Al Baraka Banking Group B.S.C.

UNIFIED SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

3 Jumada Al-Akhirah 1440
8 February 2019

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Unified Shari'a Supervisory Board Report
AlBaraka Banking Group B.S.C.
For the year ended 31 December 2018

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

To: Al Baraka Banking Group Shareholders

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

First:

We have conducted six meetings during 2018 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2018 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2018.

Second:
We have reviewed the principles applied by the Group and reviewed the 2018 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2018 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium1/31and by the Unified Shari'a Supervisory Board.

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Third:
The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2018 are made in compliance with Shari'a Rules and Principles.

2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.

3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.

4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

As the General Assembly in its annual meeting conducted on 20 March 2018 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 3,961,337 as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2017. The Group has paid and distributed an amount of US$ 3,875,853.31 to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by Unified Shari'a Board. The remaining amount of US$ 85,483.69 thousand has been allocated to be paid maximum by end of first quarter of 2019.

The Zakah of the Group after eliminating the Zakah paying subsidiaries is US Cent 26 for each 100 shares. The Group is not required to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. In case of unavailability of such empowerment, the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postpone the Zakah and become debt until the liquidity become available.

As the empowerment to the Group to pay the Zakah on the undistributed amount on behalf of the shareholders is part of the AGM agenda, the responsibility of the shareholders is to pay an amount of US$ 960,870 (US$ 0.773 for each 1,000 shares) for the cash distributed, and the Group will pay the remaining amount of US$ 2,235,005.

Praise be to Allah.

Chairman and Members

Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Abdulla Al Mannea
Chairman

Shaikh Dr. Abdulaziz Al Fawzan
Member
(Did not attend the meeting due to personal matter)

Shaikh Dr. Ahmed Mohiyeldin
Member

Zakah Calculation for the year ended 31 December 2018

	US$ '000
Equity Attributable to Shareholders	1,545,545
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(176,867)
Perpetual tier 1 capital	(400,000)
Net Zakatable Equity Attributable to Shareholders	**968,678**
Less:	
Musharaka underlined by unzakatable assets	(252,851)
Investment in Islamic Sukuk underlined by unzakatable assets	(8,748)
Ijarah Muntahia Bittamleek	(283,284)
long-term investment in real estate	(19,773)
Properties and equipment	(225,372)
Intangible assets	(50,365)
Investment in Associates	(21,239)
Prepayments	(11,208)
Deferred tax asset	(18,990)
Add:	
Shareholders share on Zakatable Assets by Associates	10,075
Sale of long-term investment in real estate during the year	246
Deferred tax liability	3,462
Employees' end of services benefit	33,386
Zakatable amount	**124,017**
Zakah Percentage	2.5770%
Total Zakah due	**3,196**
Number of Shares (thousands)	1,233,676
Zakah per share (US$ cents)	**0.26**

DIRECTORS' REPORT

REVIEW OF 2018

The year 2018 was a year when, inspite of increased economic and political challenges, Al Baraka Banking Group ("ABG" / the "Group") achieved good results and maintained a strong position with both net operating income and net income increasing by 4% and 5% respectively. The slowing rate of world economic growth, the rises in key interest rates and disputes among major trading nations all contributed to a difficult operating environment for several of the Group's banks. While taking the necessary precautionary measures, ABG has not changed its successful strategy, which is founded on Islamic values and partnership. These values have continued to contribute to the Group's resilience in the face of adverse conditions and remained the source of the achievements in 2018. The Group's strong position is attributed to its geographical diversity in revenue resources and its deep roots in the regional and local economies.

The past year was also a year of progress in digital transformation, which is one of the key strategic aims of the Group. Digital transformation and financial technology have become a major part of the strategies of all leading banks. Apart from competitive reasons, we also view digital transformation in banking as a social objective and as a means to bring financial services and Islamic banking to many, who today are without such services and require financial inclusion.

During the past year, the Group made a decision to expand its activities further into Islamic investments through investment arms that will be created at some of our operating subsidiaries. These investment arms are to inject funds directly in agricultural, industrial and other economic activities and thereby create real value in terms of employment and growth in the countries where the Al Baraka Group operates.

As mentioned above, changes in monetary policies and increases in key interest rates around the world led to significant currency volatilities during the year. Devaluation of local currencies against the US dollar in six of the countries where the Group operates had a significant impact on the consolidated Group results. The Group's total assets decreased by 6% from US$ 25.5 billion at the end of 2017 to US$ 23.8 billion as of 31 December 2018. Operating assets (Financing and Investments) dropped by 7% from US$ 19.1 billion to US$ 17.9 billion. Ignoring the local currency devaluation impact, both total assets and operating assets would have increased. Reflecting strong customer loyalty, customer accounts grew in local currency terms; whereas, in dollar terms were US$ 19.6 billion against US$ 20.7 billion as of 31 December 2017.

Total operating income remained at US$ 1.0 billion in 2018 almost same as in 2017 partially impacted by substantial falls in units' local currencies. The Group's resilience to adverse conditions is evidenced by the fact that in spite of lower total assets and operating assets, net

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operating income increased by 4% to US$ 447 million (US$ 430 million in 2017) and net income increased by 5% to US$ 217 million (US$ 207 million in 2017). The net income attributable to equity holders of the ABG remained at US$129 million same from 2017. The growth in profitability would have been even higher if the devaluation impact were to be excluded.

The last year was characterized by the launch of "Insha" service by Al Baraka Bank Turkey in Germany to provide digital banking services in Europe. In the first phase, "Insha' will provide basic banking services. Al Baraka Bank Turkey is planning to include all fundamental offers of participation banking in the second phase and aim to propagate participation banking both in digital and traditional channels throughout Europe.

During the year, our expansion into the Moroccan market was consolidated and BTI Bank, launched its operations as per the rules for participation banks issued by the Central Bank of Morocco.

In light of the Group's 2018 performance, the Board of Directors has recommended a cash dividend distribution to shareholders of 3.0% of the paid-up capital, amounting to US$37.29 million, after a transfer of US$12.91 million to the legal reserve, with the US$78.89 million balance of the net income allocated to retained earnings. The Board has further recommended a remuneration distribution of US$1.50 million, to be paid to the directors following approval of shareholders at the annual general meeting.

As of 31 December 2018, ownership of shares in ABG by Board Members and Executive Management (except the Chairman) is immaterial and no major trading of such shares took place in 2018. Details of shares held by Directors and Executive Management are provided in the notes to the consolidated financial statements.

During the year, the membership of the Board of Directors remained unchanged.

2019 and Beyond

Looking to the future, we retain our optimistic, positive view in spite of clear challenges in both the global and regional markets. Our strategy of digital transformation requires not only technical, but also, organizational and human resource adaptation, and we are confident that we can meet all requirements for successful implementation. We also continue to increase our operational efficiency and initiate expansion into new markets and more branches selectively.

The Group maintains its excellent Corporate Governance standards and continues to develop its Compliance function in line with the mounting requirements for the banking and finance industry. We consider that developing and maintaining strong compliance across all of our Units represents one of the highest priorities for the Group.

We would like to congratulate our subsidiaries for their commitment to the Group's values and for their performance in the face of the challenges during the year. We would also like to extend our gratitude to our Executive Management team, who have continued to work hard to successfully execute the Group's strategic plan.

Finally, we thank our Unified Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse, Nasdaq Dubai and all our subsidiaries' regulatory authorities, for their constant support and wise guidance over the past year.

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("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 Financial Accounting Standards issued by AAOIFI.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C. (continued)

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred 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 115
20 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	3	**5,008,009**	5,430,085
Receivables	4	**10,303,868**	12,001,050
Mudaraba and Musharaka financing	5	**2,718,906**	2,377,654
Investments	6	**3,067,008**	2,888,334
Ijarah Muntahia Bittamleek	7	**1,770,833**	1,856,018
Property and equipment	8	**406,564**	430,192
Other assets	9	**556,050**	469,878
TOTAL ASSETS		**23,831,238**	25,453,211
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**5,325,924**	5,465,433
Due to banks		**1,178,758**	1,322,470
Long term financing	10	**976,891**	1,236,555
Other liabilities	11	**971,310**	1,035,983
Total liabilities		**8,452,883**	9,060,441
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**13,122,368**	13,882,109
OWNERS' EQUITY			
Share capital	13	**1,242,879**	1,206,679
Treasury shares	13	**(9,203)**	(9,550)
Share premium		**18,829**	18,644
Perpetual tier 1 capital	14	**400,000**	400,000
Reserves		**165,551**	199,282
Cumulative changes in fair values		**31,929**	40,443
Foreign currency translations	13	**(861,313)**	(706,242)
Retained earnings		**519,587**	530,615
Proposed appropriations		**37,286**	60,334
Equity attributable to parent's shareholders and Sukuk holders		**1,545,545**	1,740,205
Non-controlling interest		**710,442**	770,456
Total owners' equity		**2,255,987**	2,510,661
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**23,831,238**	25,453,211

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

The attached 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			
Net income from jointly financed contracts and investments	15	**1,327,244**	1,258,663
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,159,241)**	(1,084,420)
Group's share as a Mudarib	16	**372,914**	377,735
Return on equity of investment accountholders		**(786,327)**	(706,685)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**540,917**	551,978
Mudarib share for managing off-balance sheet equity of investment accountholders		**8,366**	8,157
Net income from self financed contracts and investments	15	**242,967**	330,278
Other fees and commission income	17	**158,578**	157,894
Other operating income	18	**120,098**	35,383
		1,070,926	1,083,690
Profit paid on long term financing	19	**(83,107)**	(85,000)
TOTAL OPERATING INCOME		**987,819**	998,690
OPERATING EXPENSES			
Staff expenses		**306,350**	315,047
Depreciation and amortisation	20	**42,064**	47,398
Other operating expenses	21	**192,043**	205,872
TOTAL OPERATING EXPENSES		**540,457**	568,317
NET OPERATING INCOME FOR THE YEAR BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		**447,362**	430,373
Net allowance for credit losses / impairment	22	**(159,774)**	(131,807)
NET INCOME BEFORE TAXATION		**287,588**	298,566
Taxation		**(70,860)**	(91,647)
NET INCOME FOR THE YEAR		**216,728**	206,919
Attributable to:			
Equity holders of the parent		**129,084**	129,029
Non-controlling interest		**87,644**	77,890
		216,728	206,919
Basic and diluted earnings per share - US cents	23	**7.93**	9.19

