable, attracts considerably lower risk, support in achieving desired strategic targets of improving operating efficiencies without attracting unwarranted risks. Hence, these assets reached to USD 565mn at 2018 in comparison with USD 538mn at 2017.

Building an efficient liability-base, being the bloodline of a financial institution, remained the corner stone of the Bank core business strategy during the year. The Bank ability to reach wide geographical outreach as well as providing contemporary business solutions and personalized services supported in achieving improvements in desired milestones. However, due to depreciation in Pakistani Rupee, such balances declined from USD 1,921mn at 2017 to USD 1,805mn at 2018. It is worth mentioning that considerable improvement observed in key qualitative performance measures such as reduction in concentration, optimization of costs, etc.

Alongside, the Bank continued to mark success in liquidity and treasury management function aligned with approved business strategies during the period, despite of challenges posed by adverse operating conditions. Yields have considerably improved on available liquid assets along-with supply of required resources for day-to-day operations on affordable cost. Further, a considerable increase was observed in other core treasury activities like foreign exchange management, such business activities played a critical role in rationalizing operating efficiencies and riskiness of operations over the years.

The Bank received capital support from its major shareholder (Al Baraka Banking Group) to meet stringent minimum capital and capital adequacy requirements promulgated by Central Bank of Bahrain. Thereafter, total equity balances raised to USD 244mn as compared to balances of USD 192mn carried at end of prior year. Further, the Bank provided USD 10mn as Additional Tier I to its subsidiary (Al Baraka Bank Pakistan Limited) to comply with local capital adequacy requirements. The Bank is also working on numerous initiatives (in collaboration with its major shareholder) to further strengthen the capital position of the Bank.

Revenues continued to mark a commendable growth despite the significant adjustment from devaluation of Pakistani Rupee, and have exceeded USD 140mn for the year 2018 as compared to USD 128mn reported in 2017. Such growth is attributable to building of an efficient assets base, constant enhancement in treasury and fund management activities, and significant increase in trade finance operations. Besides, the distribution to Equity of Investment Accountholders and other participants also been increased to USD 53mn in 2018 as compared to USD 51mn paid in 2017. Thereafter, the operating revenues marked a significant increase to USD 87mn in 2018 as compared to operating income of USD 77mn in 2017.

In current financial year, dedicated efforts were made to moderate the operating costs with core business activities of the Bank. In this regards, service delivery channels and workforce were properly rationalized with core business requirements. Further, major projects (such as opening new branches) were postponed. Simultaneously, the impact of Pakistani Rupee depreciation was also clear on other components of financial performance during the year. Therefore, the operating cost incurred during the year 2018 declined to USD 72mn from corresponding period amounts of USD 79mn.

As a commitment to enhance the quality of assets base during the year, the Bank incorporate a massive amount of net provisions of USD 32mn against incurred and expected losses. Further, the Bank implemented the Financial Accounting Standard (FAS 30), which resulted in restatement/increase of opening provisions balance by USD 19mn net of adjustments of reserves during the current financial year. Thereafter, the total provision coverage against non-performing asset increased to 77% from 49%.

Eventually, the incorporation of such enormous amount of provision superseded such significant increase observed in operating profitability during the year. Therefore, the Bank closed the financial year by incurring a net loss amounted to USD 18mn as compared to losses amounted to USD 5mn in 2017.

CREDIT RATING

The Islamic International Rating Agency (IIRA), a well-known Bahrain based rating agency, has affirmed 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 assigned short term/ long term credit rating A+/A-1 to ABPL.

These ratings denote a lower expectation of credit risk emanating from strong capacity for timely payments of financial commitments and presence of strong compliance and governance environment.

CORPORATE AND SOCIAL RESPONSIBILITY

Our core business activities revolves around the development of an ecosystem based on high ethical standards and generating real economic activity uplifting the living standards of communities. Our business philosophy is to serve our people by investing for creations of job opportunities, supporting in securing necessities like affordable housing and provide direct assistance to poor and needy people. Further, the Bank provides direct donation to a number of educational institutions and offer on-job training to students of number of local universities. Further, the Bank supports number of organizations in the field of Islamic banking and finance research. Furthermore, the Bank participated and sponsored many important international 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

By surmounting all kinds of challenges, the Bank is well-poised to embark on journey towards achieving its strategic outcomes, sustainable growth along-with improvement in operating efficiencies, with renewed enthusiasm and commitment as we believe the daunting challenges has made us even stronger.

The Bank will continue progress over implementation of risk optimization and capital management measures undertaken in lieu of challenges posed by adverse operating conditions to further strengthen the position of organization.

The business process automation and reorganization will be an integral component of our philosophy. The Bank will make a significant amount of investment in digitalization and technology to catch-up with pace of developments in financial industry to ensure providing competitive products and services to our esteemed customer base. Further, the Bank will replace its existing core banking with a state of the art solution to improve quality of services.

The Bank will continue to explore new avenues, new market or business segments, aligned with approved business strategies, in coming periods. Such initiatives will provide diversity and improve our competitive position in market.

ACKNOWLEDGMENT

We are really thankful to Allah for providing us strength and guidance in effectively managing the adversities of prevailing operating conditions. All the praises for Master of Universe, who provides wisdom, abundance of resources and countless blessings.

On behalf of Board of Directors, it is my great pleasures to extend deep gratitude to His Majesty King Hamad bin Isa Al-Khalifa, HRH Prince Khalifa bin Salman Al-Khalifa (the Prime Minister), and HRH Prince Salman bin Hamad Al-Khalifa (the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy Prime Minister), for their unwavering support.

Further, we are grateful 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 offer sincere regards to our shareholders, valued customers, and business partners for faith reposed on the Bank. We are grateful to our parent company, Al Baraka Banking Group and our Sharia Supervisory Board, for their patronage and priceless guidance, due appreciation to our staff for the efforts and contribution to support the organization to sustain 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
21 February 2019

CENTRED ON PARTNERSHIPS

Everything we do at Al Baraka Islamic Bank centers on partnership. As Partners, we will take the time to get to know our customers, to understand their needs and find the right solution that suits them personally. 'Your Partner Bank' suggests a long term relationship where both parties will work together to achieve their common goals. By taking a long term view of the relationship, Al Baraka and its customers can achieve more together.

Executive Management

Mr. Tariq Mahmood Kazim
Acting CEO

Ms. Maisoon Mohammed BenShams
Assistant General Manager
Head of Risk Management Department

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

Mr. Mohamed Abdulla Abdulrahim
Assistant General Manager &
Chief Financial Officer

Mr. Hasan Abdulwahab Alkhan
Assistant General Manager
Head of Operations

Please refer to page 46-47 for Executive Management profiles.

Mr. Isa Jasim Al Obaidly
Assistant General Manager
Head of Human Resources and Administration

Mr. Adel Jassim Al Manea
Assistant General Manager
Head of Commercial Banking

Mr. Mohammed Hasan Al Mughani
Head of Internal Audit

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

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

Mr. Duaij Khalifa Abulfateh
Acting Head of Internal Sharia Audit

FOCUSED STRATEGY

The Bank concentrated on rebalancing its financial position to offload unwarranted risks and optimize cost of operations. Efforts were made to increase assets with secured and low risk exposures along-with optimizing efficient and diversifed liability-base.

TARIQ MAHMOOD KAZIM
Acting CEO

OVERVIEW

The regional challenging business and economic environment continued during 2018, which forced the Bank to mobilize its long experience in the market and its strong human and technical resources in implementing a wise business strategy based on improving productivity, consolidating operations, activating sound risk management practices, realigning core processes, providing contemporary business solutions to customers, enhancing quality of products and services, and developing employee skillsets, all of which kept the Bank resilience in such a challenging time. Therefore, the Bank remained strong against the prevailing operating environment and was able to achieve good operating results.

The Bank continued to target primarily business generated from strategic partnership with domestic and regional sovereign and public sector entities. Further, the Bank focused on securing facilities with tangible collaterals and building business relationships with counterparties evidencing sound financial health.

However, growth in financial position was restricted during 2018. The Pakistani Rupee significantly depreciated by approximately 25%, resulting in decrease of asset contribution from Al Baraka Bank Pakistan Limited ("ABPL"). Therefore, the overall consolidated financial position reported in US Dollar shrunk from the corresponding period despite the remarkable tangible growth in local currency terms in both Bahrain and Pakistan. On the other hand, the Bank continued building its core assets by targeting low-risk avenues during 2018. In this regard, energies were diverted to improve the quality and overall risk profile of such assets.

The Bank concentrated on rebalancing its financial position to offload unwarranted risks and optimize cost of operations. Efforts were made to increase assets with secured and low risk exposures along-with optimizing efficient and diversifed liability-base. Furthermore, the Bank considerably increased reserves and provisions against assets portfolio to mitigate any expected credit losses and started exiting markets evidencing weaknesses.

FINANCIAL PERFORMANCE

Total consolidated assets reached USD 2.18bn in 2018 compared to USD 2.30bn reported in 2017, a decrease of 5.1%, reflecting the Bank strategy to consolidate its financial position due to prevailing market conditions in addition to the depreciation of the Pakistani Rupee. Focus was also made to improve qualitative aspects such as efficiency, diversification, constitution of core banking assets. The overall financial position was squeezed from corresponding period but with significant improvements in key qualitative performance measures.

During the year, the Bank continued to target primarily business generated from strategic partnership with domestic and regional sovereign and public sector entities. Further, the Bank focused on securing facilities with tangible collaterals and building business relationships with counterparties evidencing sound financial health. Alongside, the Bank implemented a detailed strategy to collateralize and exit exposures in markets or segments showing slowdown. The Bank continued to focus on its main business markets in Bahrain, Pakistan, GCC, and MENA as these markets represent natural extension of the Bank's strategic positioning.

Due to increase in policy rates by leading monetary agencies and fiscal challenges faced by local and regional economies, yields on sovereign securities became very attractive, such assets are either listed or actively traded in secondary market, which provide a leverage in a market with tightened liquidity position. Furthermore, the risk weights used in determining capital adequacy ratios and expected credit losses on such assets are minimal. Therefore, the Bank made significant investments during the year in securities issued by soverign governments in Bahrain and Pakistan.

Equity of investment accountholders represents the main external source of funds of the Bank. These accounts reached USD 1.41bn in 2018 compared to 1.47bn in 2017, a decrease by 4.3%. Aligned with approved strategies and prevailing operating conditions, the Bank made strong efforts to consolidate growth achieved in liability-base over the years. More specifically, the focus remained on rationalizing and sustaining cost of funding at an acceptable level along with improving composition of liability-base. Therefore, the overall liability-base squeezed from corresponding period. While the focus remained to secure growth in current and saving accounts, Al-Barakat account continued to be a key driver in managing such growth, achieving a remarkable increase in 2018. Therefore, the majority of key performance measures determining quality of deposits moved in a positive direction during the year. However, the depreciation of Pakistani Rupee resulted in reduction of such balances below the corresponding period in Pakistan operations and consequently on a consolidated level.

Being the core strategic focus, liquidity management function continued to demonstrate success despite of challenges posed by adverse operating conditions over past few years. In this regard, current account balances were further rationalized, yield on available liquid resources considerably increased and constant supply of resources was maintained

OVERALL PERFORMANCE

US$ 92.8mn
Total Income

US$ 14.9mn
Total assets by the end of 2018

at affordable cost. Such improvements were attributable to the Bank strong presence in local and regional markets, support from ABG units, as well as investment portfolio comprising marketable securities. Further, strengthening liquidity management function and senior management close monitoring also attributed to the desired outcomes in such a difficult environment.

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. The Bank received USD 110mn as Additional Tier 1 Capital from parent company during 2018.

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.

During the year and despite the depreciation of Pakistani Rupee, a healthy growth was achieved in operating income mainly due to improve of assets quality, diversity of revenues streams. All business avenues (such as financings, investments, trade finance operations, liquidity management and other business activities) contributed to such growth in operating income.

Total income from jointly-financed assets reached USD 92.8mn in 2018 compared to USD 90.3mn in 2017, an increase of 2.8%. In line with this increase, return on equity of investment accountholders went up by 4.1% from USD 51.1mn in 2017 to USD 53.2mn in 2018 resulting in the Group's share of total income to reach USD 39.6mn in 2018, increasing by 1.1% compared to 2017. Income from self-financed assets, other financing and investments increased by 31.7% from USD 23.3mn in 2017 to USD 30.6mn in 2018. Total operating income increased by 12.1% from USD 77.2mn in 2017 to USD 86.5mn in 2018.

On the other hand, total operating expenses decreased by 9.8% from USD 79.5mn in 2017 to USD 71.6mn in 2018. This significant decrease in operating expenses incurred during the year resulted mainly from rationalization of operation costs and merging process of branches close to each other in Pakistan following the recent acquisition transaction. As a result, the Bank reported net operating income before provisions and taxes of USD 14.9mn in 2018 compared to net operating loss of USD 2.3mn reported in 2017.

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 such massive provisioning against non-performing assets in 2018.

After taking these provisions and taxes into account, the Bank reported a net loss of USD 18.2mn in 2018 compared to net loss of USD 5.4mn reported in 2017.

OUR HUMAN CAPITAL

The Bank continued its efforts to create a conducive work environment and enhance the values and principles to promote teamwork through enrolling employees in academic and professional training. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve customers better.

In 2018 and in compliance with the Central Bank of Bahrain new requirements, the Bank established Internal Sharia Internal Audit Department to enhance the quality of

The Bank continued its efforts to create a conducive work environment and enhance the values and principles to promote teamwork through enrolling employees.

Islamic banking services offers to customers. Management have also focused on grooming employees by enrolling them in external and internal training programs with the aim to improve their performance and increase awareness of key business skills and mandatory CBB requirements as well as other essential skills. Moreover, the bank provided training program opportunities for large number university students during 2018. As a way of appreiating employee loyalty, the Bank has rewarded employees who served the Bank for periods between 5 and 30 years.

INFORMATION TECHNOLOGY AND DIGITALIZATION

In view of the rapid advances in information technology, we are very keen on modernizing our network infrastructure, increase our capacity and introduce modern technologies with high-speed data transfer capabilities. This will lead to significant time saving and optimize employees efforts.

Among important projects started during 2018 was replacing the Bank's existing core banking system with a new system that will allow us provide our clients with best quality service. We are also working to renovate and upgrade our website to satisfy our customer needs.

BRANCHES & ATMs

In Bahrain, the focus was on repositioning branches in areas or places where they can serve better larger classes of citizen, businesses and customers. 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. Furthermore, the Bank allocated a special desk to serve needy customers to ensure easy and flexible completion of their banking services. The Bank added two new ATMs during 2018 bring the total to 31 ATM's. In Pakistan, we have successfully integrated activities post recent merger transaction resulting in a network of around 190 branches in 97 cities and towns across Pakistan.

STRONG CORPORATE IDENTITY

During 2018, 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 2018, the Bank was awarded the Islamic Finance News Awards 2017 through the annual comprehensive referendum conducted by the Islamic Finance News Magazine.

The Bank also received the Best Islamic Financial Institution Award of 2018 from the Global Finance Magazine.

The Bank also won the Most Innovative Islamic Bank Award for 2018 from International Finance Magazine.

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, believes that this role is one of the key features of our business model that we are committed to. The fact that Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility.

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

In addition, we are actively participating in the implementation of Al Baraka Sustainable Development Program (2016-2020), which are linked with the United Nations goals of sustainable development. Under this program, Al Baraka Banking Group pledges more than USD 635mn to finance and support these goals with the aim of creating thousands of new jobs. During 2016-2017, Al Baraka Banking Group and its subsidiaries were able to contribute to the creation of 22 thousand jobs out of the committed 51 thousand jobs, with a 43% achievement. We provided USD 142mn for the education, with 73% achievement of the amount we promised to provide in 5 years and USD 243mn for healthcare; that is 56% of the amount we promised to provide within five years.

CONCLUSION

Although the Bank have incorporated significant amount of losses during 2018, the emphasized key performance indicators showed a strong position of the Bank, such as loss coverage, efficiencies, diversification, as well as regulatory risk weightings have considerably improved during 2018. We believe that 2019 will see a continuation of challenges surrounded by unstable environment, but we believe that economic fundamentals of Bahrain and GCC countries will remain strong, supported by ambitious development programs.

Tariq Mahmood Kazim
Acting CEO

FOCUSING ON RELATIONSHIPS

Our shared beliefs create strong bonds that form the basis of long-term relationships with our customers and employees. We strongly believe that our success and our customer's success are as intertwined as our beliefs. Taking part - the common effort - is our mutual reward. We see money as the means to capitalise on opportunities and create a better society for all of us.

Corporate Governance

Philosophy, Strategy and objectives

AlBaraka Islamic Bank "AIB/the bank" adhere to the principles and best practices of corporate governance. 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 2018. 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. As at 31st December 2018, distribution schedule of shares, setting out the number and percentage of holders were in the following categories:

No	Name	Relationship	Position	Domicile	# of Shares	Share %
1	ABG	Parent Co.	-	Bahraini	1,115,755	91.1134%
2	Abdullatif A.Raheem Janahi	Non-executive and Independent Director	BoD Member	Bahraini	1,250	0.1021%

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:

3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%

No	Name	Relationship	Position	Domicile	# of Shares	Share %
5	Ibdar Bank	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
9	Mohammed Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
10	Heirs of Dr. Hassan Abdullah Kamel	Shareholder	-	Saudi	5,000	0.4083%
11	Dubai Islamic Bank	Shareholder	-	UAE	5,000	0.4083%
12	Saeed Ahmed Lotah & Sons Group	Shareholder	-	UAE	5,000	0.4083%
13	Jordan Islamic Bank	Shareholder	-	Jordan	2,500	0.2042%
14	Sheikh Saleh Abdullah Kamel	Shareholder	-	Saudi	73	0.0060%
	Total				**1,224,578**	**100%**

Distribution of ownership of shares by nationality;

Country	No of Shares	Ownership %
Bahrain	1,137,005	92.85%
Jordan	2,500	0.20%
Saudi Arabia	75,073	6.13%
UAE	10,000	0.82%
Total	**1,224,578**	**100%**

Distribution of ownership of shares by size of shareholder;

Categories	No of Shareholders	% of Total Outstanding
Less than 1%	58,823	4.8%
1% up to less than 5%	50,000	4.1%
50% and above	1,115,755	91.1%
Total	**1,224,578**	**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.

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 US$ 15m and/or tenor more than 10 years
2. Investments in quoted equities and investment in funds above US$5m and/or tenor more than 7 years
3. Write-offs or discharge of the Bank's debts
4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above US$ 1m, and/or tenor above 3 months.
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.

Re-election of Directors process begins when an announcement is made requesting nominations for the position of membership of the three year term is due to expire, such nominations must be submitted to the Chairman of the Board within the time frame provided in the announcement. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the "Fit and Proper" requirements. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. 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.

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. In November 2018, the Chief Executive Officer was discharged from office and consequently his membership as a Board member was terminated.

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 and independence of Directors, are set out below:

		Board Membership	
Director Name	Nationality	Designation	Position
Mr. Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman
Mr. Adnan Ahmed Abdulmalek	Bahraini	Executive Director	Vice Chairman
Mr. Abdullatif A.Raheem Janahi	Bahraini	Independent Director	Member
Mr. Abdulrahman Abdulla Mohammed	Bahraini	Independent Director	Member
Mr. Musa A. Shihadah	Jordanian	Executive Director	Member
Dr. Khalid Abdulla Ateeq	Bahraini	Independent Director	Member
Mr. Ashraf A. El Ghamrawi	Egyptian	Executive Director	Member
Mr. Yousef Ali Fadel Ben Fadel	UAE	Independent Director	Member
Mr. Maqbool Habib Khalfan	Qatar	Independent Director	Member
Mr. Mohamed Essa Al Mutaweh*	Bahraini	Executive Director	Member

** Mr. Mohamed Essa Al Mutaweh was a member until 11 November 2018.*

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 2018, 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	8 January 2018 19 February 2018 8 May 2018 8 August 2018 10 November 2018	5/5
2	Mr. Adnan Ahmed Abdulmalek				4/5
3	Mr. Abdullatif A.Raheem Janahi				5/5
4	Mr. Abdulrahman Abdulla Mohamed				5/5
5	Mr. Musa A. Shihadah				5/5
6	Dr. Khalid Abdulla Ateeq				5/5
7	Mr. Ashraf A. El Ghamrawi				5/5
8	Mr. Yousef Ali Fadel Ben Fadel				5/5
9	Mr. Maqbool Habib Khalfan				5/5
10	Mr. Mohamed Essa Al Mutaweh*				5/5

** Mr. Mohamed Essa Al Mutaweh was discharged since 11 November 2018.*

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 Forms will be sent to the Chairman who will direct the Remuneration and Board Affairs Committee to write a report. The results of the Report is 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 18 thousand [2017: USD 18 thousand].

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 2018	Shareholding at 31 December 2018	Changes in shareholding
Abdullatif A.Raheem Janahi	1,250	1,250	-

Governance Framework (Continued)

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

	2018	2017
Directors:		
Remuneration*	-	199
Sitting Fees	333	312
Allowances and others**	27	36
Total	**360**	**547**
Staff inclusive of Chief Executive Officer: **Fixed Remuneration**		
Approved persons and material risk takers-business line	1,839	2,485
Approved persons-others	1,936	2,003
Other staff in Bahrain	11,969	11,013
Staff of overseas subsidiary	17,289	19,115
Total fixed remuneration	**33,033**	**34,616**
Variable Remuneration		
Approved persons and material risk takers-business line	-	215
Approved persons-others	-	212
Other staff in Bahrain	-	443
Staff of overseas subsidiary	650	456
Total variable remuneration	650	**1,326**
Total remuneration to staff	**33,683**	**35,942**
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 2,072 thousand (2017: USD 2,072 thousand) and the number of persons affected: 4 (2017:6). The total variable remuneration for 2018 paid to these persons was nil (2017: USD 334 thousand). Said variable remuneration comprises of upfront cash amounted to nil (2017: USD 133 thousand) and deferred shares amounted to nil (2017: USD 200 thousand). Further, the total amount of deferred remuneration outstanding as at 31 December 2018 are nil (2017: USD 200 thousand). 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.

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

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	Constitutions	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:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Mr. Maqbool Habib Khalfan (Chairman)*	4	5	19 Feb 2018 8 May 2018 7 Aug 2018 9 Oct 2018 10 Nov 2018	5/5
2	Musa A. Shihadah				5/5
3	Mr. Yousef Ali Fadel Ben Fadel				5/5

* *Since 11 November 2018, Mr. Maqbool Habib Khalfan ceased to be the Chairman of the Audit and Governance Committee and replaced by Mr. Abdulrahman Abdulla Mohamed.*

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:

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	2	8 January 2018 10 November 2018	2/2
2	Dr. Khalid Ateeq				2/2
3	Mr. Maqbool Habib Khalfan				2/2

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:

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	6	5 February 2018 5 April 2018 6 June 2018 6 September 2018 21 October 2018 5 December 2018	6/6
2	Mr. Abdullatif A.Raheem Janahi				6/6
2	Mr. Abdulrahman Abdulla Mohamed*				5/6
4	Mr. Mohamed Essa AlMutaweh*				5/6
5	Mr. Ashraf A. El Ghamrawi*				1/6

** Since 11 November 2018:*

-Mr. Abdulrahman Abdulla Mohamed ceased to be a member of the Executive Committee, and appointed to Chair the Audit & Governance Committee and as member in the Risk management Committee.

-Mr. Ashraf A. El Ghamrawi ceased to be a member in the Risk Management Committee and appointed as member in the Executive Committee.

-Mr. Mohamed Essa AlMutaweh discharged and therefore ceased to be a member.

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	18 February 2018 27 May 2018 7 October 2018 6 December 2018	4/4
2	Mr. Maqbool Habib Khalfan				4/4
3	Mr. Ashraf A. El Ghamrawi*				4/4
4	Mr. Abdulrahman Abdulla Mohamed*				1/4

** Since 11 November 2018:*

- Mr. Ashraf A. El Ghamrawi ceased to be a member in the Risk Management Committee and appointed as member in the Executive Committee.

- Mr. Abdulrahman Abdulla Mohamed ceased to be a member of the Executive Committee, and appointed to Chair the Audit & Governance Committee and as member in the Risk management Committee

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

- **Management Committee**

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

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

  The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Bank and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors.

- **Commercial / Corporate/ Retail Credit Committee**

The Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels.

- **Information Technology Steering Committee**

  The IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardization in information and operation management.

- **Cash Management Committee**

  Cash management committee is responsible for overseeing the management of available liquidity on a continuous basis.

- **IFRS-9 (FAS 30) Committee**

  Overseeing the implementation of upcoming financial reporting standard IFRS-9 requiring material changes in organization processes, classification of financial assets, impairments and other key fundamentals

- **Strategy Steering Committee**

  Oversee the preparation and implementation of business/ plans and strategies of the Bank.

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.

During 2018, the bank started implementing of IFRS 9 and met the effectiveness date of 1 January 2018. During 2018, it was decided to overhaul the credit modelling landscape in light of the strategical framework objectives, increased use of data analytics, new regulation and new modelling techniques. In the coming years, new models will be built supported by a new core banking system planned for going live by Q2-2019.

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.

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.

RISK MANAGEMENT *(Continued)*

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

Independent Risk Management Department monitors and controls major risk exposures and concentrations across the Bank. This requires the aggregation of risks, within and across businesses, as well as subjecting those risks to various stress scenarios in order to assess the potential economic impact they may have on the bank. Stress tests are in place across the Bank's entire portfolio. These bank-wide stress reports measure the potential impact to the Bank and its component businesses of changes in various types of key risk factors (e.g., interest rates, credit spreads, etc.), as developed internally by independent risk management. These bank-wide stress tests are produced on a monthly basis, and results are reviewed by the Bank senior management and Board of Directors.

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 2018 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.

RISK MANAGEMENT *(Continued)*

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.

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.

RISK MANAGEMENT *(Continued)*

Management of Operational Risk *(Continued)*

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.*
- ***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.albaraka.bh*, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report, reviewed quarterly financials of the Bank, and carries updates of any significant events and regulatory requirements. The Bank's quarterly results are published in both Arabic and English newspapers, are posted on the Bank's website, and the provision of at least the last three 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.