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President and Chief Executive

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 US$ '000	2017 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**287,588**	298,566
Adjustments for:			
Depreciation and amortisation	20	**42,064**	47,398
Depreciation on Ijarah Muntahia Bittamleek	15.4	**190,817**	266,108
Unrealised (gain) loss on equity and debt-type instruments at fair value through statement of income	15.3	**(5,619)**	1,163
Gain on sale of property and equipment	18	**(8,850)**	(11,192)
Gain on sale of investment in real estate	15.3	**(1,248)**	(104)
(Gain) loss on sale of equity type instruments at fair value through equity	15.3	**(457)**	21
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(3,466)**	(820)
Income from associates	15.3	**(3,667)**	(1,537)
Net allowance for credit losses / impairment		**159,774**	131,807
Operating profit before changes in operating assets and liabilities		**656,936**	731,410
Net changes in operating assets and liabilities:			
Reserves with central banks		**478,668**	(347,443)
Receivables		**1,594,175**	(703,668)
Mudaraba and Musharaka financing		**(347,145)**	(798,128)
Ijarah Muntahia Bittamleek		**(105,888)**	(291,788)
Other assets		**(110,942)**	(16,194)
Customer current and other accounts		**(139,511)**	481,670
Due to banks		**(143,711)**	404,075
Other liabilities		**(74,995)**	192,248
Equity of investment accountholders		**(758,803)**	609,334
Taxation paid		**(97,999)**	(96,516)
Net cash from operating activities		**950,785**	165,000
INVESTING ACTIVITIES			
Net purchase of investments		**(265,789)**	(267,314)
Net purchase of property and equipment		**(9,552)**	(39,195)
Dividends received from associates		**3,207**	659
(Purchase) disposal of investment in associate		**(1,231)**	858
Net cash used in investing activities		**(273,365)**	(304,992)
FINANCING ACTIVITIES			
Long term financing		**(259,663)**	(144,702)
Dividends paid to equity holders of the parent		**(24,134)**	(11,396)
Net movement in treasury shares		**532**	108
Issuance of tier 1 capital		**-**	400,000
Profit distributed on perpetual tier 1 capital		**(31,500)**	(15,750)
Movement related to subsidiaries' tier 1 capital		**1,990**	-
Payment of expenses related to subsidiaries' tier 1 capital		**(426)**	-
Payment of expenses related to tier 1 capital		**-**	(2,780)
Net changes in non-controlling interest		**4,936**	(20,012)
Net cash (used in) from financing activities		**(308,265)**	205,468
Foreign currency translation adjustments		**(312,543)**	(56,252)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**56,612**	9,224
Cash and cash equivalents at 1 January		**2,861,182**	2,851,958
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,917,794**	2,861,182

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

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the parent and Sukuk holders													
					Reserves		*Cumulative changes in fair values*							
	Share capital US$ '000	*Treasury shares US$ '000*	*Share premium US$ '000*	*Perpetual tier 1 capital US$ '000*	*Statutory reserve US$ '000*	*Other reserves US$ '000*	*Investments US$ '000*	*Property and equipment US$ '000*	*Foreign currency translations reserve US$ '000*	*Retained earnings US$ '000*	*Proposed appropriati-ons US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total owners' equity US$ '000*
Balance at 1 January 2018	1,206,679	(9,550)	18,644	400,000	152,643	46,639	4,143	36,300	(706,242)	530,615	60,334	1,740,205	770,456	2,510,661
Transition adjustment on adoption of FAS 30 as of 1 January 2018 (note 2.1)	-	-	-	-	-	(46,639)	-	-	-	(56,021)	-	(102,660)	(49,177)	(151,837)
Restated balance as of 1 January 2018	**1,206,679**	**(9,550)**	**18,644**	**400,000**	**152,643**	**-**	**4,143**	**36,300**	**(706,242)**	**474,594**	**60,334**	**1,637,545**	**721,279**	**2,358,824**
Dividends paid	-	-	-	-	-	-	-	-	-		(24,134)	(24,134)	-	(24,134)
Bonus shares issued (note 13)	36,200	-	-	-	-	-	-	-	-	-	(36,200)	-	-	-
Movement in treasury shares	-	347	185		-	-	-	-	-	-	-	532	-	532
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	596	-	-	-	-	596	260	856
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	-	(9,110)	-	-	-	(9,110)	(5,541)	(14,651)
Foreign currency translation	-	-	-	-	-	-	-	-	(155,071)	-	-	(155,071)	(98,137)	(253,208)
Net income for the year	-	-	-	-	-	-	-	-	-	129,084	-	129,084	87,644	216,728
Transfer to statutory reserve (note 13)	-	-	-	-	12,908	-	-	-	-	(12,908)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(37,286)	37,286	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(30,862)	(30,862)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(3,961)	-	(3,961)	-	(3,961)
Expenses related to perpetual tier 1 capital issued by subsidiaries	-	-	-	-	-	-	-	-	-	(426)	-	(426)	(326)	(752)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	1,990	-	1,990	(4,740)	(2,750)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	40,865	40,865
Balance at 31 December 2018	**1,242,879**	**(9,203)**	**18,829**	**400,000**	**165,551**	**-**	**4,739**	**27,190**	**(861,313)**	**519,587**	**37,286**	**1,545,545**	**710,442**	**2,255,987**

The attached 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

	Attributable to equity holders of the parent and Sukuk holders													
					Reserves		Cumulative changes in fair values							
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Perpetual tier 1 capital US$ '000	Statutory reserve US$ '000	Other reserves US$ '000	Investments US$ '000	Property and equipment US$ '000	Foreign currency translations reserve US$ '000	Retained earnings US$ '000	Proposed appropriati -ons US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
Balance at 1 January 2017	1,149,218	(9,588)	18,574	-	139,740	42,231	4,971	36,300	(666,719)	497,374	68,857	1,280,958	727,623	2,008,581
Dividends paid	-	-	-	-	-	-	-	-	-		(11,396)	(11,396)	-	(11,396)
Bonus shares issued (note 13)	57,461	-	-	-	-	-	-	-	-	-	(57,461)	-	-	-
Movement in treasury shares	-	38	70		-	-	-	-	-	-	-	108	-	108
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	(828)	-	-	-	-	(828)	(851)	(1,679)
Net movement in other reserves	-	-	-	-	-	4,408	-	-	-	-	-	4,408	2,533	6,941
Foreign currency translation	-	-	-	-	-	-	-	-	(39,523)	-	-	(39,523)	(16,728)	(56,251)
Net income for the year	-	-	-	-	-	-	-	-	-	129,029	-	129,029	77,890	206,919
Transfer to statutory reserve (note 13)	-	-	-	-	12,903	-	-	-	-	(12,903)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(24,134)	24,134	-	-	-
Proposed bonus shares	-	-	-	-	-	-	-	-	-	(36,200)	36,200	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(31,941)	(31,941)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(4,021)	-	(4,021)	-	(4,021)
Perpetual tier 1 capital (note 14)	-	-	-	400,000	-	-	-	-	-	-	-	400,000	-	400,000
Expenses related to perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(2,780)	-	(2,780)	-	(2,780)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(15,750)	-	(15,750)	-	(15,750)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	11,930	11,930
Balance at 31 December 2017	**1,206,679**	**(9,550)**	**18,644**	**400,000**	**152,643**	**46,639**	**4,143**	**36,300**	**(706,242)**	**530,615**	**60,334**	**1,740,205**	**770,456**	**2,510,661**

The attached 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

	Cash US$ '000	*Sales receivables US$ '000*	*Mudaraba financing US$ '000*	*Investment in real estate US$ '000*	*Ijarah Muntahia Bittamleek US$ '000*	*Investments US$ '000*	*Others US$ '000*	*Total US$ '000*
Balance at 1 January 2018	33,196	177,793	292,657	48,411	112,345	190,788	48,190	903,380
Deposits	165,784	335,471	256,093	529	59,876	13,421	-	831,174
Withdrawals	(168,533)	(216,196)	(219,844)	(937)	(21,762)	(54,390)	(48,190)	(729,852)
Income net of expenses	-	34,160	7,787	465	8,782	2,883	20	54,097
Mudarib's share	-	(6,657)	(1,405)	-	(107)	(177)	(20)	(8,366)
Foreign exchange translations	-	(29,570)	-	-	-	(26,825)	-	(56,395)
Balance at 31 December 2018	**30,447**	**295,001**	**335,288**	**48,468**	**159,134**	**125,700**	**-**	**994,038**
Balance at 1 January 2017	73,558	223,323	286,201	38,150	82,962	157,672	10,177	872,043
Deposits	209,723	235,941	193,416	10,624	48,757	78,964	63,233	840,658
Withdrawals	(250,085)	(299,601)	(193,622)	(450)	(22,081)	(39,760)	(26,495)	(832,094)
Income net of expenses	-	30,793	6,662	366	3,321	1,558	(233)	42,467
Mudarib's share	-	(6,790)	-	(279)	(614)	(370)	(104)	(8,157)
Foreign exchange translations	-	(5,873)	-	-	-	(7,276)	1,612	(11,537)
Balance at 31 December 2017	33,196	177,793	292,657	48,411	112,345	190,788	48,190	903,380

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

1 CORPORATE INFORMATION AND ACTIVITIES

Al Baraka Banking Group B.S.C. ("the Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ("the Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The consolidated financial statements were approved by the Board of Directors on 20 February 2019.

2 ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ('US$') being the functional and reporting currency of the Group. All values are rounded to the nearest US$ thousand ('US$ '000') unless otherwise indicated.

Statement of compliance
The consolidated financial statements have been prepared in accordance with 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, 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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') as issued by the International Accounting Standards Board (the 'IASB'), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are 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 resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group 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.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 owners' 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. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

	Ownership for 2018	*Ownership for 2017*	*Year of incorporation*	*Country of incorporation*	***No. of branches/ offices at 31 December 2018***
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	**31**
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	**200**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**37**
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	**32**
Al Baraka Bank Lebanon (ABBL)	**98.98%**	98.94%	1991	Lebanon	**6**
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	**105**
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	**230**
Al Baraka Bank Limited (ABL)	**64.51%**	64.51%	1989	South Africa	**11**
Al Baraka Bank Sudan (ABS)	**75.73%**	75.73%	1984	Sudan	**28**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**13**
BTI Bank *	**49.00%**	49.00%	2017	Morocco	**4**

* The Group consolidate BTI Bank (49% ownership), Al Baraka Bank Syria (23% ownership) and Al Baraka Sukuk Limited SPV (0% ownership) due to the Group's control through the power to govern their financial and operating policies.