COMMUNICATION POLICY *(Continued)*

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 four-year 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:

- Assets & Liabilities Management Committee (ALCO).
- Credit Committee.
- Executive Management Committee.
- IT Steering Committee.
- Strategic Planning Steering Committee.

BOARD OF DIRECTORS PROFILES

1. Khalid Rashid Al Zayani

Chairman
Experience: 50 Years

Mr. Khalid Rashid Al Zayani Chairman Experience: 50 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. Adnan Ahmed Yousif

Board Member and President & Chief Executive
Experience: 46 Years

Mr. Adnan holds over three decades of international banking experience. As President & Chief Executive, Mr. Yousif 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 Jordan Islamic Bank, Al Baraka Bank Sudan, Al Baraka Turk Participation Bank, Al Baraka Bank Egypt, Al Baraka Bank Ltd. South Africa, Banque Al Baraka D'Algerie S.P.A., Al Baraka Bank Pakistan Ltd., Al Baraka Bank Lebanon S.A.L, 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.

Mr. Yousif is currently the Chairman of Bahrain Association of Banks. He has been the Chairman of the Union of Arab Banks, headquartered in Lebanon, for two consecutive terms (2007-2013).

In 2011, Mr. Yousif received the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain. In 2017, Mr. Yousif received the Honorary Freedom Award, the highest honor from the City of London for his outstanding contributions to international banking services.

In recognition of his efforts in evolving a unique business model for Islamic banking, he was awarded the Accolade of the Sudanese Presidency for Excellence in Social Responsibility in 2015.

Mr. Yousif has been 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, Mr. Yousif won the 12th Islamic Business & Finance Awards for his Outstanding Contribution in CSR in Islamic banking. In 2016, the CSR Regional Network named him as the High Commissioner for advocating the United Nations Sustainable Development Goals 2030. The CSR Regional Network, in 2015, named him the CSR International Ambassador (Kingdom of Bahrain). He also received the Gold Award for Sustainable Development for his major 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.

Mr. Yousif was previously at the Arab Banking Corporation for over 20 years, and last served as a Director on its Board. He holds a Master's in Business Administration degree from University of Hull, U.K. In recognition of Mr. Yousif's 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: 47 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. Moosa Abdul Aziz Shihadeh

Board member
Experience: 58 Years

Mr. Moosa Abdul 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 CEO & General Manager of Jordan Islamic Bank. In addition to being a board member of many 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 Directors of Association of Banks in Jordan since 11.10.2015- 26/3/2018. A member of several investment, social, humanitarian and international

BOARD OF DIRECTORS PROFILES (Continued)

organizations and committees. Mr. Shihadeh Participates and lectures in several 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.

5. Mr. Ashraf Al-Ghamrawy

Board member
Experience: 42 years

Mr. Ashraf Al-Ghamrawy Vice Chairman and Chief Executive Officer Al Baraka Bank Egypt started his career since 1977 as a legal accountant specializing in the field of financial institutions and banks. He then moved to work in the banking sector during 1979 and was incorporated in various banking jobs until 2003. He was the CEO and Managing Director of Al Baraka Egypt Bank – previously known as Egyptian Saudi Finance Bank. The number of branches at the time was 10 branches with a total budget of LE3.3 billion. He has managed since his presidency of the Executive Management of the Bank as a leading Islamic institution that has strongly placed itself on the Egyptian banking market. As one of the branches of Al Baraka Banking Group, the pioneer of Islamic banking in the region, the number of branches reached 32 in addition to two Exchange Offices in Giza, and Hurghada. By 2018, the Total Budget reached 62.5 billion EGP, and the Net Profit exceeded 1 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. Otherways Management & Consulting Paris - France:
   - The Global Award for Perfection Quality & Ideal Performance in July, 2017.
   - The Platinum Technology Award for Quality and Best Trade Name in May 2018.
   - The International Achievement Award for Quality and Business Excellence in September 2018
3. The IFN Awards Ceremony, Dubai from Islamic Finance Awards In March 2018
4. The Best Practice Award in May 2018 from The European society For Quality Research.
5. The Arabian Eagle Award as a Leading Banking Figure from Tatweej Academy in 2018.

He also holds the following positions:

1. Member of the Board of Directors and member of the Executive Committee, Al Baraka Islamic Bank, Kingdom of Bahrain.
2. Member of the Board of Directors of the Egyptian Company for the establishment and management of commercial centers.
3. Member of the Board of Trustees and Treasurer of the Egyptian Foundation for Zakat,
4. Member of the Board of Directors and Chairman of the Credit Committee Al-Tawfiq Leasing Company.
5. Member of the Board of Directors and Chairman of the Audit Committee of the Egyptian Company for Takaful Insurance.
6. Chairman of the Board of Directors of the Private Insurance Fund for employees of Al Baraka Egypt Bank.

- His sovereignty has a current and previous membership in some other legal bodies including:

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: 45 Years

Businessman and former Banker. Born in 1955 in state of Qatar. Graduated in Commerce (B Com.) from Cairo University in 1997. 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 1987. 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 the Managing Partner of Arabian Exchange Company & Gulf Colors, and holds 50% Stakes in both Establishments.

7. Yousef Ali Fadil Bin Fadil

Board member
Experience: 35 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.

BOARD OF DIRECTORS PROFILES

8. Abdulrahman Abdulla Mohamed

Board member
Experience: 58 Years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 42 years of experience in Banking Industry. Present Position, Board Member at TAIB Bank (Aug 2011) Vice Chairman of Takaful International and member of the Excom (June 2015 – till present) at Takaful International. His past position was General Manager in National Bank of Bahrain, Board & executive Committee Member – Bahrain commercial facilities company and Chairman of the Board – National Motors Company.

9. Dr. Khalid Abdulla Ateeq

Board member
Experience: 37 Years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 37 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. Tariq Mahmood Kazim

Acting CEO
Experience: 35 Years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 35 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.

2. Maisoon Mohammed BenShams

Assistant General Manager - Head of Risk Management Department
Experience: 38 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).

3. Fouad El Ouzani

Assistant General Manager - Head of Credit Department
Experience: 17 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.

4. Mohamed Abdulla Abdulrahim

Assistant General Manger & Chief Financial Officer
Experience: 17 years

Mr. Mohamed Abdulrahim joined Al-Baraka Islamic Bank in December 2016. He has over 17 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.

5. Mr. Hassan Abdulwahab Al Khan

Assistant General Manager- Operations
Experience : 19 years

Mr. Hassan Al Khan has over 19 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).

EXECUTIVE MANAGEMENT PROFILES (Continued)

6. Isa Jassim Al Obaidly

Assistant General Manager - Head of Human Resources and Administration
Experience: Over 31 Years

Mr. Al Obaidly has experience in several HR & Admin fields including recruitment, setting of procedures, payroll, PR & payment processing. Earlier he occupied the post Management Analyst at the Civil Service Bureau and Chief for the Government payroll & Leaves, Director of Fund Collection at Bahrain Centre for Study and Research and HR & Finance Consultant and Acting Director of admin and finance at the Ministry of Information. Mr. Al Obaidly attended several professional courses including Civil Service Bureau conducted by Management Institute Services, UK-1992, a course on Leadership for Democratic Society at the Federal Executive Institution West- Virginia U.S.A-1997. Mr. Al Obaidly holds the Professional Auditor for ISO 2009 Certificate. He is a holder of a B.S.C degree in Business Administration from Grand View College, USA. & Master degree in Management Technology from Arabic Gulf University Jan 1999.

7. Adel Jassim Al Manea

Assistant General Manager - Head of Commercial Banking Department
Experience: 29 Years

Mr. Adel Al Manea is Assistant General Manager – Head of Commercial Banking Department. 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 29 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.

8. Mohammed Hasan Al Mughani

Head of Internal Audit Department
Experience: 14 Years

Mr. Mohamed Al Mughani had joined Al Baraka Islamic Bank on Aug 2008 Internal Audit Department. He has 14 years of experience in internal and external audit, risk assessment and corporate governance. He previously worked as an Assistant Manager – Audit Department at BDO Jawad Habib, Bahrain. Mr. Al Mughani is ACCA qualified and Certified Information System Auditor (CISA). He hold a BSc in Accounting from University of Bahrain.

9. Bader Isa Al Shetti

Senior Manager – Head Of AntiMoney laundering & Compliance
Experience: 15 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.

10. Mohammed Jassim Ebrahim

The Sharia Officer & Secretary of Sharia Supervisory Board
Experience: 10 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 lecturer at alBaraka Academy. Mr. Mohamed Jassim has more than 10 years of experience in Islamic Banking.

11. Duaij Khalifa Abulfateh

Acting Head of Internal Sharia Audit
Experience: 10 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 Commercial Jurisprudence (ADIF & ADICJ).

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 US$382 thousand which was invested in Education, Community Development Projects and Economically Challenged Communities.

Philanthropic Program 2018	US$000
Education	159
Community Development Projects	
Healthcare	55
Economically Challenged Communities	168
Total	**382**

Al Baraka Bahrain participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of US$24,628 thousand where US$7,800 thousand spent on Community Development Projects and US$16,828 thousand on SMEs and Micro businesses on 2018.

Economic Opportunities and Social Investments Program 2018	US$000
Community Development Projects	
Healthcare	7,800
Local, Micro. and SMEs Industrial	10,828
Construction and Real Estate	6,000
Total	**24,628**

Total of Programs by Al Baraka Bahrain (Philanthropic, Qard Hasan and Economic Opportunities and Social Investments) US$25,010,000.

Shari'a Supervisory Board's Report

Date: 28 Jumada Al-Ola 1440 A.H.

Corresponding to: 03 February 2019

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

Report of the Fatwa and Sharia Supervisory Board From 01/01/2018 to 31/12/2018

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 reviewed the applicable principles, contracts relating to the Bank's activities and products offered by Al Baraka Islamic Bank during the period from January 1 until the end of December 2018. 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.

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: ("58" master agreements), (audits on "502" executed transactions), (Sharia training program for staff, trainees and external entities), ("13" 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 2018 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 0.309 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 2018

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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 2018 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 2018, 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.

Except for what has been reported in note 2 to 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 2018 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. 45

21 February 2019

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 US$ '000	2017 US$ '000
ASSETS			
Cash and balances with banks and financial institutions	3	187,329	218,949
Receivables	4	712,375	728,586
Ijara Muntahia Bittamleek & Ijara receivables	5	284,696	308,895
Musharakas	6	271,890	339,641
Investments	7	544,640	517,738
Investment in joint venture	8	14,671	14,636
Investments in real estate	9	5,238	5,974
Premises and equipment	10	55,611	35,733
Goodwill	11	16,172	20,338
Other assets	12	87,800	106,446
TOTAL ASSETS		**2,180,422**	2,296,936
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		57,624	52,087
Current accounts		275,588	294,637
Medium term financing		61,076	99,816
Other liabilities	13	113,737	127,478
Total liabilities		**508,025**	574,018
Equity of investment accountholders (IAH)	14	**1,410,782**	1,474,200
Subordinated debts	15	**17,478**	57,033
Owners' Equity	16		
Share capital		122,458	122,458
Additional tier-1 capital		110,000	-
Reserves		4,791	19,513
(Accumulated losses) / retained earnings		(21,778)	11,936
Equity attributable to parent's shareholders		**215,471**	153,907
Non-controlling interest		28,666	37,778
Total owners' equity		**244,137**	191,685
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY		**2,180,422**	2,296,936
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**86,758**	85,603
CONTINGENCIES AND COMMITMENTS	17	**302,095**	306,232

Khalid Rashid Al-Zayani	Adnan Ahmed Yousif	Tariq Mahmood Kazim
Chairman	Deputy Chairman	Acting 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 2018

	Notes	2018 US$ '000	2017 US$ '000
INCOME			
Income from jointly financed sales		45,094	40,284
Income from jointly financed, other financings and investments	18	47,695	50,019
Income from jointly financed assets		92,789	90,303
Return on equity of investment accountholders before Group's share as a Mudarib		(69,629)	(69,386)
Group's share as a Mudarib		16,477	18,308
Return on equity of investment accountholders		(53,152)	(51,078)
Group's share as a Mudarib and Rabalmal		39,637	39,225
Group's income from self financed sales		1,713	1,463
Group's income from self financed, other financings and investments	18	28,910	21,783
Revenue from banking services	19	12,276	10,937
Other income	20	3,880	3,639
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		91	105
TOTAL OPERATING INCOME		86,507	77,152
OPERATING EXPENSES			
Staff expenses		(33,683)	(35,772)
Depreciation	10	(5,614)	(5,264)
Other operating expenses	21	(32,336)	(38,411)
TOTAL OPERATING EXPENSES		(71,633)	(79,447)
NET OPERATING INCOME / (LOSS)		14,874	(2,295)
Allowances for impairment - net	22	(32,454)	(4,400)
LOSS BEFORE TAXATION		(17,580)	(6,695)
Taxation	23	(653)	1,293
LOSS FOR THE YEAR		(18,233)	(5,402)
Attributable to:			
Equity shareholders of the parent		(18,523)	(4,289)
Non-controlling interest		290	(1,113)
		(18,233)	(5,402)

Khalid Rashid Al-Zayani	Adnan Ahmed Yousif	Tariq Mahmood Kazim
Chairman	Deputy Chairman	Acting Chief Executive Officer

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

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2018

	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 /retained earnings US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2018	122,458	-	22,699	8,687	(117)	965	1,193	(13,914)	11,936	153,907	37,778	191,685
Impact of adopting FAS 30	-	-	-	-	-	-	-	-	(11,855)	(11,855)	(1,930)	(13,785)
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 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**
Balance at 1 January 2017	122,458	-	22,699	8,687	(114)	2,007	1,193	(9,316)	15,483	163,097	43,587	206,684
Cumulative changes in fair value	-	-	-	-	-	(1,081)	-	-	-	(1,081)	(784)	(1,865)
Foreign currency translation reserve	-	-	-	-	-	-	-	(4,039)	-	(4,039)	(2,155)	(6,194)
Net loss for the year	-	-	-	-	-	-	-	-	(4,289)	(4,289)	(1,113)	(5,402)
Effect of change in controlling interest in lieu of acquisition	-	-	-	-	(3)	39	-	(559)	742	219	(1,757)	(1,538)
Balance at 31 December 2017	122,458	-	22,699	8,687	(117)	965	1,193	(13,914)	11,936	153,907	37,778	191,685

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 2018

	2018 US$ '000	2017 US$ '000
OPERATING ACTIVITIES		
Net loss before taxation	(17,580)	(6,695)
Adjustments for:		
Depreciation	5,614	5,264
Provision for impairment - net	32,454	4,400
Gain on sale of premises and equipment	(13)	(536)
Share of income from investment in joint venture	(35)	(60)
Gain on sale of investments	(1,422)	(2,055)
Unrealized loss on revaluation of investment properties	736	-
Operating profit before changes in operating assets and liabilities	19,754	318
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	(21,027)	102,176
Receivables	(6,622)	(25,648)
Mudaraba financing	-	776
Ijara Muntahia Bittamleek & Ijara receivables	12,644	811
Musharakas	63,628	(23,403)
Other assets	20,839	1,720
Other liabilities	(14,256)	35,999
Due to banks and other financial institutions	5,537	(6,387)
Current accounts	(19,049)	1,329
Equity of investment accountholders	(61,141)	(124,045)
Taxation paid	(250)	(388)
Net cash generated from / (used in) operating activities	57	(36,742)
INVESTING ACTIVITIES		
Purchase of investments	(148,816)	(235,775)
Investments sold / matured	119,451	265,675
Net investment acquisition in subsidiary	-	(1,538)
Purchase of premises and equipment	(1,842)	(6,612)
Sale of premises and equipment	134	1,445
Net cash (used in) / generated from investing activities	(31,073)	23,195
FINANCING ACTIVITIES		
Subordinated debts	(8,555)	10,555
Receipt of additional tier-1 capital	50,000	-
Dividend distribution on additional tier-1 capital	(3,336)	-
Medium term financing	(38,740)	9,234
Net cash (used in) / generated from financing activity	(631)	19,789
Foreign currency translation adjustments	(13,063)	(3,616)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(44,710)	2,626
Cash and cash equivalents at 1 January	319.779	317.153
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 24)	275.069	319.779

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 2018

	Balance at 1 January 2018 US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2018 US$ '000
Receivables	76,009	142	1,175	(91)	77,235
Investments	9,594	(71)	-	-	9,523
	85,603	71	1,175	(91)	86,758

	Balance at 1 January 2017 US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2017 US$ '000
Receivables	66,585	8,038	1,491	(105)	76,009
Investments	9,405	189	-	-	9,594
	75,990	8,227	1,491	(105)	85,603

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

Notes to the Consolidated Financial Statements

At 31 December 2018

1. INCORPORATION AND PRINCIPAL ACTIVITY

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has eight commercial branches in the Kingdom of Bahrain. The Bank is 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 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.

The consolidated financial statements were approved by the Board of Directors on 21 February 2019.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, debt-type instruments through profit or loss, equity instrument through profit and loss, 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 of nearest US Dollar (US$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and the subsidiary is Pakistani Rupees. Items included in the consolidated 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 Regulatory non-compliance

CBB rule book volume 2 - Capital Adequacy Module

The Bank breached rule CA-2.2.1 and CA 2.2.1A as the consolidated and solo core equity tier 1 (CET1) ratio is declined below 9% and 4.5% respectively as prescribed by the CBB rule book volume 2 - capital adequacy module. Rule CA-2.2.1 and CA 2.2.1A requires consolidated and solo CET1 to be minimum of 9% and 4.5% respectively of risk-weighted assets at all times.

CBB rule book volume 2 - High level standards

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

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 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. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

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

Bank	Ownership for 2018 / 2017	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2018 / 2017
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13%/ 59.13%	2004	Pakistan	188/ 188

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

Investment in Itqan Capital

The Bank has ownership interest of 83.07% 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 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018.

2.5.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

The Group has early adopted FAS 30, effective from 1 January 2018 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in retained earnings and non-controlling interest in the consolidated statment of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings and non-controlling interest as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.

Impact of adopting FAS 30

Following is the impact of early adoption of FAS 30:

	Balance 31 December 2017 US '000	Transition adjustment US '000	Restated balance 1 January 2018 US '000
Retained earnings	11,936	(11,855)	81
Non-controlling interest	37,778	(1,930)	35,848
Equity of investment accountholders	1,474,200	(2,273)	1,471,927
Receivables	728,586	(9,322)	719,264
Musharaka financing	339,641	(3,265)	336,376
Investments - Debt-type instruments at amortised cost	437,839	(404)	437,435
Ijarah Muntahia Bittamleek and Ijara Receivables	308,895	(4,376)	304,519
Other liabilities	127,478	1,298	128,776
Other assets	106,446	2,607	109,046

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

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

2.5.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized in note below.

a) Financial contracts

Financial contracts consist of cash and balances with banks, receivables and Musharaka financing, Investmetns - deb type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1st January 2018)

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 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 the present value of all cash shortfalls. 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. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged. In this respect, the Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%.

In case where there is no collaterals or guarantees, which the Group can recover its exposure, the past due rules as per Group's policy or local requirements, whichever is more strict, are applied for allowance for credit losses calculation.

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 borrower 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

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

2.5.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (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 borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days or any material credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of 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 generate 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 determine the amount of loss that will arise if the borrower was to default. This is calculated by looking at the collateral and other resources 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 units can estimate LGDs using the historical default information and corresponding recovery data.

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

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

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

2.5.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (continued)

Loss Given Default (continued)

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 Bank applies 10% floor regardless of collateral coverage of the exposure.

Exposure At Default (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position 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 methods to work out CCF for off- balance sheet EADs.

CCF based on internal data - The Group performs off-balance sheet product based analysis to study the average percentage utilization/conversion over a period of 3- 5 years. Based on the analysis product wide conversion/utilization factors is estimated. For letter of Credit (LCs) and letter of guarantees (LGs) issued, units determines CCF by estimating total amount of LCs/LGs devolved/converted over last 3-5 years as a percentage of total LC/LG issued to arrive at the expected exposure over the future for these off-balance sheet items.

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 loans 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 borrower-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 instrument rather than a counterparty. As each instrument 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 facing 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

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

2.5.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30") (continued)

b) Impairment assessment (policy applicable from 1st January 2018) (continued)

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 (prior to restructuring), then such restructured accounts are categorized under stage 3.

Backward transition

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

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

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

2.5.2 New standards, amendments and interpretations issued but not yet effective

FAS 28 Murabaha and other deferred payment sales

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 shall be effective beginning on or after 1 January 2019, with early adoption permitted.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

This standard intends to define the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

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 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 an receivables with an original maturity of three months or less.

2.6.2 Receivables

Murabaha receivable

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

Murabaha receivable are sales on deferred payment terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then sells this commodity to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. (Promise made in the murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the murabaha 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.

2.6.3 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.

2.6.4 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.5 Investments

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

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.

2.6.6 Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity as per the revised policy.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.7 Fair values

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

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2.6.8 Business combination and goodwill

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

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

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

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

2.6.9 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.

2.6.10 Investment risk reserve

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

2.6.11 Profit equalisation reserve

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

2.6.12 Off-balance sheet equity of investment accountholders

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

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.13 Revenue recognition

Murabaha receivable

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

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.

Rental income

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

2.6.14 Return on equity of investment accountholders

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

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].

2.6.15 Investment pool expenses

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

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.16 Taxation

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

Current

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

Deferred

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

2.6.17 Contingencies and Commitments

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

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

2.6.18 Derecognition

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

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

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; 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.

2.6.19 Earnings prohibited by Shari'a

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

2.6.20 Foreign currencies

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 consolidated statement of financial position 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.

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 consolidated statement of financial position 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

2.6.21 Employees' end of service benefits

Defined contribution plan

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position 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.

Defined benefit plan

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.

2.6.22 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.

2.6.23 Joint and self financed

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

2.6.24 Offsetting

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

2.6.25 Shari'a supervisory board

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

2.6.26 Trade date accounting

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

2.7 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:

Impairment and uncollectibility of financial assets

In determining impairment on receivables, 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").

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 date of consolidated financial statements.

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.

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.

Classification of investments

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

Impairment 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.

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3. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2018 US$ '000	2017 US$ '000
Cash in hand	35,171	39,310
Balances with State Bank of Pakistan		
Current account	7,054	6,616
Placement	-	46,147
Mandatory reserves	69,355	45,975
	76,409	98,738
Balances with CBB		
Current account	5,878	9,809
Mandatory reserves	25,897	28,249
	31,775	38,058
Balances with other banks and financial institutions	43,974	42,843
	187,329	218,949

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

4. RECEIVABLES

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Commodities	4,654	178,823	183,477	2,288	173,003	175,291
Salam financing	-	77,323	77,323	-	86,889	86,889
Istisna'a financing	-	91,053	91,053	-	88,749	88,749
Murabaha and others	2,533	332,107	334,640	2,533	396,982	399,515
Wakala and others	-	127,646	127,646	-	52,515	52,515
Gross receivables	7,187	806,952	814,139	4,821	798,138	802,959
Deferred profits	(57)	(26,719)	(26,776)	(55)	(23,255)	(23,310)
	7,130	780,233	787,363	4,766	774,883	779,649
Allowances for credit losses	(372)	(74,616)	(74,988)	-	(51,063)	(51,063)
Net receivables	6,758	705,617	712,375	4,766	723,820	728,586

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

	2018				2017
	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)	198,552	25,581	-	224,133	319,048
Satisfactory (5-7)	179,069	289,822	-	468,891	363,906
Default (8-10)	-	-	94,339	94,339	96,695
	377,621	315,403	94,339	787,363	779,649

Notes to the Consolidated Financial Statements

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4. RECEIVABLES (continued)

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

	2018				2017
	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 on adoption of FAS 30	2,390	5,689	52,305	60,384	50,200
Changes during the year:					
- transferred to Stage 1: 12 month ECL	27	(27)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(174)	176	(2)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(47)	(136)	183	-	-
Net remeasurement of loss allowance	(750)	2,510	22,422	24,182	7,422
Recoveries / write-backs	-	-	(2,733)	(2,733)	(5,662)
Allowances for credit losses	(944)	2,523	19,870	21,449	1,760
Allocation from investment risk reserve	-	-	-	-	611
Amounts written off during the year	-	-	(35)	(35)	-
FX translation	(104)	(63)	(6,643)	(6,810)	(1,508)
Balance at 31 December	1,342	8,149	65,497	74,988	51,063

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2018			2017		
	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	28,177	235,362	263,539	26,291	239,319	265,610
Ijara receivables	5,877	30,287	36,164	3,212	44,460	47,672
	34,054	265,649	299,703	29,503	283,779	313,282
Allowance for credit losses	(116)	(14,891)	(15,007)	-	(4,387)	(4,387)
	33,938	250,758	284,696	29,503	279,392	308,895

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

	2018				2017
	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)	224,581	5,418	-	229,999	243,663
Satisfactory (5-7)	2,649	40,917	-	43,566	46,315
Default (8-10)	-	-	26,138	26,138	23,304
	227,230	46,335	26,138	299,703	313,282

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5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.1 Ijara muntahia bittamleek

	2018			2017		
	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	-	299,237	299,237	-	271,413	271,413
Accumulated depreciation	-	(75,850)	(75,850)	-	(60,765)	(60,765)
Net book value	-	223,387	223,387	-	210,648	210,648
Equipment						
Cost	37,327	6,623	43,950	30,829	34,026	64,855
Accumulated depreciation	(9,150)	(3,741)	(12,891)	(4,538)	(24,812)	(29,350)
Net book value	28,177	2,882	31,059	26,291	9,214	35,505
Others						
Cost	-	17,535	17,535	-	32,594	32,594
Accumulated depreciation	-	(8,442)	(8,442)	-	(13,137)	(13,137)
Net book value	-	9,093	9,093	-	19,457	19,457
TOTAL						
Cost	37,327	323,395	360,722	30,829	338,033	368,862
Accumulated depreciation	(9,150)	(88,033)	(97,183)	(4,538)	(98,714)	(103,252)
Net book value	28,177	235,362	263,539	26,291	239,319	265,610