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

	Subsidiary held through	***Effective Ownership for 2018***	*Effective Ownership for 2017*	*Year of incorporation*	*Country of incorporation*
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**53.88%**	53.88%	2010	Pakistan
Itqan Capital	AIB	**75.69%**	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**62.31%**	65.61%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**62.97%**	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa

2 ACCOUNTING POLICIES (continued)

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2018:

2.1 New standards 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.

FAS 30 Impairment, Credit Losses and Onerous Commitments

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 the provisions part of 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 owners' equity. The standard eliminates the use of the existing FAS 11.

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 resulting from the adoption of FAS 30 are recognised in owner's equity 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	*Transition adjustment*	*Restated balance 1 January 2018*
	US$ '000	*US$ '000*	*US$ '000*
Retained earnings	530,615	(56,021)	**474,594**
Non-controlling interest	770,456	(49,177)	**721,279**
Other reserves	46,639	(46,639)	-
Equity of investment accountholders	13,882,109	(56,174)	**13,825,935**
Cash and balances with banks	5,430,085	(109)	**5,429,976**
Receivables	12,001,050	(187,037)	**11,814,013**
Mudaraba and Musharaka financing	2,377,654	(4,957)	**2,372,697**
Investments - Debt-type instruments at amortised cost	2,250,552	(4,706)	**2,245,846**
Ijarah Muntahia Bittamleek	1,856,018	(19,119)	**1,836,899**
Other assets	469,878	18,997	**488,875**
Other liabilities	1,035,983	11,080	**1,047,063**

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized in note 2.2 below.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies

a. Financial contracts
Financial contracts consist of cash and balances with banks, receivables, Mudaraba (net of deferred profit) and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek (where the estimates of future cash flows dependent on a single customer) and certain other assets. In addition it consist of off-balance sheets exposures such as letter of credit, letter of guaranties and undrawn commitments. 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).of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

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 provisions 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 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;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (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 described below.

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.

Each component (subsidiary) of the Group uses combination of key macro-economic indicators including, fiscal surplus/deficit as a percentage of GDP, gross domestic product (GDP) growth, oil prices, government spending, stock market volatility, cost of funding, lending rates credit growth, inflation rate and unemployment.

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

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 as per the diagnostic tool.

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.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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

Loss Given Default
LGD is a parentage 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.

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.

Exposure At Default
EAD represents estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, and expected drawdowns on committed facilities.

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 and medium-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.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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

Collective ECL computation and staging (continued)
To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group groups 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.

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.

Renegotiated financial assets
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; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2
- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present.
- Up to date payment with no arrears.
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

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.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

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

Presentation of allowance for credit losses in the interim consolidated statement of financial positior

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities.

c. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

d. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

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

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

e. Mudaraba and Musharaka financing

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

f. Investments

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

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.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

f. Investments (continued)

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.

Investment in associates

The Group's investment in associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity and debt-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market fluctuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. 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 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.

g. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

h. Property and equipment

Property and equipment are initially recognised at cost. Subsequent to initial recognition property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, except for land which is carried at fair value. 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 provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 - 50 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

i. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at the Bank or subsidiary level at the end of the financial period at their cash equivalent value.

j. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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.

k. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

l. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

m. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

n. Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

o. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

p. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

q. 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.

r. 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.

s. Sukuk

Sukuk issued by the Group are treated based on the underlying contracts and structure.

t. 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 them. These products are managed in a fiduciary capacity and the Group has no entitlement to these products. Third parties bear all of the risks and earn all of the rewards on these products. 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 products except within the conditions of the contract between the Group and third parties.

u. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

v. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on 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.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

v. Revenue recognition (continued)

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

Mudaraba and Musharaka financing
Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek
Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income
Fee and commission income is recognised when earned.

Other income
Other income on investments is recognised when the right to receive payment is established.

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

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.

w. Return on equity of investment accountholders
Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

x. Joint and self financed
Investments, financing and receivables 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 receivables that are financed solely by the Group are classified under "self financed".

y. Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

aa. Zakah

The article of association of Al Baraka Banking Group is not empowering the Group for paying Zakah on behalf of the shareholders and there is no such law in Kingdom of Bahrain requiring the Group to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders.

ab. Earnings prohibited by Shari'a

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

ac. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

ad. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

ae. Foreign currencies

Foreign currency transactions at the subsidiary level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements 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 entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

af. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which affects the amounts recognised in the consolidated financial statements:

Classification of investments

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

Going concern

The Group's management has made an assessment of the Group's 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 financial statements continue to be prepared on the going concern basis.

ag. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

ah. Derecognition

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

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

(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

3 CASH AND BALANCES WITH BANKS

	2018 ***US$ '000***	*2017* *US$ '000*
Balances with central banks*	**3,408,489**	4,102,938
Balances with other banks	**878,930**	602,517
Cash and cash in transit	**720,655**	724,630
Less: allowance for credit losses	**(65)**	-
	5,008,009	5,430,085

* Balances with central banks include mandatory reserves amounting to US$ 2,090,280 thousand (2017: US$ 2,568,903 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2018 ***US$ '000***	*2017* *US$ '000*
Sales (Murabaha) receivables (note 4.1)	10,441,374	11,996,930
Ijarah receivables (note 4.2)	87,084	81,970
Salam receivables (note 4.3)	215,681	193,910
Istisna'a receivables (note 4.4)	126,232	118,116
Less: allowance for credit losses	(566,503)	(389,876)
	10,303,868	12,001,050

4.1 Sales (Murabaha) 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*
Commodity murabaha	**56,072**	**567,237**	**623,309**	85,430	395,079	480,509
Other murabaha	**1,896,579**	**9,315,374**	**11,211,953**	2,385,059	10,853,317	13,238,376
Gross sales (murabaha) receivables	**1,952,651**	**9,882,611**	**11,835,262**	2,470,489	11,248,396	13,718,885
Deferred profits	**(299,791)**	**(1,094,097)**	**(1,393,888)**	(392,657)	(1,329,298)	(1,721,955)
	1,652,860	**8,788,514**	**10,441,374**	2,077,832	9,919,098	11,996,930
Less: allowance for credit losses (note 22)	**(159,738)**	**(361,881)**	**(521,619)**	(100,883)	(268,378)	(369,261)
Net sales (murabaha) receivables	**1,493,122**	**8,426,633**	**9,919,755**	1,976,949	9,650,720	11,627,669

	2018 ***US$ '000***	*2017* *US$ '000*
Non-performing	**654,917**	587,323

4 RECEIVABLES (continued)

4.2 Ijarah 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
Gross ijarah receivables	5,877	81,207	87,084	-	81,970	81,970
Less: allowance for credit losses (note 22)	(116)	(33,101)	(33,217)	-	(13,350)	(13,350)
Net ijarah receivables	5,761	48,106	53,867	-	68,620	68,620

	2018 US$ '000	2017 US$ '000
Non-performing	75,759	56,190

4.3 Salam 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
Gross salam receivables	-	215,681	215,681	-	193,910	193,910
Less: allowance for credit losses (note 22)	-	(7,724)	(7,724)	-	(5,875)	(5,875)
Net salam receivables	-	207,957	207,957	-	188,035	188,035

	2018 US$ '000	2017 US$ '000
Non-performing	14,473	17,564

4.4 Istisna'a 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
Gross istisna'a receivables	1,580	124,652	126,232	-	118,116	118,116
Less: allowance for credit losses (note 22)	-	(3,943)	(3,943)	-	(1,390)	(1,390)
Net istisna'a receivables	1,580	120,709	122,289	-	116,726	116,726

	2018 US$ '000	2017 US$ '000
Non-performing	6,588	6,917

4 RECEIVABLES (continued)

The table below shows the receivables credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2018				31 December 2017
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Good (1-4)	**2,299,334**	**77,745**	**-**	**2,377,079**	2,635,565
Satisfactory (5-7)	**5,672,979**	**2,068,576**	**-**	**7,741,555**	9,087,367
Default (8-10)	**-**	**-**	**751,737**	**751,737**	667,994
Less: allowance for credit losses	**(29,750)**	**(124,404)**	**(412,349)**	**(566,503)**	(389,876)
	7,942,563	**2,021,917**	**339,388**	**10,303,868**	12,001,050

The below table shows the movement in allowance for credit losses by stage:

	31 December 2018				31 December 2017
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January on adoption of FAS 30	**32,409**	**83,877**	**460,627**	**576,913**	375,243
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	**2,468**	**(1,768)**	**(700)**	**-**	-
- transferred to Stage 2	**(3,462)**	**3,687**	**(225)**	**-**	-
- transferred to Stage 3	**(1,835)**	**(8,746)**	**10,581**	**-**	-
Net remeasurement of loss allowance	**8,816**	**38,817**	**115,337**	**162,970**	155,874
Recoveries / write-backs	**-**	**-**	**(59,960)**	**(59,960)**	(29,810)
Allocation from investment risk reserve	**1,603**	**5,958**	**14,458**	**22,019**	5,452
Amounts written off	**-**	**-**	**(59,740)**	**(59,740)**	(119,333)
FX translation / others	**(10,249)**	**2,579**	**(68,029)**	**(75,699)**	2,450
	29,750	**124,404**	**412,349**	**566,503**	389,876

5 MUDARABA AND MUSHARAKA FINANCING

	2018	*2017*
	US$ '000	*US$ '000*
Mudaraba financing (note 5.1)	**1,711,827**	1,413,536
Musharaka financing (note 5.2)	**1,026,987**	986,185
Less: allowance for credit losses	**(19,908)**	(22,067)
	2,718,906	2,377,654

5 MUDARABA AND MUSHARAKA FINANCING (continued

5.1 Mudaraba financing

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross mudaraba financing	526,261	1,185,566	1,711,827	549,551	863,985	1,413,536
Less: allowance for credit losses (note 22)	-	(7,204)	(7,204)	-	(12,938)	(12,938)
Net mudaraba financing	526,261	1,178,362	1,704,623	549,551	851,047	1,400,598