5.2 Ijara receivables

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Ijara receivable	5,877	30,287	36,164	3,212	44,460	47,672
Allowances for credit losses	(116)	(14,891)	(15,007)	-	(4,387)	(4,387)
	5,761	15,396	21,157	3,212	40,073	43,285

Notes to the Consolidated Financial Statements

At 31 December 2018

5. IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.3 Allowances for credit losses

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

	2018				2017
	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 on adoption of FAS 30	299	2,207	6,255	8,761	3,889
Changes during the year:					
- transferred to Stage 1: 12 month ECL	1,029	(1,029)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(59)	59	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(4)	(708)	712	-	-
Net remeasurement of loss allowance	(1,023)	232	8,482	7,691	746
Recoveries / write-backs	-	-	(509)	(509)	(77)
Allowances for credit losses	(57)	(1,446)	8,685	7,182	669
Allocation from investment risk reserve	-	-	-	-	28
FX translation	(21)	(7)	(908)	(936)	(199)
Balance at 31 December	221	754	14,032	15,007	4,387

6. MUSHARAKAS

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Musharakas	48,178	231,327	279,505	64,128	280,744	344,872
Allowances for credit losses	-	(7,615)	(7,615)	-	(5,231)	(5,231)
	48,178	223,712	271,890	64,128	275,513	339,641

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

	2018				2017
	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)	242,776	4,873	-	247,649	322,605
Satisfactory (5-7)	11,457	13,448	-	24,905	11,582
Default (8-10)	-	-	6,951	6,951	10,685
	254,233	18,321	6,951	279,505	344,872

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6. MUSHARAKAS (continued)

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

	2018				2017
	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 on adoption of FAS 30	1,401	1,687	5,409	8,497	5,005
Changes during the year:					
- transferred to Stage 1: 12 month ECL	30	(30)	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(28)	28	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	426	(153)	1,208	1,481	797
Recoveries / write-backs	-	-	(622)	(622)	(307)
Allowances for credit losses	428	(155)	586	859	490
FX translation	(287)	(345)	(1,109)	(1,741)	(264)
Balance at 31 December	1,542	1,187	4,886	7,615	5,231

7. INVESTMENTS

	2018			2017		
	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	-	786	786	-	245	245
ii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	184,363	91,214	275,577	100,144	100,388	200,532
Unquoted						
Sukuk	179,553	15,199	194,752	206,205	32,996	239,201
	363,916	106,413	470,329	306,349	133,384	439,733
Allowances for credit losses	(2,340)	(365)	(2,705)	(1,894)	-	(1,894)
	361,576	106,048	467,624	304,455	133,384	437,839
iii) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	8,786	371	9,157	9,613	466	10,079
Unquoted						
Unlisted equity shares	60,263	376	60,639	60,350	473	60,823
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	9,437	1,500	10,937	4,636	5,726	10,362
	79,486	2,247	81,733	75,599	6,665	82,264
Provision for impairment	(5,015)	(488)	(5,503)	(2,031)	(579)	(2,610)
	74,471	1,759	76,230	73,568	6,086	79,654
Total investments	436,047	108,593	544,640	378,023	139,715	517,738

Notes to the Consolidated Financial Statements

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7. INVESTMENTS (continued)

The investments in quoted equity type instruments, amounted to US$ 6.8 million (2017: US$ 9.0 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$ 70.2 million (2017: US$ 70.9 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$ 467.6 million (2017: US$ 437.8 million) has a fair value amounting to US$ 466.9 million (2017: US$ 435.8 million).

Investments stated at a carrying amount of US$ 252.4 million (2017: US$ 179.1 million) are placed in custody of a financial institution to secure a financing line. Further, investments having a carrying amount of Nil (2017:US$ 45.1 million) were also pledged to secure additional financing line.

7.1 Debt-type instruments at amortised cost

	2018				2017
	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)	165,983	-	-	165,983	245,040
Satisfactory (5-7)	265,562	36,482	-	302,044	192,391
Default (8-10)	-	-	2,302	2,302	2,302
	431,545	36,482	2,302	470,329	439,733

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

	2018				2017
	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 on adoption of FAS 30	400	-	1,894	2,294	1,476
Changes during the year					
- transferred to Stage 1: 12 month ECL	-	-	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(93)	93	-	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	278	134	-	412	418
Recoveries / write-backs	-	-	-	-	-
Allowance for credit losses	185	227	-	412	418
FX translation	(1)	-	-	(1)	-
Balance at 31 December	584	227	1,894	2,705	1,894

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8. INVESTMENT IN JOINT VENTURE

	2018 US$ '000	2017 US$ '000
Balance at 1 January	14,636	14,576
Net share of income for the year	35	60
Balance at 31 December	14,671	14,636

Name	*Nature of Business*	*Ownership* 2018	*2017*
Danat-al- Barakat	Real estate development	51.00%	51.00%

Summarised statement of financial position

	2018 US$ '000	2017 US$ '000
Non-current assets	18,509	17,835
Current assets	10,486	10,962
Current liabilities	(230)	(99)
Net assets	28,765	28,698
Group's ownership in equity	14,671	14,636
Net carrying amount	14,671	14,636
Summarised statement of profit and loss		
Total income	216	223
Total expenses	(147)	(105)
Total comprehensive income	69	118
Group's net share of profit	35	60

9. INVESTMENTS IN REAL ESTATE

	2018 US$ '000	2017 US$ '000
Land and buildings	5,974	5,974
Unrealized loss on remeasurement	(736)	-
	5,238	5,974

During 2018, the Group has revalued its investment in real estate based on valuation performed by independent valuers. The carrying values of the investment was adjusted to reflect the changes in fair value.

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10. PREMISES AND EQUIPMENT

	Land and Buildings US$ '000	Computer Software & license US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Total US$ '000
Cost:					
At 1 January 2018	28,447	20,818	31,827	1,041	82,133
Additions	22,281	490	8,071	-	30,842
Disposals	(88)	-	(32)	(172)	(292)
Revaluation	(479)	-	-	-	(479)
Exchange difference on opening balance	(3,534)	(2,708)	(3,616)	(161)	(10,019)
At 31 December 2018	46,627	18,600	36,250	708	102,185
Depreciation:					
At 1 January 2018	9,768	13,467	22,435	730	46,400
Provided during the year	1,422	1,332	2,787	73	5,614
Disposals	(61)	-	(25)	(85)	(171)
Exchange difference on opening balance	(1,076)	(1,394)	(2,701)	(98)	(5,269)
At 31 December 2018	10,053	13,405	22,496	620	46,574
Net book values:					
At 31 December 2018	36,574	5,195	13,754	88	55,611
At 31 December 2017	18,679	7,351	9,392	311	35,733
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

11. GOODWILL

	2018 US$ '000	2017 US$ '000
Balances at 1 January	20,338	28,181
Allocation to intangible	-	(6,358)
Foreign exchange translations	(4,166)	(1,485)
Balances at 31 December	16,172	20,338

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.

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12. OTHER ASSETS

	2018 US$ '000	2017 US$ '000
Collaterals pending sale	**21,747**	21,387
Deferred tax (12.1)	**25,207**	29,272
Advance against financing transactions	**14,481**	29,223
Advance against capital expenditure	**5,847**	6,864
Accounts receivables	**3,574**	4,794
Advance tax	**2,265**	3,186
Income receivables	**306**	1,548
Others	**17,253**	13,794
Total	**90,680**	110,068
Provision for impairment	**(2,880)**	(3,622)
	87,800	106,446

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

13. OTHER LIABILITIES

	2018 US$ '000	2017 US$ '000
Accounts payable	**14,995**	17,535
Margins received	**61,593**	56,372
Security deposit against Ijara Muntahia Bittamleek	**5,925**	10,994
Bills payable	**9,947**	15,316
Provision for employees benefits	**7,821**	8,166
Charity fund	**553**	849
Allowance for credit losses-unfunded facilities	**597**	-
Others	**12,306**	18,246
	113,737	127,478

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 Bank 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 Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of 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.

	2018 US$ '000	2017 US$ '000
IAH - Non-banks	**1,044,687**	1,230,387
IAH - Banks	**365,980**	241,540
Profit equalisation reserve (note 14.1)	**115**	572
Investment risk reserve (note 14.2)	**-**	1,701
	1,410,782	1,474,200

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

14.1 Movement in profit equalisation reserve

	2018 US$ '000	2017 US$ '000
Balance at 1 January	572	551
Effect of implementation of FAS 30	(572)	-
Restated balances as on 01 Janaury	-	551
Amount apportioned from income allocable to equity of investment accountholders	115	-
Exchange difference	-	21
Balance at 31 December	115	572

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

	2018 US$ '000	2017 US$ '000
Balance at 1 January	1,701	2,339
Effect of implementation of FAS 30	(1,701)	-
Restated balances as on 01 Janaury	-	2,339
Exchange difference	-	1
Amount apportioned to provision	-	(639)
Balance at 31 December	-	1,701

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% (2017: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US$ 10.6 million (2017: US$ 7.1 million) to equity of investment account holders for the year ended 31 December 2018.

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

14.3 Equity of Investment Accountholders rate of return

	Average 2018 Rate of return %			Average 2017 Rate of return %		
	Bahrain		Pakistan	Bahrain		Pakistan
	BD	USD		BD	USD	
Saving Accounts	0.11%	0.08%	4.27%	0.11%	0.08%	3.46%- 3.66%
One Month Investment Account	0.56%	0.49%	3.74%	0.56%	-	3.46% - 4.31%
Three Months Investment Account	0.65%	0.53%	4.24%	0.66%	0.66%	1.71% - 4.82%
Six Months Investment Account	0.77%	0.62%	4.27%	0.77%	0.76%	3.01% - 4.71%
Nine Months Investment Account	0.81%	0.69%	-	0.84%	-	-
1 Year Investment Account	0.89%	0.72%	5.75%	0.89%	0.93%	3.13% - 5.35%
2 Years Investment Account	1.00%	0.78%	6.08%	1.00%	1.14%	4.78%
3 Years Investment Account	1.55%	-	6.65%	1.52%	-	5.19%
4 Years Investment Account	-	-	6.15%	-	-	4.80%
5 Years Investment Account	-	1.00%	7.01%	-	-	5.67%

14.4 Equity of Investment Accountholders by type

	2018 US$ '000	2017 US$ '000
Saving Accounts	575,254	676,082
One Month Investment Account	163,806	125,836
Three Months Investment Account	269,620	31,883
Six Months Investment Account	47,155	186,455
Nine Months Investment Account	763	5,486
1 Year Investment Account	293,447	267,372
2 Years Investment Account	11,912	109,819
3 Years Investment Account	27,218	37,920
4 Years Investment Account	25	4,834
5 Years Investment Account	21,582	28,513
	1,410,782	1,474,200

14.5Equity of Investment Accountholders by maturity

	2018 US$ '000	2017 US$ '000
Accounts on demand	575,254	676,082
Accounts on a contractual basis *	835,528	798,118
	1,410,782	1,474,200

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

15. SUBORDINATED DEBT

	2018 US$ '000	2017 US$ '000
Subordinated Mudaraba and Murabaha by Ultimate Parent	-	32,555
Subordinated Mudaraba Sukuk	17,478	24,478
	17,478	57,033

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16. OWNERS' EQUITY

	2018 US$ '000	2017 US$ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2017: 6,000,000) of US$ 100 each	**600,000**	600,000

	2018 US$ '000	2017 US$ '000
Issued and fully paid 1,224,578 ordinary shares (2017: 1,224,578) of US$ 100 each	**122,458**	122,458

Additional information on shareholding pattern

Names and nationalities of the major shareholder and the number of shares where they have an interest of 5% or more of outstanding shares:

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.

Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

	2018			2017		
	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**	**4.81%**	58,823	12	4.81%
1% up to less than 5%	**50,000**	**1**	**4.08%**	50,000	1	4.08%
	108,823	**13**	**8.89%**	108,823	13	8.89%

(ii) Additional Tier 1 (AT1) Capital

	2018 US$ '000	2017 US$ '000
Subordinated Mudaraba debt	**110,000**	-

On 29 March 2018, the Bank received US$ 110 million (US$ 50 million cash, US$ 31 million conversion of subordinated debt, US$ 29 million in-kind property and equipment) Additional Tier 1 Capital, in compliance with CBB regulations, from its Ultimate Parent. In this respect, the profit shall be payable subject to and in accordance with terms and conditions, on the outstanding nominal amount of the instrument at an expected rate ranging from 6% to 9% per annum, on a semi-annual basis. This instrument recognized under equity in the consolidated statement of financial position and the corresponding Profit payable on such balances are accounted as appropriation of profits. As per the terms and conditions, the parent will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

(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. As the Bank incurred losses in year ended 31 December 2018 and comparative year closing on 31 December 2017, there is no amount transferred in statutory reserves.

(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.

Notes to the Consolidated Financial Statements

At 31 December 2018

16. OWNERS' EQUITY (continued)

(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 in books of accounts.

(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 acturial gains or losses on defined benefit liabilities and planned assets.

17. CONTINGENCIES AND COMMITMENTS

	2018 US$ '000	2017 US$ '000
Letters of credit	87,074	110,942
Guarantees	59,114	82,870
Foreign exchange contracts	122,666	79,478
Acceptances	31,496	30,854
Taxation	1,661	2,088
Others	84	-
	302,095	306,232

18. INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS

	2018 US$ '000	2017 US$ '000
Income from investments	25,821	22,364
Ijara Muntahia Bittamleek (note 18.1) - net	18,551	19,202
Musharakas	30,364	27,505
Gain on sale of investments	1,422	2,055
Dividends	296	452
Rental income	151	224
	76,605	71,802

	2018 US$ '000	2017 US$ '000
Income from jointly financed, other financings and investments	47,695	50,019
Income from self financed, other financings and investments	28,910	21,783
	76,605	71,802

18.1 Ijara Muntahia Bittamleek

	2018 US$ '000	2017 US$ '000
Income from Ijara Muntahia Bittamleek	58,922	76,623
Depreciation on Ijara Muntahia Bittamleek	(40,371)	(57,421)
	18,551	19,202

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19. REVENUE FROM BANKING SERVICES

	2018 US$ '000	2017 US$ '000
Fees and commissions	6,256	6,199
Letters of credit and acceptances	5,488	3,782
Guarantees	532	956
	12,276	10,937

20. OTHER INCOME

	2018 US$ '000	2017 US$ '000
Foreign exchange gain - net	3,732	2,244
Unrealised fair value loss on investment in real estate (note 9)	(736)	-
Others	884	1,395
	3,880	3,639

21. OTHER OPERATING EXPENSES

	2018 US$ '000	2017 US$ '000
Administrative expenses	6,806	7,481
Premises costs	13,013	16,594
Business expenses	10,668	11,751
General expenses	1,849	2,585
	32,336	38,411

22. ALLOWANCES FOR IMPAIRMENT - NET

	2018 US$ '000	2017 US$ '000
Receivables (note 4)	(21,449)	(1,760)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	(7,182)	(669)
Musharaka (note 6)	(859)	(490)
Allowance for credit losses for investments at amortized cost (note 7)	(412)	(418)
Impairement on investments classifed as fair value through equity	(3,189)	(1,029)
Contingencies and commitments	637	-
Other assets	-	(34)
	(32,454)	(4,400)

Notes to the Consolidated Financial Statements

At 31 December 2018

23. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2018 US$ '000	2017 US$ '000
Consolidated statement of financial position:		
Advance tax - net	2,265	3,186
Consolidated statement of income:		
Current tax	(825)	(871)
Deferred tax	172	2,164
	(653)	1,293

24. CASH AND CASH EQUIVALENTS

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

	2018 US$ '000	2017 US$ '000
Cash in hand	35,171	39,310
Balances with central banks (unrestricted accounts)	12,932	16,425
Balances with other banks and financial institutions	43,974	42,843
Placements with central banks	-	46,147
Receivables - international commodities (with an original maturity of 90 days or less)	182,992	175,054
	275,069	319,779

25. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

	Shareholders		Other Related Parties		Total	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Assets:						
Cash and balances with banks and financial institutions	43	63	181	161	224	224
Receivables	-	-	8,034	10,643	8,034	10,643
Ijara Muntahia Bittamleek	-	-	204	382	204	382
Musharaka	218	820	1,901	2,005	2,119	2,825
Ijara receivables	-	-	53	72	53	72
Investments	-	-	86,848	87,036	86,848	87,036
Other assets	655	579	159	119	814	698
	916	1,462	97,380	100,418	98,296	101,880
Liabilities:						
Due to banks and financial institutions	4,096	3,407	624	3,840	4,720	7,247
Current account	158	178	19,319	4,406	19,477	4,584
Other liabilities	5	59	258	524	263	583
	4,259	3,644	20,201	8,770	24,460	12,414
Equity of investment accountholders	8,994	5,996	85,552	56,841	94,546	62,837
Subordinated debts	-	32,555	-	-	-	32,555
Off-balance sheet equity of investment accountholders	-	-	63,653	68,250	63,653	68,250
Contingencies and commitments	-	-	3,826	5,396	3,826	5,396

Notes to the Consolidated Financial Statements

At 31 December 2018

25. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	Shareholders		Other Related Parties		Total	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Income						
Income from jointly financed sales	-	-	632	1,094	632	1,094
Income from jointly financed, other financings and investments	-	-	1,045	1,277	1,045	1,277
Other income	318	318	1	-	319	318
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	46	60	45	45	91	105
	364	378	1,723	2,416	2,087	2,794
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	608	1,898	1,745	1,579	2,353	3,477
Other expenses	901	2,333	2,301	2,717	3,202	5,050
	1,509	4,231	4,046	4,296	5,555	8,527

Compensation of key management personnel is as follows:

Key management personnel includes the staff in grade of senior manager and above:

	2018 US$ '000	2017 US$ '000
Salaries	4,132	4,651
Other benefits	2,299	2,568
	6,431	7,219

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At 31 December 2018

26. 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 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.

	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	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
Musharaka	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 SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	40,960	16,664	-	-	-	-	-	-	-	57,624
Current accounts	275,588	-	-	-	-	-	-	-	-	275,588
Medium term financing	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, subordinate 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	9,522	-	-	-	-	-	-	86,758

Notes to the Consolidated Financial Statements

At 31 December 2018

26. 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 2017 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	98,578	46,147	-	-	-	-	-	-	74,224	218,949
Receivables	400,146	137,608	59,946	64,289	14,184	3,436	-	-	48,977	728,586
Ijara Muntahia Bittamleek and Ijara Receivables	9,975	9,827	15,516	64,563	46,557	54,843	70,509	16,122	20,983	308,895
Musharakas	22,869	1,172	9,300	80,354	158,691	41,778	20,017	-	5,460	339,641
Investments	14,824	500	49,739	188,130	60,397	138,575	1,000	-	64,573	517,738
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Investment in Joint Venture	-	-	-	-	-	14,636	-	-	-	14,636
Premises and equipment	-	-	-	-	-	-	-	-	35,733	35,733
Goodwill	-	-	-	-	-	-	-	-	20,338	20,338
Other assets	42,436	7,022	12,597	3,855	40,536	-	-	-	-	106,446
Total assets	588,828	202,276	147,098	407,165	320,365	253,268	91,526	16,122	270,288	2,296,936
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	52,087	-	-	-	-	-	-	-	-	52,087
Current accounts	294,637	-	-	-	-	-	-	-	-	294,637
Medium term finance	48,601	29,215	-	22,000	-	-	-	-	-	99,816
Other liabilities	115,109	369	3,385	4,987	3,628	-	-	-	-	127,478
Total liabilities	510,434	29,584	3,385	26,987	3,628	-	-	-	-	574,018
Equity of investment accountholders	678,361	201,721	215,846	189,447	90,802	73,518	24,505	-	-	1,474,200
Subordinated debts	1,759	-	745	5,802	8,588	40,139	-	-	-	57,033
Total owners' equity	-	-	-	-	-	-	-	-	191,685	191,685
Total liabilities, Equity of investment accountholders subordinated debts and owner's equity	1,190,554	231,305	219,976	222,236	103,018	113,657	24,505	-	191,685	2,296,936
Net gap	(601,726)	(29,029)	(72,878)	184,929	217,347	139,611	67,021	16,122	78,603	-
Cumulative net gap	(601,726)	(630,755)	(703,633)	(518,704)	(301,357)	(161,746)	(94,725)	(78,603)	-	-
Off-balance sheet equity of investment accountholders	27,151	48,859	9,593	-	-	-	-	-	-	85,603

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26. 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 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).

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.

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

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

	2017 Total equivalent US$ '000
Pakistani Rupees	84,200
Euro	(13,402)
Kuwaiti Dinars	2,306
Pound Sterling	(4,172)

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.

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:

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26. RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Currency	Particular	Change	Exposures in US$ '000	Effect on equity/ Statement 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)
2017				
Pakistani Rupees	Net long Position	20%	84,200	16,840
Euro	Net short Position	20%	(13,402)	(2,680)
Kuwaiti Dinars	Net long Position	20%	2,306	461
Pound Sterling	Net short Position	20%	(4,172)	(834)

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 2018 %	Effect on equity/ Income Statement 2018 US$ '000	Change in equity price 2017 %	Effect on equity/ Income Statement 2017 US$ '000
Karachi Stock Exchange	10%	994	10%	1,008

As at the consolidated statement of financial position date, the Group had unquoted investments held at cost less provision for impairment of US$ 70.2 million (31 December 2017: US$ 70.9 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

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 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.

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26. RISK MANAGEMENT (continued)

b) Market risk (continued)

31 December 2017	GCC US$ '000	Rest of the world US$ '000	Total US$ '000
Banking	34,339	36,916	71,255
Government	157,030	154,115	311,145
Investment companies	82,924	-	82,924
Manufacturing	-	13,438	13,438
Real estate	5,528	8,726	14,254
Others	2,958	21,764	24,722
	282,779	234,959	517,738

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.

	Gross Maximum Exposure to Credit Risk	
	2018 US$ '000	2017 US$ '000
Receivables	**712,375**	728,586
Musharakas	**271,890**	339,641
Ijara Muntahia Bittamleek and Ijara receivables	**284,696**	308,895
Investments at amortized cost	**467,624**	437,839
Contingencies and commitments	**300,350**	304,144

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At 31 December 2018

26. 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 Credit Rating System (CRS). The balances presented are gross of impairment provision.

	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

	31 December 2017			
	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	657,894	25,060	96,695	779,649
Musharakas	330,758	3,430	10,684	344,872
Ijara Muntahia Bittamleek and Ijara receivables	288,547	1,430	23,305	313,282
	1,277,199	29,920	130,684	1,437,803

Aging analysis of past due but performing Islamic financing contracts

	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 & Ijara income receivables	494	239	57	790
	23,526	5,913	2,156	31,595

	31 December 2017			
	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	16,272	3,863	4,925	25,060
Musharaka	1,262	737	1,431	3,430
Ijara Muntahia Bittamleek and Ijara receivables	1,130	243	57	1,430
	18,664	4,843	6,413	29,920

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At 31 December 2018

26. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

	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
Receivables	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 receivables	3,482	6,407	13,265	2,984	26,138
	31,167	19,359	33,977	42,925	127,428

	31 December 2017				
	3-6 Months US$ '000	6-12 Months US$ '000	1-3 Years US$ '000	3 Years & Above US$ '000	Total US$ '000
Receivables	28,026	7,360	36,753	24,556	96,695
Musharaka	4,024	2,132	1,145	3,384	10,685
Ijara Muntahia Bittamleek and Ijara receivables	13,127	248	6,970	2,959	23,304
	45,177	9,740	44,868	30,899	130,684

As at 31 December 2018 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US$ 49.2 million (2017: US$ 65.3 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

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 2018

26. 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).

During the year 2018, US$ 13.7 million (2017: US$ 46.6 million) of financing facilities were renegotiated. Exposures amounting to US$ 12.4 million of the restructured facilities are non-performing as of 31 December 2018 (2017: US$ 7.6 million).

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 larceny, 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

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

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

	Assets		Liabilities and Subordinated debts		Equity of investment accountholders	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Geographical region						
Middle East	1,151,292	1,026,622	175,626	240,320	601,784	633,553
Europe	59,661	57,280	2,693	2,223	1	20
Asia	889,664	1,090,577	278,961	331,654	543,258	667,638
Others	79,805	122,457	68,223	56,854	265,739	172,989
	2,180,422	2,296,936	525,503	631,051	1,410,782	1,474,200

	Assets		Liabilities and Subordinated debt		Equity of investment accountholders	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Industry sector						
Trading and manufacturing	351,150	451,181	66,534	70,253	107,692	120,390
Banks and financial institutions	880,992	884,549	197,458	255,619	430,396	319,851
Construction	41,894	48,692	10,181	12,028	8,373	20,866
Others	906,386	912,514	251,330	293,151	864,321	1,013,093
	2,180,422	2,296,936	525,503	631,051	1,410,782	1,474,200

28. 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.

Notes to the Consolidated Financial Statements

At 31 December 2018

29. 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	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Assets	1,271,206	1,188,862	909,216	1,108,074
Liabilities, equity of investment accountholders, and Subordinated debt	1,113,384	1,109,954	822,901	995,297
Total income	43,157	33,496	43,350	43,656
Total operating expenses	(33,598)	(32,752)	(38,035)	(46,695)
Net operating income	9,559	744	5,315	(3,039)
Provision for impairment - net	(28,501)	(3,388)	(3,953)	(1,012)
Taxation	-	-	(653)	1,293
Income for the year	(18,942)	(2,644)	709	(2,758)

30. SOCIAL RESPONSIBILITY

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

31. 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 2018

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Basel III, Pillar III Disclosures

For the period ended 31 December 2018

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 eight 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 2018, 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, effectively from 01 January 2015 based on the approval obtained from the CBB. 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. Therefore, they might not be comparable with the financial statements in certain cases with respect to Bank's investment in Itqan capital.

The Group is in breach of minimum capital and capital adequacy requriements as prescribed by Central Bank of Bahrain as at 31 December 2018. In this regards, the Group in collaboration with parent and holding company "Al Baraka Banking Group" working on a certain initiatives to restore the capital and capital adequacy ratios above the minimum prescribed requirements.