	2018 US$ '000	2017 US$ '000
Non-performing	-	10,285

5.2 Musharaka financing

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross musharaka financing	468,081	558,906	1,026,987	280,969	705,216	986,185
Less: allowance for credit losses (note 22)	(776)	(11,928)	(12,704)	(235)	(8,894)	(9,129)
Net musharaka financing	467,305	546,978	1,014,283	280,734	696,322	977,056

	2018 US$ '000	2017 US$ '000
Non-performing	12,974	22,152

5 MUDARABA AND MUSHARAKA FINANCING (continued

The table below shows the mudaraba and musharaka credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2018				*31 December 2017*
	Stage 1	***Stage 2***	***Stage 3***	***Total***	*Total*
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	*US$ '000*
Good (1-4)	**1,759,973**	**78,181**	**-**	**1,838,154**	1,760,099
Satisfactory (5-7)	**721,077**	**166,609**	**-**	**887,686**	607,185
Default (8-10)	**-**	**-**	**12,974**	**12,974**	32,437
Less: allowance for credit losses	**(2,957)**	**(8,138)**	**(8,813)**	**(19,908)**	(22,067)
	2,478,093	**236,652**	**4,161**	**2,718,906**	2,377,654

The below table shows the movement in allowance for credit losses by stage:

	31 December 2018				*31 December 2017*
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***	*Total*
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	*US$ '000*
Balance at 1 January on adoption of FAS 30	**2,140**	**1,533**	**23,351**	**27,024**	18,549
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	**31**	**(31)**	**-**	**-**	-
- transferred to Stage 2	**(33)**	**33**	**-**	**-**	-
- transferred to Stage 3	**185**	**(49)**	**(136)**	**-**	-
Net remeasurement of loss allowance	**714**	**3,737**	**2,115**	**6,566**	3,563
Recoveries / write-backs	**-**	**-**	**(672)**	**(672)**	(694)
Allocation (to) from investment risk reserve	**(146)**	**46**	**-**	**(100)**	52
Amounts written off	**-**	**-**	**(20,902)**	**(20,902)**	-
FX translation / others	**66**	**2,869**	**5,057**	**7,992**	597
	2,957	**8,138**	**8,813**	**19,908**	22,067

6 INVESTMENTS

	2018 **US$ '000**	2017 US$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**215,160**	271,096
Equity-type instruments at fair value through equity (note 6.2)	**100,651**	103,818
Debt-type instruments at amortised cost (note 6.3)	**2,482,498**	2,250,552
	2,798,309	2,625,466
Investment in real estate (note 6.4)	**215,530**	211,157
Investment in associates (note 6.5)	**53,169**	51,711
	3,067,008	2,888,334

6.1 Equity and debt-type instruments at fair value through statement of income

	2018			2017		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debt Instruments	**1,840**	**786**	**2,626**	6,797	515	7,312
Equity Securities	**211,544**	**608**	**212,152**	262,880	775	263,655
	213,384	**1,394**	**214,778**	269,677	1,290	270,967
Unquoted investments						
Debt Instruments	**-**	**-**	**-**	7	-	7
Equity Securities	**382**	**-**	**382**	122	-	122
	382	**-**	**382**	129	-	129
	213,766	**1,394**	**215,160**	269,806	1,290	271,096

6.2 Equity-type instruments at fair value through equity

	2018			2017		
	Self financed US$ '000	**Jointly financed US$ '000**	**Total US$ '000**	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investme						
Equity Securities	**14,085**	**31,301**	**45,386**	13,129	32,932	46,061
Managed funds	**9,554**	**4,660**	**14,214**	7,274	4,636	11,910
	23,639	**35,961**	**59,600**	20,403	37,568	57,971
Unquoted investments						
Equity Securities	**24,449**	**17,816**	**42,265**	28,743	8,389	37,132
Managed funds	**-**	**5,194**	**5,194**	932	12,492	13,424
	24,449	**23,010**	**47,459**	29,675	20,881	50,556
Provisions for impairment	**(4,628)**	**(1,780)**	**(6,408)**	(2,461)	(2,248)	(4,709)
	43,460	**57,191**	**100,651**	47,617	56,201	103,818

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investmei						
Sukuk and similar items	**642,498**	**804,619**	**1,447,117**	581,817	711,564	1,293,381
Unquoted investments						
Sukuk and similar items	**181,553**	**865,430**	**1,046,983**	120,838	843,320	964,158
Less: allowance for credit losses	**(919)**	**(10,683)**	**(11,602)**	(2,500)	(4,487)	(6,987)
	823,132	**1,659,366**	**2,482,498**	700,155	1,550,397	2,250,552

The table below shows the debt type instruments credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2018				31 December 2017
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	Total US$ '000
Good (1-4)	**2,085,704**	**-**	**-**	**2,085,704**	1,813,971
Satisfactory (5-7)	**354,481**	**46,483**	**-**	**400,964**	436,201
Default (8-10)	**-**	**-**	**7,432**	**7,432**	7,367
Less: allowance for credit losses	**(2,334)**	**(2,246)**	**(7,022)**	**(11,602)**	(6,987)
	2,437,851	**44,237**	**410**	**2,482,498**	2,250,552

The below table shows the movement in allowance for credit losses by stage:

	31 December 2018				31 December 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	**4,706**	**-**	**6,987**	**11,693**	4,262
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	**-**	**-**	**-**	**-**	-
- transferred to Stage 2	**(93)**	**93**	**-**	**-**	-
- transferred to Stage 3	**-**	**-**	**-**	**-**	-
Net remeasurement of loss allowance	**(2,172)**	**134**	**-**	**(2,038)**	418
Allocation to (from) investment risk reserve	**(79)**	**2,019**	**2,564**	**4,504**	2,565
Recoveries / write-backs	**-**	**-**	**-**	**-**	(278)
Amounts written off during the year	**-**	**-**	**(2,500)**	**(2,500)**	-
FX translation / others	**(28)**	**-**	**(29)**	**(57)**	20
	2,334	**2,246**	**7,022**	**11,602**	6,987

6 INVESTMENTS (continued)

6.4 Investment in real estate

	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	**3,258**	**127,288**	**130,546**	1,311	128,936	130,247
Buildings	**7,760**	**77,224**	**84,984**	7,376	73,534	80,910
	11,018	**204,512**	**215,530**	8,687	202,470	211,157

The following is a reconciliation between carrying amounts of investment in real estate at the beginning and end of the year:

	2018 US$ '000	*2017 US$ '000*
Beginning balance of the year	**211,157**	191,565
Acquisitions	**22,477**	24,698
Net (loss) gain from fair value adjustments	**(1,583)**	5,503
Disposals	**(1,676)**	(4,016)
Foreign exchange translation / others - net	**(14,845)**	(6,593)
	4,373	19,592
Ending balance of the year	**215,530**	211,157

6.5 Investment in associates

Investment in associates comprise the following:

	2018			
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	***Market value US$ '000***
Quoted associates	**-**	**11,784**	**11,784**	**9,698**
Unquoted associates	**38,650**	**2,735**	**41,385**	
	38,650	**14,519**	**53,169**	

	2017			
	Self financed US$ '000	*Jointly financed US$ '000*	*Total US$ '000*	*Market value US$ '000*
Quoted associates	-	11,824	11,824	11,410
Unquoted associates	39,887	-	39,887	
	39,887	11,824	51,711	

7 IJARAH 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	**37,525**	**1,878,304**	**1,915,829**	142,061	1,786,674	1,928,735
Accumulated depreciation	**(12,761)**	**(390,922)**	**(403,683)**	(26,822)	(365,554)	(392,376)
Less: allowance for credit losses	**(179)**	**(11,879)**	**(12,058)**	-	-	-
Net book value	**24,585**	**1,475,503**	**1,500,088**	115,239	1,421,120	1,536,359
Equipment						
Cost	**99,758**	**274,422**	**374,180**	134,129	296,447	430,576
Accumulated depreciation	**(29,245)**	**(80,134)**	**(109,379)**	(38,696)	(93,756)	(132,452)
Less: allowance for credit losses	**(230)**	**(6,186)**	**(6,416)**	-	-	-
Net book value	**70,283**	**188,102**	**258,385**	95,433	202,691	298,124
Others						
Cost	**-**	**20,946**	**20,946**	-	34,677	34,677
Accumulated depreciation	**-**	**(8,474)**	**(8,474)**	-	(13,142)	(13,142)
Less: allowance for credit losses	**-**	**(112)**	**(112)**	-	-	-
Net book value	**-**	**12,360**	**12,360**	-	21,535	21,535
TOTAL						
Cost	**137,283**	**2,173,672**	**2,310,955**	276,190	2,117,798	2,393,988
Accumulated depreciation	**(42,006)**	**(479,530)**	**(521,536)**	(65,518)	(472,452)	(537,970)
Less: allowance for credit losses	**(409)**	**(18,177)**	**(18,586)**	-	-	-
Net book value	**94,868**	**1,675,965**	**1,770,833**	210,672	1,645,346	1,856,018

7 IJARAH MUNTAHIA BITTAMLEEK (continued)

The table below shows the ijarah muntahia bittamleekcredit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification.

	31 December 2018				*31 December 2017*
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*	*Total* *US$ '000*
Good (1-4)	**460,613**	**3,153**	-	**463,766**	818,077
Satisfactory (5-7)	**912,051**	**413,602**	-	**1,325,653**	1,037,941
Default (8-10)	-	-	-	-	-
Less: allowance for credit losses	**(3,999)**	**(14,587)**	-	**(18,586)**	-
	1,368,665	**402,168**	-	**1,770,833**	1,856,018

The below table shows the movement in allowance for credit losses by stage:

	31 December 2018				*31 December 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	**8,470**	**10,649**	-	**19,119**	-
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	-	-	-	-	-
- transferred to Stage 2	-	-	-	-	-
- transferred to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	**(3,420)**	**3,678**	-	**258**	-
FX translation / others	**(1,051)**	**260**	-	**(791)**	-
	3,999	**14,587**	-	**18,586**	-

8 PROPERTY AND EQUIPMENT

	Buildings	*Lands*	*Office furniture and equipment*	*Vehicles*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2017	201,137	161,844	207,210	10,796	58,488	639,475
Additions	19,120	26,471	28,846	1,414	30,154	106,005
Disposals	(14,047)	(1,193)	(2,151)	(744)	(23,778)	(41,913)
Foreign exchange translations	(2,461)	(8,617)	(5,138)	(670)	(2,794)	(19,680)
At 31 December 2017	203,749	178,505	228,767	10,796	62,070	683,887
Additions	41,690	14,962	17,651	6,122	14,336	94,761
Revaluation	-	8,150	-	-	-	8,150
Disposals	(1,811)	(1,366)	(5,510)	(2,477)	(11,292)	(22,456)
Foreign exchange translations	(18,395)	(53,233)	(22,710)	(4,134)	(14,885)	(113,357)
At 31 December 2018	**225,233**	**147,018**	**218,198**	**10,307**	**50,229**	**650,985**
Depreciation:						
At 1 January 2017	52,051	-	144,445	5,477	20,208	222,181
Charged during the year (note 20)	13,693	-	19,540	869	3,387	37,489
Relating to disposals	(1,021)	-	(1,959)	(242)	(278)	(3,500)
Foreign exchange translations	(1,733)	-	778	(358)	(1,161)	(2,474)
At 31 December 2017	62,990	-	162,804	5,746	22,156	253,696
Charged during the year (note 20)	9,742	-	19,112	751	3,315	32,920
Relating to disposals	(4,515)	-	(5,089)	(564)	(2,436)	(12,604)
Foreign exchange translations	(6,700)	-	(15,901)	(1,293)	(5,697)	(29,591)
At 31 December 2018	**61,517**	-	**160,926**	**4,640**	**17,338**	**244,421**
Net book values:						
At 31 December 2018	**163,716**	**147,018**	**57,272**	**5,667**	**32,891**	**406,564**
At 31 December 2017	139,538	179,727	65,963	5,050	39,914	430,191

9 OTHER ASSETS

	2018	*2017*
	US$ '000	*US$ '000*
Bills receivables	**123,733**	149,661
Goodwill and intangible assets (note 9 (a))	**75,923**	86,837
Collateral pending sale	**229,580**	73,222
Good faith qard	**22,092**	20,254
Deferred taxation	**65,032**	35,808
Prepayments	**37,082**	41,039
Others	**61,124**	78,252
	614,566	485,073
Less: impairment / allowance for credit losses*	**(58,516)**	(15,195)
	556,050	469,878

* An amount of US$ 45 million is related to impairment of collateral pending sale.

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2018			2017		
	Goodwill US$ '000	**Intangible assets US$ '000**	**Total US$ '000**	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**61,339**	**25,498**	**86,837**	70,166	21,569	91,735
Additions	**-**	**8,901**	**8,901**	-	14,860	14,860
Amortisation charge for the year (note 20)	**-**	**(9,144)**	**(9,144)**	-	(9,909)	(9,909)
Foreign exchange translations	**(8,014)**	**(2,657)**	**(10,671)**	(8,827)	(1,022)	(9,849)
At 31 December	**53,325**	**22,598**	**75,923**	61,339	25,498	86,837

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2018 US$ '000	2017 US$ '000
Al Baraka Turk Participation Bank	**9,689**	13,531
Al Barak Bank Egypt	**818**	824
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**16,172**	20,338
	53,325	61,339

The recoverable amounts of the cash-generating units were 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 cash-generating units' past performance and its expectation of market development.

10 LONG TERM FINANCING

	2018 US$ '000	2017 US$ '000
Murabaha financing	**557,964**	622,006
Subordinated financing obtained by a subsidiary	**249,287**	453,416
Wakala	**169,640**	161,133
	976,891	1,236,555

11 OTHER LIABILITIES

	2018 US$ '000	2017 US$ '000
Payables	**366,210**	301,293
Cash margins	**268,216**	393,240
Managers' cheques	**104,256**	92,046
Current taxation *	**72,905**	73,978
Deferred taxation *	**6,414**	3,256
Accrued expenses	**74,994**	89,212
Charity fund	**26,549**	18,805
Others	**29,371**	55,422
Allowance for credit losses on unfunded exposures	**22,395**	8,731
	971,310	1,035,983

* In view of operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with details of effective tax rates.

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2018 US$ '000	2017 US$ '000
Equity of investment accountholders *	**13,004,814**	13,680,020
Profit equalisation reserve (note 12.1)	**5,320**	6,006
Investment risk reserve (note 12.2)	**104,005**	187,149
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**8,229**	8,934
	13,122,368	13,882,109

** Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 27,478 thousand (2017: US$ 24,478 thousand) issued by Al Baraka Bank (Pakistan) Limited (ABPL) during 2014. The issuance of sukuk is intended to comply with regulatory requirements related to capital adequacy ratio of ABPL. The tenure of the sukuk is seven years maturing in 2021. The principal repayment, started after six months of the drawdown date and is being made semi-annually on a straight line basis.

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

	2018 US$ '000	2017 US$ '000
Balance at 1 January	**6,006**	6,091
Amount apportioned from income allocable to equity of investment accountholders	**4,240**	910
Amount used during the year	**(4,792)**	(976)
Foreign exchange translations	**(134)**	(19)
Balance at 31 December	**5,320**	6,006

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2018 *US$ '000*	*2017* *US$ '000*
Balance at 1 January	**187,149**	176,583
Amount appropriated to provision (note 22)	**(26,423)**	(8,069)
Amount apportioned from income allocable to equity of investment accountholders	**(47,755)**	21,895
Foreign exchange translations	**(8,966)**	(3,260)
Balance at 31 December	**104,005**	187,149

12.3 Movement in cumulative changes in fair value attributable to equity of investment accountholders - net

	2018 *US$ '000*	*2017* *US$ '000*
Balance at 1 January	**8,934**	12,911
Change in fair values during the year	**2,404**	(3,480)
Realised gain transferred to consolidated statement of income	**(562)**	(48)
Deferred taxation effect	**(140)**	1,235
Transfer to shareholders equity	**(2,407)**	(1,684)
Balance at 31 December	**8,229**	8,934
Attributable to investment in real estate	**9,194**	8,695
Attributable to equity-type instruments at fair value through equity	**(965)**	239
	8,229	8,934

13 OWNERS' EQUITY

	2018	*2017*
	US$ '000	*US$ '000*
Share capital		
Authorised: 2,500,000,000 (2017: 1,500,000,000) ordinary shares of US$ 1 each	**2,500,000**	1,500,000
Issued and fully paid up:		
At beginning of the year 1,206,679,374 (2017: 1,149,218,451) shares of US$1 each	**1,206,679**	1,149,218
Issued during the year 36,200,381 bonus shares (2017: 57,460,923) of US$1 each	**36,200**	57,461
At end of the year 1,242,879,755 (2017: 1,206,679,374) shares of US$1 each	**1,242,879**	1,206,679

Treasury shares

	Number of shares ('000)	*2018 US$ '000*	*2017 US$ '000*
At 1 January	**9,550**	**9,550**	9,588
Purchase of treasury shares	**781**	**781**	1,346
Sale of treasury shares	**(1,128)**	**(1,128)**	(1,384)
At 31 December	**9,203**	**9,203**	9,550

The market value of the treasury shares is US$ 2,761 thousand (2017: US$ 3,581 thousand) and it represents 0.7% (2017: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2018

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Saleh Abdullah Kamel	Saudi	**374,236,973**	**30.11%**
Dallah AlBaraka Holding Company E.C.	Bahrain	**306,194,694**	**24.64%**
Altawfeek Company For Investment Funds	Cayman Island	**240,173,054**	**19.32%**
Abdulla AbdulAziz AlRajihi	Saudi	**87,313,197**	**7.03%**

At 31 December 2017

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Saleh Abdullah Kamel	Saudi	363,336,867	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	297,276,402	24.64%
Altawfeek Company For Investment Funds	Cayman Island	233,177,723	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	84,770,095	7.03%

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

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

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2018

	Number of shares	***Number of shareholders***	***% of total outstanding shares***
Less than 1%	**104,768,232**	**1,078**	**8.43%**
1% up to less than 5%	**130,193,605**	**5**	**10.48%**
5% up to less than 10%	**87,313,197**	**1**	**7.03%**
10% up to less than 20%	**240,173,054**	**1**	**19.32%**
20% up to less than 50%	**680,431,667**	**2**	**54.75%**
	1,242,879,755	**1,087**	**100.00%**

At 31 December 2017

Categories:	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	120,600,222	1,088	9.99%
1% up to less than 5%	107,518,065	4	8.91%
5% up to less than 10%	84,770,095	1	7.03%
10% up to less than 20%	233,177,723	1	19.32%
20% up to less than 50%	660,613,269	2	54.75%
	1,206,679,374	1,096	100.00%

a. Share premium/Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law (BCCL).

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share 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. During the year US$ 12,908 thousand (2017: US$ 12,903 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

This represents the net unrealised fair value gains and losses relating to the equity of the parent on equity-type instruments at fair value through equity, investment in real estate and land occupied by the Group (classified as property and equipment).

d. Foreign currency translations

The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

13 OWNERS' EQUITY (continued)

d. Foreign currency translations (continued)

The following table summarises the subsidiary wise foreign currency translation reserve as at 31 December:

Subsidiary	*Currency*	***2018 US$ '000***	*2017 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**56,455**	54,401
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**24,111**	12,078
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**138,794**	138,837
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**468,562**	378,186
Al Baraka Bank Limited (ABL)	South African Rand	**19,174**	13,857
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**87,051**	49,719
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**33,519**	25,859
Al Baraka Bank Syria (ABBS)	Syrian Pound	**33,534**	33,454
BTI Bank	Moroccan Dirham	**113**	(149)
		861,313	706,242

e. Other reserves

Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Zakah paid on behalf of shareholders

The General Assembly in its annual meeting conducted on 20 March 2018 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 3,961 thousand as Zakah on behalf of the shareholders deducted from the retained earnings for the financial year of 2017. The Group has paid and distributed an amount of US$ 3,876 thousand to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board. The remaining amount of US$ 85 thousands has been allocated to be paid maximum by end of first quarter of 2019.