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

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 2018			31 December 2017		
	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	122,458			122,458		
General reserves	8,687			8,687		
Statutory reserves	22,699			22,699		
Retained earnings	(6,347)			(2,841)		
Current cumulative net losses	(22,936)			-		
Unrealized gains and losses on available for sale financial instruments	595			525		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(28,312)			(13,914)		
Other reserves	(30)			(117)		
Total CET1 capital before minority interest	96,814			137,497		
Minority interest in banking subsidiaries	16,898			27,257		
Total CET1 capital prior to regulatory adjustments	113,712			164,754		
Less:						
Goodwill	33,255			37,421		
Intangible other than mortgage servicing rights	4,158			4,411		
Deferred tax assets	18,576			19,731		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	57,723			103,191		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		110,000	-		25,000	6,000
Instruments issued by banking subsidiaries to third parties		139	10,041		1,725	16,773
Assets revaluation reserve - property, plant, and equipment		-	714		-	1,193
Expected Credit Losses (ECL) Stages 1 & 2		-	2,921		-	4,134
Regulatory adjustment due to breach in CET1		(97,405)	-			
Total Available AT1 & T2 Capital		12,734	13,676		26,725	28,100
Total CET 1 Capital	57,723			103,191		
Total T1 Capital		70,457			129,916	
Total Capital			84,133			158,016

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 2018 Capital requirements US$'000	31 December 2017 Capital requirements US$'000
Type of islamic financing contracts		
Receivables	22,043	22,875
Ijara Muntahia Bittamleek & Ijara receivables	7,437	11,747
Musharaka	13,859	17,393
	43,339	52,015

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

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 2018		31 December 2017	
	Self Financed US$'000	Financed by IAH US$'000	Self Financed US$'000	Financed by IAH US$'000
Market risk - standardised approach				
Foreign exchange risk	7,741	-	6,930	-
Total of market risk - standardised approach	7,741	-	6,930	-
Multiplier	12.50	12.50	12.50	12.50
	96,763	-	86,625	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	96,763	-	86,625	-
Total market RWE		96,763		86,625
		12.50%		12.50%
Minimum capital requirement		12,095		10,828

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 2018 US$'000	31 December 2017 US$'000
Indicators of operational risk		
Average gross income	72,416	118,387
Multiplier	12.5	12.5
	905,200	1,479,838
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	135,780	221,976
	12.50%	12.50%
Minimum capital requirement	16,973	27,747

Table – 5. Capital adequacy ratios

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

	31 December 2018			31 December 2017		
	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	9.91%	8.30%	6.80%	15.06%	12.38%	9.84%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	22.82%	16.66%	13.60%	21.85%	16.18%	16.18%
Itqan Capital Company	31.06%	31.06%	31.06%	33.43%	33.43%	33.43%

** 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 2018

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 2018			31 December 2017		
	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	**11.73%**	**9.23%**	**9.23%**	10.36%	7.69%	8.66%
Minimum regulatory requirements*	**11.90%**	**7.50%**	**6.00%**	11.28%	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 2018

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 2018				31 December 2017			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
Funded exposure	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
Cash and balances with banks and financial institutions	94,148	122,234	93,598	74,106	171,060	155,083	48,393	50,410
Receivables	6,758	17,448	705,617	713,568	4,766	10,780	723,820	767,951
Ijara Muntahia Bittamleek and Ijara receivables	33,938	32,158	250,758	259,405	29,503	26,532	279,392	284,191
Musharaka	48,178	55,876	223,712	247,452	64,128	54,629	275,513	268,991
Investments	412,486	421,271	108,593	119,645	385,234	403,366	114,126	115,582
Investment in real estate	7,754	7,691	-	-	6,782	6,788	-	-
Premises and equipment	56,668	61,128	-	-	38,530	36,196	-	-
Other assets	61,799	71,714	28,504	28,582	76,060	79,898	32,956	32,646
Unfunded exposure								
Contingencies and commitments	177,684	200,107	-	-	224,666	223,601	-	-
	899,413	989,627	1,410,782	1,442,758	1,000,729	996,873	1,474,200	1,519,771

** 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 2018				31 December 2017			
	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	-	129,030	56,436	2,280	36,797	134,263	29,210	19,183
Receivables	6,758	-	458,162	247,455	4,766	-	459,761	264,059
Ijara Muntahia Bittamleek and Ijarareceivables	33,937	-	237,749	13,010	29,503	-	252,429	26,963
Musharaka	-	48,178	-	223,711	-	64,128	49	275,464
Investments	307,650	104,835	78,225	30,369	257,922	127,312	63,587	50,539
Investment in real estate	7,754	-	-	-	6,782	-	-	-
Ijara income receivables	-	-	-	-		-		
Other assets	10,952	72,635	44,697	18,688	21,963	92,627	3,346	29,610
	367,051	354,678	875,269	535,513	357,733	418,330	808,382	665,818

* *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.

3. RISK MANAGEMENT (continued)

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For the period ended 31 December 2018

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 2018				31 December 2017			
	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	35,171	-	-	-	31,146	-	8,164	-
Claims on Sovereigns	313,916	-	191,774	-	310,330	-	70,926	-
Claims on Public Sector Entities	169,867	-	41,870	-	160,981	27	38,484	-
Claims on banks	26,548	45,217	281,814	-	97,719	51,657	301,390	-
Claims on corporate	20,699	132,272	506,376	-	18,833	172,970	622,569	-
Mortgage	-	-	220,996	-	-	-	221,323	-
Past dues receivables	2,515	196	51,323	-	2,479	12	71,704	-
Regulatory Retail Portfolio	-	-	89,997	-	-	-	99,451	-
Equity investments	8,957	-	1,048	-	11,429	-	604	-
Investment in Funds	2,840	-	-	-	5,899	-	-	-
Holding of Real Estate	72,763	-	6,538	-	48,110	-	10,763	-
Other assets	68,453	-	19,046	-	89,137	-	28,822	-
	721,729	177,685	1,410,782	-	776,063	224,666	1,474,200	-

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 2018		31 December 2017	
	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	-	224	-	224
Receivables	-	8,034	-	10,643
Musharaka	-	2,119	-	2,825
Ijara Muntahia Bittamleek and Ijara Receivables	-	257	-	454
Investments	14,671	17,826	14,636	18,058
Other Assets	814	-	698	-
Contingencies and commitments	3,826	-	5,396	-
	19,311	28,460	20,730	32,204

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For the period ended 31 December 2018

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 2018 Self financed US $ '000	31 December 2017 Self financed US $ '000
Assets		
Investment in a subsidiary*	94,201	84,201
Equity investment in Itqan Capital	54,342	54,342
	148,543	138,543
Contingencies and commitments		
Letters of credit	2,433	91
Acceptances	1,265	324
	3,698	415

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 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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2017:

Counterparties *	Funded US $ '000
Counterparty # 1	137,987
Counterparty # 2	101,245
Counterparty # 3	92,709
Counterparty # 4	75,396
Counterparty # 5	49,438
Counterparty # 6	43,060
Counterparty # 7	37,952
Counterparty # 8	32,916
Counterparty # 9	28,174

* 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.

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For the period ended 31 December 2018

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:

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

2017	
Counterparty # 1	8,156
Counterparty # 2	1,833
Counterparty # 3	1,227
Counterparty # 4	774
Counterparty # 5	49

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 2018					31 December 2017				
			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
Corporates	22,355	83,280	40,176	23,835	19,269	20,737	82,838	43,949	16,977	21,912
Investment Firms	-	15,418	-	-	15,418	238	15,493	-	15,493	-
Individuals	747	12,966	6,421	5,095	1,450	878	9,358	2,849	5,563	946
Others	8,492	15,764	3,929	5,047	6,788	8,067	22,995	8,119	6,835	8,041
	31,594	127,428	50,526	33,977	42,925	29,920	130,684	54,917	44,868	30,899

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For the period ended 31 December 2018

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 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	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
Individuals	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

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2017:

	Specific allowances						
	Opening Balance US $ '000	*Charges during the year US $ '000*	*Write-Back during the year US $ '000*	*Write-offs during the year US $ '000*	*Transferred from investment risk reserve US $ '000*	*Exchange difference on opening balance US $ '000*	*Balance at the end of the year US $ '000*
Corporates	37,220	5,283	(5,690)	-	478	(1,866)	35,425
Investment Firms	13,187	-	-	-	-	195	13,382
Individual	1,958	611	(222)	-	161	(77)	2,431
Others	3,446	2,167	(123)	-	-	(182)	5,308
	55,811	8,061	(6,035)	-	639	(1,930)	56,546

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 2018			31 December 2017		
	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	Specific provision US $ '000	Collective provision US $ '000
Middle East	77,762	50,138	9,206	61,390	18,489	3,345
Other Asian countries	49,666	33,228	5,039	69,294	38,058	789
	127,428	83,366	14,245	130,684	56,547	4,134

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 2018 Total US $ '000	31 December 2017 Total US $ '000
Restructured Islamic financing contracts	13,735	46,603

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.

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For the period ended 31 December 2018

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 2018		31 December 2017	
	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	187,746	-	219,453	-
Receivables	712,375	406,318	728,586	421,509
Ijara Muntahia Bittamleek & Ijara receivables	284,696	299,066	308,898	76,892
Musharaka	271,890	271,889	339,651	339,593
Investments	521,079	-	499,360	-
Investment in real estate	7,754	-	6,782	-
Premises and equipment	56,668	-	38,530	-
Other assets	90,303	-	109,016	-
	2,132,511	977,273	2,250,263	837,994

* 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 2018		31 December 2017	
	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 receivables	284,696	35,817	308,895	52,924

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 2018	31 December 2017
	Foreign exchange risk US $ '000	Foreign exchange risk US $ '000
RWE	96,764	86,625
Capital requirements (12.5%)	12,095	10,828
Maximum value of RWE	96,764	89,152
Minimum value of RWE	86,708	86,619

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For the period ended 31 December 2018

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 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
Equity investments	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 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 2017:

	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	4,750	-	1,000	25
Equity investments	36,048	35,439	13,304	22,743	3,661
Real estate related	23,853	30,319	-	23,853	12,293
	60,901	70,508	13,304	47,596	15,979

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 6.8million (2017: USD 9.0 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 2018 US $ '000	31 December 2017 US $ '000
Cummulative realised gains arising from sale or liquidation	1,422	2,055
Total unrealised gains recognised in the balance sheet but not through P&L	595	525
Unrealised gross gains included in Tier One Capital	595	525
Assets revaluation reserve - property, plant, and equipment	714	1,193

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.

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For the period ended 31 December 2018

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 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 Ijara Receivables	8,239	7,271	14,771	56,724	176,534
Musharaka	427	1,381	13,232	92,891	163,960
Investments-Sukuk	4,468	97,082	21,420	113,072	231,578
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**

	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	446,530	137,608	59,946	66,883	17,619
Ijara Muntahia Bittamleek and Ijara Receivables	30,964	9,827	15,516	64,396	188,193
Musharaka	28,327	1,172	9,300	80,519	220,323
Investments-Sukuk	7,470	5,212	46,780	185,400	192,976
Profit rate sensitive assets	513,291	153,819	131,542	397,198	619,111
Medium term financing	48,601	29,214	-	22,000	-
Equity of investment accountholders	678,361	201,721	215,846	189,447	188,826
Subordinated debt	1,837	-	1,294	5,175	48,727
Profit rate sensitive liabilities	728,799	230,935	217,140	216,622	237,553
Profit rate gap	(215,508)	(77,116)	(85,598)	180,576	381,558
Profit rate sensitivity (200bps)	(4,310)	(1,542)	(1,712)	3,612	7,631

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with financial reporting framework 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.

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For the period ended 31 December 2018

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:

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

Currency	31 December 2017 Total equivalent US $ '000
Pakistani rupees	84,201
Euro	(13,402)
Kuwaiti dinars	2,306
Pound sterling	(4,172)
Others	112

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 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)

At 31 December 2017

Currency	Particular	Change	Exposures in US $ '000	Effect on profit and loss/Equity US $ '000
Pakistani Rupees	Net long Position	20%	84,201	16,840
Euro	Net short Position	20%	(13,402)	(2,680)
Kuwaiti Dinars	Net long Position	20%	2,306	461
Pound Sterling	Net short Position	20%	(4,172)	(834)

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For the period ended 31 December 2018

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. Equity of IAH withdrawn before their 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 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.