	2018 US$ '000	*2017 US$ '000*
Zakah to be paid on behalf of shareholders for the year	**3,961**	4,021
Uses of Zakah:		
Zakah for the poor and needy	**2,746**	2,604
Zakah for new converts to islam	**80**	80
Scholarships	**1,050**	1,004
Total uses	**3,876**	3,688
Remaining Zakah to be paid	**85**	333

g. Proposed Appropriations

	2018 US$ '000	*2017 US$ '000*
Cash dividend 3% (2017: 2%)	**37,286**	24,134
Bonus shares	**-**	36,200
	37,286	60,334

The above proposed appropriations exclude appropriations to the statutory reserve as mentioned above and will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

13 OWNERS' EQUITY (continued)

g. Proposed Appropriations (continued)
The Bank declare a cash dividend of US$ 0.03 per issued share (2017: cash dividened of US$ 0.02 per issued share and 30 bonus shares for each 100 shares held). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2017 was approved at the Annual General Meeting on 20 March 2018 and was effected in 2018 following the approval.

h. Net movement in non-controlling interest
This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group. During the year, an amount of US$ 41 million represents perpetual tier 1 capital issued by Al Baraka Turk Participation Bank.

14 PERPETUAL TIER 1 CAPITAL

On 31 May 2017, the Bank completed an issuance of US$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 7.875% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders 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.

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2018 ***US$ '000***	*2017* *US$ '000*
Receivables (note 15.1)	**1,027,363**	1,035,429
Mudaraba and Musharaka financing (note 15.2)	**235,922**	210,776
Investments (note 15.3)	**249,362**	234,610
Ijarah Muntahia Bittamleek (note 15.4)	**137,631**	138,989
Others	**790**	652
	1,651,068	1,620,456
Net income from jointly financed contracts and investments	**1,327,244**	1,258,663
Gross income from self financed contracts and investments	**323,824**	361,793
	1,651,068	1,620,456
Gross income from self financed contracts and investments	**323,824**	361,793
Profit paid on short term financing	**(80,857)**	(31,515)
Net income from self financed contracts and investments	**242,967**	330,278

15.1 Receivables

	2018 ***US$ '000***	*2017* *US$ '000*
Sales (Murabaha) receivables	**1,004,541**	1,025,789
Salam receivables	**15,603**	6,598
Istisna'a receivables	**7,219**	3,042
	1,027,363	1,035,429

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

15.2 Mudaraba and Musharaka financing

	2018 US$ '000	2017 US$ '000
Mudaraba financing	**163,814**	87,773
Musharaka financing	**72,108**	123,003
	235,922	210,776

15.3 Investments

	2018 US$ '000	2017 US$ '000
Equity-type instruments at fair value through equity	**5,500**	7,061
Debt-type instruments at amortised cost	**224,576**	224,776
Unrealised loss on equity and debt-type instruments at fair value through statement of income	**5,619**	(1,163)
Gain (loss) on sale of equity-type instruments at fair value through equ	**457**	(21)
Gain on sale of equity and debt-type instruments at fair value through statement of income	**3,466**	820
Rental income	**4,829**	1,496
Income from associates	**3,667**	1,537
Gain on sale of investment in real estate	**1,248**	104
	249,362	234,610

15.4 Ijarah Muntahia Bittamleek

	2018 US$ '000	2017 US$ '000
Income from Ijarah Muntahia Bittamleek	**328,448**	405,097
Depreciation on Ijarah Muntahia Bittamleek	**(190,817)**	(266,108)
	137,631	138,989

16 GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

17 OTHER FEES AND COMMISSION INCOME

	2018 US$ '000	2017 US$ '000
Banking fees and commissions	**95,771**	90,459
Letters of credit	**24,769**	25,189
Guarantees	**31,639**	34,209
Acceptances	**6,399**	8,037
	158,578	157,894

18 OTHER OPERATING INCOME

	2018 US$ '000	2017 US$ '000
Foreign exchange gain*	**111,248**	24,191
Gain on sale of property and equipment	**8,850**	11,192
	120,098	35,383

*An amount of US$ 67 million is related to foreign currency revaluation gain from subsidiaries.

19 PROFIT PAID ON LONG TERM FINANCING

	2018 US$ '000	2017 US$ '000
Murabaha financing	**18,557**	15,637
Subordinated financing obtained by a subsidiary	**29,212**	47,888
Wakala	**35,338**	21,475
	83,107	85,000

20 DEPRECIATION AND AMORTISATION

	2018 US$ '000	2017 US$ '000
Property and equipment depreciation (note 8)	**32,920**	37,489
Intangible assets amortisation (note 9 (a))	**9,144**	9,909
	42,064	47,398

21 OTHER OPERATING EXPENSES

	2018 US$ '000	2017 US$ '000
General and administration expenses	**98,074**	103,251
Professional and business expenses	**32,526**	34,179
Premises related expenses	**61,443**	68,442
	192,043	205,872

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

2018	***Cash and balances with banks US$ '000 (note 3)***	***Sales (Murabaha) receivables US$ '000 (note 4.1)***	***Ijarah receivables US$ '000 (note 4.2)***	***Salam receivables US$ '000 (note 4.3)***	***Istisna'a receivables US$ '000 (note 4.4)***	***Mudaraba financing US$ '000 (note 5.1)***	***Musharaka financing US$ '000 (note 5.2)***	***Investments US$ '000 (note 6.2 & 6.3)***	***Ijarah Muntahia Bittamleek US$ '000 (note 7)***	***Other assets US$ '000 (note 9)***	***Other liabilities US$ '000 (note 11)***	***Total US$ '000***
Provisions at 31 December	**-**	**369,261**	**13,350**	**5,875**	**1,390**	**12,938**	**9,129**	**11,696**	**-**	**15,195**	**8,731**	**447,565**
Transition adjustment on adoption of FAS 30 as of 1 January 2018	**109**	**180,238**	**4,578**	**1,118**	**1,103**	**(358)**	**5,315**	**4,706**	**19,119**	**7,613**	**11,080**	**234,621**
'Restated balance as of 1 January 2018	**109**	**549,499**	**17,928**	**6,993**	**2,493**	**12,580**	**14,444**	**16,402**	**19,119**	**22,808**	**19,811**	**682,186**
Charged during the year	**20**	**139,924**	**18,765**	**2,260**	**2,021**	**4,113**	**2,453**	**1,154**	**258**	**42,919**	**8,615**	**222,502**
Written back during the year	**-**	**(55,122)**	**(3,311)**	**(718)**	**(809)**	**-**	**(672)**	**(193)**	**-**	**(540)**	**(1,870)**	**(63,235)**
	20	**84,802**	**15,454**	**1,542**	**1,212**	**4,113**	**1,781**	**961**	**258**	**42,379**	**6,745**	**159,267**
	129	**634,301**	**33,382**	**8,535**	**3,705**	**16,693**	**16,225**	**17,363**	**19,377**	**65,187**	**26,556**	**841,453**
Written off during the year	**-**	**(59,740)**	**-**	**-**	**-**	**(20,902)**	**-**	**(3,308)**	**-**	**-**	**-**	**(83,950)**
Amount appropriated from investment risk reserve (note 12.2)	**-**	**20,601**	**788**	**-**	**630**	**-**	**(100)**	**4,504**	**-**	**-**	**-**	**26,423**
Foreign exchange translations/others - net	**(64)**	**(73,543)**	**(953)**	**(811)**	**(392)**	**11,413**	**(3,421)**	**(549)**	**(791)**	**(6,671)**	**(4,161)**	**(79,943)**
Provisions at 31 December	**65**	**521,619**	**33,217**	**7,724**	**3,943**	**7,204**	**12,704**	**18,010**	**18,586**	**58,516**	**22,395**	**703,983**

During the year, an impairment loss of US$ 507 thousand (2017: US$ 159 thousand) was charged against investments and goodwill.
An amount of US$ 6,408 thousand (2017: US$ 4,709 thousand) is related to provision of equity type instrumnets at fair value through equity.

2017	*Cash and balances with banks US$ '000 (note 3)*	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.2 & 6.3)*	*Ijarah Muntahia Bittamleek US$ '000 (note 7)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 11)*	*Total US$ '000*
Provisions at 1 January	-	354,543	12,471	5,954	2,275	11,948	6,601	7,160	-	14,829	11,091	426,872
Charged during the year	-	150,521	3,798	1,355	200	103	3,460	2,317	-	1,677	1,666	165,097
Written back during the year	-	(24,391)	(3,442)	(1,048)	(929)	-	(694)	(305)	-	(666)	(1,974)	(33,449)
	-	126,130	356	307	(729)	103	2,766	2,012	-	1,011	(308)	131,648
	-	480,673	12,827	6,261	1,546	12,051	9,367	9,172	-	15,840	10,783	558,520
Written off during the year	-	(119,333)	-	-	-	-	-	-	-	-	(550)	(119,883)
Amount appropriated from investment risk reserve (note 12.2)	-	5,169	283	-	-	-	52	2,565	-	-	-	8,069
Foreign exchange translations/others - net	-	2,752	240	(386)	(156)	887	(290)	(41)	-	(645)	(1,502)	859
Provisions at 31 December	-	369,261	13,350	5,875	1,390	12,938	9,129	11,696	-	15,195	8,731	447,565

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2018	*Cash and balances with banks US$ '000 (note 3)*	*Sales (Murabaha) receivables US$ '000 (note 4.1)*	*Ijarah receivables US$ '000 (note 4.2)*	*Salam receivables US$ '000 (note 4.3)*	*Istisna'a receivables US$ '000 (note 4.4)*	*Mudaraba financing US$ '000 (note 5.1)*	*Musharaka financing US$ '000 (note 5.2)*	*Investments US$ '000 (note 6.2 & 6.3)*	*Ijarah Muntahia Bittamleek US$ '000 (note 7)*	*Other assets US$ '000 (note 9)*	*Other liabilities US$ '000 (note 11)*	*Total US$ '000*
Middle East	48	226,610	14,599	-	650	7,204	3,944	13,629	-	12,114	18,235	297,033
North Africa	17	28,211	15,543	4,114	480	-	156	956	17,819	2,177	1,745	71,218
Europe	-	243,098	-	-	-	-	-	93	477	41,567	2,186	287,421
Others	-	23,700	3,075	3,610	2,813	-	8,604	3,332	290	2,658	229	48,311
Total	**65**	**521,619**	**33,217**	**7,724**	**3,943**	**7,204**	**12,704**	**18,010**	**18,586**	**58,516**	**22,395**	**703,983**
2017												
Middle East	-	157,954	2,996	-	-	12,938	535	8,940	-	6,362	7,520	197,245
North Africa	-	18,576	6,359	1,868	52	-	12	1,292	-	1,327	1,211	30,697
Europe	-	162,720	-	-	-	-	-	-	-	2,271	-	164,991
Others	-	30,011	3,995	4,007	1,338	-	8,582	1,464	-	5,235	-	54,632
Total	-	369,261	13,350	5,875	1,390	12,938	9,129	11,696	-	15,195	8,731	447,565

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2018 amounts to US$ 589.1 million (2017: US$ 639.2 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2018	*2017*
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**129,084**	129,029
Less: Profit distributed on perpetual tier 1 capital	**(31,500)**	(15,750)
	97,584	113,279
Number of shares outstanding at the beginning of the year (in thousands)	**1,242,880**	1,206,679
Treasury shares effect (in thousands)	**(12,009)**	(10,194)
Bonus shares effect during the year (in thousands)*	**-**	36,200
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,230,871**	1,232,685
Earnings per share - US cents	**7.93**	9.19

*The weighted average number of shares of the previous year has been adjusted on account of the bonus shares issued in 2018 (note 13).