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For the period ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

Penalty charges

	31 December 2018 US $ '000	31 December 2017 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	-
Delays in submission of financial statements	-	1
Delays in submission of information in CBB Institutional System Panel		1
Anomalies in standing orders, EFTS and other electronic channels	2	9
	310	10
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	49	230

* 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 $ 326 thousand (2017: US $ 999 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 2018 US $ '000	31 December 2017 US $ '000
IAH - Non-banks	1,044,687	1,230,387
IAH - Banks	365,980	241,540
Profit equalisation reserve	115	572
Investment risk reserve	-	1,701
	1,410,782	1,474,200

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 2018	31 December 2017
PER to IAH (%)	0.01%	0.04%
IRR to IAH (%)	Nil	0.12%

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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 2018	31 December 2017
Receivables	50.02%	49.10%
Musharaka	15.86%	18.69%
Ijara Muntahia Bittamleek & Ijara receivable	17.77%	18.95%
Investments	7.70%	7.74%
Other assets	8.65%	5.52%

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 2018	31 December 2017
Banks	26.09%	16.56%
Investment Firms	3.83%	3.79%
Corporates	16.93%	19.65%
Residentials	44.90%	47.33%
Others	8.26%	12.67%

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 2018	31 December 2017
Administrative expenses charged to equity of investment accountholders	10,577	7,079
Share of profits earned by IAH, before transfers to/from reserves	69,629	71,861
Percentage share of profit earned by IAH before transfer to/from reserves	4.83%	4.73%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	53,151	53,553
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.68%	3.52%
Share of profit paid out to Bank as mudarib	16,477	18,308
Mudarib Fee to total Investment Profits	23.66%	25.48%

Table – 30. Movement in profit equalisation reserve

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

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

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

Table – 31. Movement in investment risk reserve

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

	31 December 2018 US $ '000	31 December 2017 US $ '000
Balance at 1 January	1,701	2,339
Amount utilized on initial implementation of FAS 30	(1,701)	-
Restated balances as on 01 January	-	2,339
Exchange difference	-	1
Amount apportioned to provision	-	(639)
	-	1,701
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	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 2017: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

	Average 31 December 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%	-
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%	-	6.65%
4 Years Term Deposits	-	-	6.15%
5Years Term Deposits	-	1.00%	7.01%

	Average 31 December 2017 Rate of return %		
	Bahrain		Pakistan
	BD	US $	
Saving Accounts	0.11%	0.08%	2.62%
One Month Term Deposits	0.56%	-	2.96%
Three Months Term Deposits	0.66%	0.89%	3.78%
Six Months Term Deposits	0.77%	0.96%	3.56%
Nine Months Term Deposits	0.81%	-	-
1 Year Term Deposits	0.89%	1.03%	4.09%
2 Years Term Deposits	1.00%	1.15%	2.94%
3 Year Term Deposits	1.52%	-	4.46%
4 Years Term Deposits	-	-	4.95%
5Years Term Deposits	-	-	4.64%

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

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 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 & Ijara receivable	**279,392**	**(28,634)**	**250,758**
Musharaka	**275,513**	**(51,801)**	**223,712**
Investments	**114,126**	**(5,533)**	**108,593**
Other assets	**32,956**	**(4,452)**	**28,504**
	1,474,200	**(63,418)**	**1,410,782**

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 2017:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	50,243	(1,850)	48,393
Receivables	739,582	(15,762)	723,820
Mudaraba	776	(776)	-
Ijara Muntahia Bittamleek & Ijara receivable	290,358	(10,966)	379,392
Musharaka	316,728	(41,215)	275,513
Investments	174,517	(60,391)	114,126
Ijara income receivables	28,892	11,181	40,073
Other assets	26,041	6,915	32,956
	1,598,245	(124,045)	1,474,200

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
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%

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

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

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 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

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 2017:

	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Type of Claims			
Claims on Sovereign	27,383	8,215	1,027
Claims on PSEs	6,099	1,830	229
Claims on Banks	167,905	50,372	6,297
Claims on Corporates	590,506	177,152	22,144
Mortgage	228,989	68,697	8,587
Regulatory Retail Portfolio	68,174	20,452	2,557
Past due facilities	94,841	28,452	3,557
Investment in securities	1,046	314	39
Holding of Real Estates	43,054	12,916	1,615
Other Assets	28,822	8,647	1,081
	1,256,819	377,047	47,133

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.

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

3. RISK MANAGEMENT (continued)

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

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 2018	31 December 2017
Receivables	**89.02%**	88.79%
Investments	**10.98%**	11.21%

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 2018	31 December 2017
Banks	**84.42%**	89.44%
Corporate	**15.58%**	10.56%

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 2018:

	Opening Actual Allocation US $ '000	**Movement US $ '000**	**Closing Actual Allocation US $ '000**
Receivables	**76,009**	**1,227**	**77,236**
Investments	**9,594**	**(72)**	**9,522**
	85,603	**1,155**	**86,758**

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 2017:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Receivables	66,585	9,424	76,009
Investments	9,405	189	9,594
	75,990	9,613	85,603

Basel III, Pillar III Disclosures

For the period ended 31 December 2018

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 2018 US$ '000	Dec 2017 US$ '000	Dec 2016 US$ '000	Dec 2015 US$ '000	Dec 2014 US$ '000
Gross Income	1,175	1,491	1,810	1,782	1,772
Mudarib Fee	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 2018	Exposure	Sensitivity	Amount
Currency			
Euro	6,195	20%	1,239

At 31 December 2017			
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 2018

3. RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

Table – 41. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2018	31 December 2017
Liquid assets to total assets	**16.98%**	17.15%
Short term assets to short term liabilities	**57.59%**	57.14%

Table – 42. Quantitative indicators of financial performance and position

	Dec 2018*	Dec 2017	Dec 2016	Dec 2015	Dec 2014
Return on average equity	**-8.2%**	-2.7%	1.2%	3.5%	1.2%
Return on average assets	**-0.8%**	-0.2%	0.1%	0.3%	0.1%
Cost to Income Ratio	**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.

CBB - Composition of Capital Disclosure Requirements Statement of Financial Position

Appendix PD-2

Step-1

	As per published financial statements 31 December 2018 US $ '000	As per Consolidated PIRI Return 31 December 2018 US $ '000
Assets		
Cash and balances with banks and financial institutions	187,329	187,747
Receivables	712,375	721,866
Ijara Muntahia Bittamleek &I jara receivables	284,696	285,671
Musharaka	271,890	274,619
Investments	544,640	507,215
Investments in real estate	5,238	7,754
Investment in joint venture & associates	14,671	14,679
Premises and equipment	55,611	56,668
Goodwill	16,172	33,254
Other assets	87,800	90,301
Total Assets	**2,180,422**	**2,179,774**
Liabilities		
Due to banks and financial institutions	57,624	57,624
Current accounts	275,588	275,588
Medium Term Financing	61,076	61,076
Other liabilities	113,737	115,019
Total liabilities	**508,025**	**509,307**
Equity of Investment Account Holders	**1,410,782**	**1,410,782**
Subordinated debt	**17,478**	**16,975**
Shareholders' Equity		
CET 1		
Share capital	**122,458**	122,458
Perpetual Tier1 capital	**110,000**	110,000
Retained earnings	**(21,778)**	(40,967)
Reserves	**4,791**	18,959
Total Shareholders' Equity	**215,471**	**210,450**
Non controlling interest	**28,666**	32,260
Total Liabilities, URIA and shareholders' equity	**2,180,422**	**2,179,774**

CBB - Composition of Capital Disclosure Requirements Statement of Financial Position

Appendix PD-2

Step-2

	As per published financial statements 31 December 2018 US $ '000	As per Consolidated PIRI Return 31 December 2018 US $ '000	
Assets			
Cash and balances with banks and financial institutions	187,329	187,747	
Receivables	712,375	721,866	
Ijara Muntahia Bittamleek & Ijara income receivable	284,696	285,671	
Musharaka	271,890	274,619	
Investments carried at fair value through profit & loss	786	16,296	
Investments carried at amortized cost	467,624	468,433	
Investments carried at fair value through equity	76,230	22,486	
Investments in real estate	5,238	7,754	
Investment in joint venture & associates	14,671	14,679	
Premises and equipment	55,611	56,668	
of which intangibles	5,197	5,197	A
Goodwill	16,172	33,254	B
Other assets	87,800	90,301	
of which deferred tax	25,207	25,207	C
Total Assets	**2,180,422**	**2,179,774**	
Liabilities			
Due to banks and financial institutions	57,624	57,624	
Current accounts	275,588	275,588	
Medium Term Financing	61,076	61,076	
Other liabilities	113,737	115,019	
Total liabilities	**508,025**	**509,307**	
Equity of Investment Account Holders	**1,410,782**	**1,410,782**	
Subordinated debt	**17,478**	**16,975**	
of which subordinated debt-Tier -2 issued by subsidiary	16,975	16,975	D
Shareholders' Equity			
CET 1			
Share capital	122,458	122,458	E
Perpetual AT1 Capital	110,000	110,000	F
Retained earnings	(21,778)	(40,967)	G
Statutory reserve	22,699	22,699	H
General reserves	8,687	8,687	I
Foreign Exchange Reserve	(28,313)	(28,313)	J
Revaluation reserve on investments	1,035	597	K
Other reserves	(31)	(31)	L
Non controlling interest	28,666	32,260	M
Expected credit losses for stage1 and stage2	-	11,684	
Tier 2			
Revaluation reserve on premises and equipment	714	714	N
Expected credit losses for stage1 and stage2	-	2,922	O
Total Shareholders' Equity	**244,137**	**242,710**	
Total Liabilities, URIA and shareholders' equity	**2,180,422**	**2,179,774**	

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	22,602	21,227

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 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
3	Governing law(s) of the instrument	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	Tier 2	Tier 2
5	Post-transitional CBB rules	CET 1	AT1	Tier 2	Tier 2
6	Eligible at solo/group/group&solo	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	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	122,458	110,000	6,173	10,802
9	Par value of instrument	100	Not Applicable	NA	NA
10	Accounting classification	Equity	Equity	Liability - amortized cost	Bullet Payment after 7 Years
11	Original date of issuance	Various	2018	2014	2017
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	Not Applicable	Perpetual	2021	2024
14	Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Coupons / dividends				
17	Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Floating	Floating
18	Coupon rate and any related index	Not Applicable	Various	KIBOR	6 Month Kibor + 0.75%
19	Existence of a dividend stopper	Not Applicable	Yes	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Applicable	No	Not Applicable	Not Applicable
22	Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative
23	Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify instrument type convertible into	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
30	Write-down feature	Not Applicable	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.	Not Applicable	Not Applicable
32	If write-down, full or partial	Not Applicable	Full	Not Applicable	Not Applicable
33	If write-down, permanent or temporary	Not Applicable	Permanent	Not Applicable	Not Applicable
34	If temporary write-down, description of write-up mechanism	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	Subordinate to all liabilities	Subordinate to all liabilities
36	Non-compliant transitioned features	Not Applicable	No	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable

CBB - Composition of Capital Disclosure Requirements

Appendix PD-4

Common disclosure template to be used during the transition of regulatory adjustments
(i.e. from 31stDecember 2016 to 31 December 2018)

			AMOUNTS SUBJECT TO PRE-2015 TREATMENT	
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	122,458		E
2	Retained earnings	(40,967)		G
3	Accumulated other comprehensive income (and other reserves)	15,323		H-L
4	*Not Applicable*			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	16,898	11,522	M
6	**Common Equity Tier 1 capital before regulatory adjustments**	113,712		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	33,255	-	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	4,158	1,039	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	16,668	-	C
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 (if not already netted off paid-in capital on reported balance sheet)	-		
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)	1,909		
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	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			
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**	55,990		
29	**Common Equity Tier 1 capital (CET1)**	57,722		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	110,000		F
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	110,000		
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)	139		
35	*of which: instruments issued by subsidiaries subject to phase out*			
36	**Additional Tier 1 capital before regulatory adjustments**	110,139		

CBB - Composition of Capital Disclosure Requirements

Appendix PD-4

(continued)

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31stDecember 2016 to 31 December 2018)		AMOUNTS SUBJECT TO PRE-2015 TREATMENT	
	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	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: …			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	97,405		
43	**Total regulatory adjustments to Additional Tier 1 capital**	97,405		
44	**Additional Tier 1 capital (AT1)**	12,734		
45	**Tier 1capital (T1 = CET1 + AT1)**	70,456		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		-
47	*Directly issued capital instruments subject to phase out from Tier 2*			
48	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)	10,041		D
49	*of which: instruments issued by subsidiaries subject to phase out*			
50	Provisions & Assets revaluation reserve - property, plant, and equipment	3,635		N-O
51	**Tier 2 capital before regulatory adjustments**	13,676		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	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)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: …			
57	**Total regulatory adjustments to Tier 2 capital**	-		
58	**Tier 2 capital (T2)**	13,676		
59	**Total capital (TC = T1 + T2)**	84,132		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: …			
60	**Total risk weighted assets**	848,940		

CBB - Composition of Capital Disclosure Requirements

Appendix PD-4

(continued)

Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31stDecember 2016 to 31 December 2018)

			AMOUNTS SUBJECT TO PRE-2015 TREATMENT
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	6.80%	
62	Tier 1 (as a percentage of risk weighted assets)	8.30%	
63	Total capital (as a percentage of risk weighted assets)	9.91%	
64	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)		
65	*of which: capital conservation buffer requirement*		
66	*of which: bank specific countercyclical buffer requirement (N/A)*		
67	*of which: D-SIB buffer requirement (N/A)*		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.0%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions/ ECLs eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,921	O
77	Cap on inclusion of provisions in Tier 2 under standardised approach	7,705	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80	*Current cap on CET1 instruments subject to phase out arrangements*		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	*Current cap on AT1 instruments subject to phase out arrangements*		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84	*Current cap on T2 instruments subject to phase out arrangements*		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		