24 CASH AND CASH EQUIVALENTS

	2018 US$ '000	*2017 US$ '000*
Balances with central banks excluding mandatory reserve	**1,318,209**	1,534,035
Balances with other banks	**878,930**	602,517
Cash and cash in transit	**720,655**	724,630
	2,917,794	2,861,182

25 RELATED PARTY 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 and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*Other related parties US$ '000*	*2018 US$ '000*	*2017 US$ '000*
Net income from jointly financed contracts and investments	**2,006**	**-**	**105**	**-**	**2,111**	2,001
Net (loss) income from self financed contracts and investments	**(2,444)**	**-**	**-**	**-**	**(2,444)**	2
Return on equity of investment accountholders	**205**	**47**	**366**	**2**	**620**	239
Other fees and commission income	**482**	**1**	**1**	**1**	**485**	487

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2018 US$ '000	*2017 US$ '000*
Short term benefits	**8,567**	8,814
Long term benefits	**1,386**	1,473

Short term benefits includes basic salaries, bonuses, allowances and other benefits paid during the year and long term benefits includes indemnity, social insurance benefits and investment scheme.

Director's remuneration accrued for the year ended 31 December 2018 amounted to US$ 1.5 million (2017: US$ 1.5 million).

25 RELATED PARTY TRANSACTIONS (continued)

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

	Associated companies US$ '000	*Major shareholders US$ '000*	*Directors and key management personnel US$ '000*	*Other related parties US$ '000*	*2018 US$ '000*	*2017 US$ '000*
Assets:						
Receivables	**2,378**	-	**346**	-	**2,724**	2,615
Investments	**22,586**	-	-	**213**	**22,799**	37,848
Ijarah Muntahia Bittamleek	-	-	**204**	-	**204**	382
Other assets	**1,361**	-	**253**	**91**	**1,705**	587
Liabilities:						
Customer current and other accounts	**9,259**	**15,426**	**1,351**	**323**	**26,359**	10,352
Due to banks	**338**	**14,801**	-	-	**15,139**	-
Equity of investment accountholders	**13,878**	**5,626**	**6,520**	**70**	**26,094**	20,537
Off-balance sheet equity of investment accountholders	**16,624**	**23,369**	**8,233**	-	**48,226**	33,426

All related party exposures are performing and are free of any specific provision for credit losses.

25 RELATED PARTY TRANSACTIONS (continued)

Details of Directors' and Executive Management's direct and indirect interests in the Bank's shares as at the end of the year were:

Name of directors	*Position*	*Nationality*	*2017 Number of shares*	*Transaction Number of shares*	***2018* Number of shares***
Saleh Abdulla Kamel	Chairman	Saudi	660,613,269	-	**680,431,667**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	646,942	-	**666,350**
Abdulla Saleh Kamel	Vice Chairman	Saudi	328,736	-	**338,598**
Mohydin Saleh Kamel	Board Member	Saudi	687,356	-	**707,976**
AbdulElah Sabbahi	Board Member	Saudi	219,320	-	**225,899**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	352	-	**362**
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	232,274	99,989	**339,231**

* Includes the effect of the Bank's issuance of bonus shares at 30 bonus shares for each 100 shares held as per the approval of the shareholders at the Annual General Meeting on 20 March 2018.

26 COMMITMENTS AND CONTINGENCIES

	2018	*2017*
	US$ '000	*US$ '000*
Letters of credit	**709,048**	853,547
Guarantees	**2,151,650**	2,343,883
Acceptances	**76,287**	76,755
Undrawn commitments	**914,940**	1,150,183
Sharia'a compliant promise contracts	**138,686**	300,365
Others	**125**	277
	3,990,736	4,725,010

27 SEGMENTAL ANALYSIS

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 the Group's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

Middle East
North Africa
Europe
Others

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.

No business segment are presented as that is not applicable to the Group.

Segment assets, liabilities and equity of investment accountholders were as follows:

	2018			*2017*		
	Assets	***Liabilities***	***IAH***	*Assets*	*Liabilities*	*IAH*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Segment						
Middle East	**11,594,671**	**2,907,485**	**7,338,507**	11,154,872	2,976,028	6,827,712
North Africa	**2,743,750**	**1,429,458**	**1,042,643**	2,691,890	1,355,042	1,042,965
Europe	**7,919,036**	**3,662,996**	**3,768,663**	9,538,495	4,034,513	4,847,691
Others	**1,573,781**	**452,944**	**972,555**	2,067,954	694,858	1,163,741
	23,831,238	**8,452,883**	**13,122,368**	25,453,211	9,060,441	13,882,109

Segment operating income, net operating income and net income were as follows:

	2018			*2017*		
	Total operating income	***Net operating income***	***Net income***	*Total operating income*	*Net operating income*	*Net income*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Segment						
Middle East	**414,924**	**198,191**	**114,643**	370,546	175,270	101,964
North Africa	**132,279**	**68,822**	**37,792**	103,291	41,437	22,265
Europe	**347,782**	**155,280**	**48,415**	407,474	185,536	60,534
Others	**92,834**	**25,069**	**15,878**	117,379	28,130	22,156
	987,819	**447,362**	**216,728**	998,690	430,373	206,919

28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, concentration risk, market risk and other operational risk. Market risk includes profit rate risk, equity price risk and foreign exchange risk.

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 regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2018 was as follows:

	Up to 1 month US$ '000	*1 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*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,091,142	1,235	9,843	-	295,764	8,862	-	-	-	601,163	5,008,009
Receivables	1,532,439	1,078,468	1,249,383	1,948,416	2,284,913	1,708,543	324,011	174,975	2,720	-	10,303,868
Mudaraba and Musharaka financing	1,520,508	5,640	14,169	32,532	626,550	418,211	69,711	31,585	-	-	2,718,906
Investments	200,079	275,719	363,245	188,801	618,943	618,191	282,479	31,098	-	488,453	3,067,008
Ijarah Muntahia Bittamleek	26,433	33,458	45,606	137,157	473,189	281,972	321,669	436,388	14,961	-	1,770,833
Property and equipment	-	-	-	-	-	-	-	-	-	406,564	406,564
Other assets	84,852	30,722	40,560	47,408	20,491	45,775	19	1,462	-	284,761	556,050
Total assets	7,455,453	1,425,242	1,722,806	2,354,314	4,319,850	3,081,554	997,889	675,508	17,681	1,780,941	23,831,238
Liabilities											
Customer current and other accounts	5,325,924	-	-	-	-	-	-	-	-	-	5,325,924
Due to banks	452,127	224,418	293,082	78,059	38,000	-	-	93,072	-	-	1,178,758
Long term financing	-	-	3,435	366,744	65,071	348,279	193,362	-	-	-	976,891
Other liabilities	368,263	113,094	75,245	108,591	27,570	15,322	154	263,071	-	-	971,310
Total liabilities	6,146,314	337,512	371,762	553,394	130,641	363,601	193,516	356,143	-	-	8,452,883
Equity of investment accountholders	5,020,263	1,646,997	1,013,992	1,524,475	2,153,803	991,921	635,405	135,512	-	-	13,122,368
Total liabilities and equity of investment accountholders	11,166,577	1,984,509	1,385,754	2,077,869	2,284,444	1,355,522	828,921	491,655	-	-	21,575,251
Net liquidity gap	(3,711,124)	(559,267)	337,052	276,445	2,035,406	1,726,032	168,968	183,853	17,681	1,780,941	2,255,987
Cumulative net liquidity gap	(3,711,124)	(4,270,391)	(3,933,339)	(3,656,894)	(1,621,488)	104,544	273,512	457,365	475,046	2,255,987	
Off-balance sheet equity of investment accountholders	208,997	170,738	353,194	116,353	39,539	104,992	166	59	-	-	994,038

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2017 was as follows:

	Up to 1 month US$ '000	*1 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*	*20 years and above US$ '000*	*Undated US$ '000*	*Total US$ '000*
Assets											
Cash and balances with banks	4,526,154	11,283	26,786	1,500	260,469	9,199	-	-	-	594,694	5,430,085
Receivables	1,760,393	1,028,586	1,094,874	1,832,313	3,408,176	1,959,133	644,964	271,318	1,293	-	12,001,050
Mudaraba and Musharaka financing	1,293,318	17,945	9,318	44,780	369,236	399,121	211,589	32,347	-	-	2,377,654
Investments	780,464	258,370	84,935	301,480	337,693	363,669	304,625	143,385	-	313,713	2,888,334
Ijarah Muntahia Bittamleek	24,629	30,722	63,549	113,525	471,467	359,037	399,815	307,508	85,766	-	1,856,018
Property and equipment	-	-	-	-	-	-	-	-	-	430,192	430,192
Other assets	220,021	43,457	28,289	37,710	23,965	61,127	4,339	1,877	-	49,093	469,878
Total assets	8,604,979	1,390,363	1,307,751	2,331,308	4,871,006	3,151,286	1,565,332	756,435	87,059	1,387,692	25,453,211
Liabilities											
Customer current and other accounts	5,465,433	-	-	-	-	-	-	-	-	-	5,465,433
Due to banks	544,658	422,803	183,128	127,097	22,000	-	-	22,784	-	-	1,322,470
Long term financing	-	4,564	98	390,926	46,956	381,200	412,811	-	-	-	1,236,555
Other liabilities	771,932	106,551	82,139	36,533	15,321	11,941	206	11,360	-	-	1,035,983
Total liabilities	6,782,023	533,918	265,365	554,556	84,277	393,141	413,017	34,144	-	-	9,060,441
Equity of investment accountholders	6,071,194	1,342,695	1,019,310	1,475,506	1,351,345	2,383,841	95,329	142,889	-	-	13,882,109
Total liabilities and equity of investment accountholders	12,853,217	1,876,613	1,284,675	2,030,062	1,435,622	2,776,982	508,346	177,033	-	-	22,942,550
Net liquidity gap	(4,248,238)	(486,250)	23,076	301,246	3,435,384	374,304	1,056,986	579,402	87,059	1,387,692	2,510,661
Cumulative net liquidity gap	(4,248,238)	(4,734,488)	(4,711,412)	(4,410,166)	(974,782)	(600,478)	456,508	1,035,910	1,122,969	2,510,661	
Off-balance sheet equity of investment accountholders	172,138	113,533	85,724	372,931	74,077	58,345	26,154	478	-	-	903,380

28 RISK MANAGEMENT (continued)

b) 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 individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

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 instalments 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 all the facilities given to the client.

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

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.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

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.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2018	*2017*
	US$ '000	*US$ '000*
Balances with central banks	**3,408,489**	4,102,938
Balances with other banks	**878,930**	602,517
Receivables	**10,303,868**	12,001,050
Mudaraba and Musharaka financing	**2,718,906**	2,377,654
Investments	**3,067,008**	2,888,334
Other assets	**148,433**	232,972
Total	**20,525,634**	22,205,465
Commitments and contingencies	**3,990,736**	4,725,010
	24,516,370	26,930,475

28 RISK MANAGEMENT (continued)

b) 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 as of:

	31 December 2018			
Type of Islamic Financing Contracts	***Neither past due nor non performing US$ '000***	***Past due but performing US$ '000***	***Non performing islamic financing contracts US$ '000***	***Total US$ '000***
Receivables	**8,976,524**	**1,142,110**	**751,737**	**10,870,371**
Mudaraba and Musharaka financing	**2,705,121**	**20,719**	**12,974**	**2,738,814**
Other assets	**199,836**	**41**	**7,072**	**206,949**
	11,881,481	**1,162,870**	**771,783**	**13,816,134**

	31 December 2017			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing islamic financing contracts US$ '000*	*Total US$ '000*
Receivables	11,100,608	622,324	667,994	12,390,926
Mudaraba and Musharaka financing	2,324,682	42,602	32,437	2,399,721
Other assets	235,009	3,070	10,088	248,167
	13,660,299	667,996	710,519	15,038,814

Aging analysis of past due but performing Islamic financing contracts

The following table summarises the aging of past due but performing islamic financing contracts as of:

	31 December 2018			
Type of Islamic Financing Contracts	***Less than 30 days US$ '000***	***31 to 60 days US$ '000***	***61 to 90 days US$ '000***	***Total US$ '000***
Receivables	**136,317**	**897,073**	**108,720**	**1,142,110**
Mudaraba and Musharaka financing	**16,515**	**2,759**	**1,445**	**20,719**
Other assets	**-**	**29**	**12**	**41**
	152,832	**899,861**	**110,177**	**1,162,870**

	31 December 2017			
Type of Islamic Financing Contracts	*Less than 30 days US$ '000*	*31 to 60 days US$ '000*	*61 to 90 days US$ '000*	*Total US$ '000*
Receivables	327,326	172,809	122,189	622,324
Mudaraba and Musharaka financing	33,334	6,886	2,382	42,602
Other assets	3,029	5	36	3,070
	363,689	179,700	124,607	667,996

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Risk Mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and valuation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenure of the commercial papers are generally short in nature, they are not accepted as collateral for long–term facilities (i.e. the financing tenure should not exceed the commercial papers maturity tenure). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honor his promise to perform, the subsidiary has recourse to the deposit.

2) Third party guarantee: The subsidiary 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 of investment grade rating.

3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary 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 of any kind of encumbrance.

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

5) 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.

6) Rated and unrated senior sukuk issued by first class financial institutions or by GCC sovereigns.

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, 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.

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, governments and retail. 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 and other mitigants 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 subsidiaries internally to also rate facilities if they so wish).

28 RISK MANAGEMENT (continued)

c) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2018			*2017*		
	Assets US$ '000	***Liabilities US$ '000***	***IAH US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*IAH US$ '000*
Manufacturing	**3,670,844**	**100,106**	**277,065**	4,272,944	219,771	202,767
Mining and quarrying	**122,771**	**4,647**	**21,572**	182,855	6,902	27,252
Agriculture	**179,627**	**21,003**	**4,999**	127,190	7,246	7,294
Construction and real estate	**2,796,364**	**21,853**	**25,271**	3,259,085	21,663	36,223
Financial	**4,493,331**	**2,081,910**	**1,690,425**	3,646,634	2,703,293	1,759,254
Trade	**1,608,667**	**254,441**	**175,776**	1,622,738	222,384	161,548
Personal and consumer finance	**2,834,613**	**3,933,665**	**8,954,660**	2,926,192	4,025,988	9,716,539
Government	**5,648,272**	**55,087**	**70,743**	6,177,308	78,584	164,559
Other Services	**2,476,749**	**1,980,171**	**1,901,857**	3,238,265	1,774,610	1,806,673
	23,831,238	**8,452,883**	**13,122,368**	25,453,211	9,060,441	13,882,109

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented by management of the Group, have set certain limits on the level of risk that may be accepted. This is monitored by local management at the subsidiary level.

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 on equity of investment accountholders. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

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.

The Group has total equity portfolio of US$ 313,185 thousand (2017: US$ 367,595 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 100,651 thousand (2017: US$ 103,818 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 212,534 thousand (2017: US$ 263,777 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

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		
	Operational equivalent Long (Short) US$ '000	*Strategic equivalent Long (Short) US$ '000*	*Total equivalent Long (Short) US$ '000*
Currency			
Turkish Lira	**(76,748)**	**255,772**	**179,024**
Jordanian Dinar	**4,846**	**388,012**	**392,858**
Egyptian Pound	**106**	**139,307**	**139,413**
Sudanese Pound	**1,494**	**21,578**	**23,072**
Algerian Dinar	**-**	**109,654**	**109,654**
Lebanese Pound	**1,242**	**17,567**	**18,809**
Pound Sterling	**(3,718)**	**-**	**(3,718)**
Tunisian Dinar	**7,674**	**41,891**	**49,565**
Euro	**71,575**	**-**	**71,575**
South African Rand	**(484)**	**32,025**	**31,541**
Pakistani Rupees	**(701)**	**94,475**	**93,774**
Syrian Pound	**3,512**	**17,299**	**20,811**
Moroccan Dirham	**15**	**10,806**	**10,821**
Others	**8,462**	**-**	**8,462**

	2017		
	Operational equivalent Long (Short) US$ '000	*Strategic equivalent Long (Short) US$ '000*	*Total equivalent Long (Short) US$ '000*
Currency			
Turkish Lira	86,609	371,753	458,362
Jordanian Dinar	28,456	376,638	405,094
Egyptian Pound	1,211	108,894	110,105
Sudanese Pound	1,193	48,083	49,276
Algerian Dinar	(186)	112,093	111,907
Lebanese Pound	5,890	16,953	22,843
Pound Sterling	(4,110)	-	(4,110)
Tunisia Dinar	(855)	50,945	50,090
Euro	71,279	-	71,279
South African Rand	-	34,466	34,466
Pakistani Rupees	4,919	84,475	89,394
Syrian Pound	3,146	14,720	17,866
Moroccan Dirham	-	13,904	13,904
Others	78,435	-	78,435

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

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgment of the management of the Group.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

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.

At 31 December 2018

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net Income	**41,561**	**-15%**	**(5,421)**	**5%**	**2,187**
	Total owners' equity	**196,164**	**-15%**	**(25,587)**	**5%**	**10,324**
Egyptian Pound	Net Income	**67,481**	**-20%**	**(11,247)**	**5%**	**3,552**
	Total owners' equity	**189,067**	**-20%**	**(31,511)**	**5%**	**9,951**
Turkish Lira	Net Income	**48,415**	**-20%**	**(8,069)**	**5%**	**2,548**
	Total owners' equity	**487,378**	**-20%**	**(81,230)**	**5%**	**25,651**
Sudanese Pound	Net Income	**10,065**	**-130%**	**(5,689)**	**5%**	**530**
	Total owners' equity	**28,492**	**-130%**	**(16,104)**	**5%**	**1,500**
S.African Rand	Net Income	**5,103**	**-15%**	**(666)**	**5%**	**269**
	Total owners' equity	**49,643**	**-15%**	**(6,475)**	**5%**	**2,613**
Syrian Pound	Net Income	**9,405**	**-20%**	**(1,568)**	**5%**	**495**
	Total owners' equity	**75,214**	**-20%**	**(12,536)**	**5%**	**3,959**
Pakistani Rupees	Net (Loss)	**709**	**-10%**	**(64)**	**5%**	**37**
	Total owners' equity	**70,142**	**-10%**	**(6,377)**	**5%**	**3,692**
Tunisian Dinar	Net (Loss)	**2,015**	**-10%**	**(183)**	**5%**	**106**
	Total owners' equity	**53,434**	**-10%**	**(4,858)**	**5%**	**2,812**
Moroccan Dirham	Net (Loss)	**(5,784)**	**-20%**	**964**	**5%**	**(304)**
	Total owners' equity	**22,053**	**-20%**	**(3,675)**	**5%**	**1,161**

At 31 December 2017

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net Income	27,450	-15%	(3,580)	5%	1,445
	Total owners' equity	200,526	-15%	(26,156)	5%	10,554
Egyptian Pound	Net Income	36,068	-20%	(6,011)	5%	1,898
	Total owners' equity	147,789	-20%	(24,632)	5%	7,778
Turkish Lira	Net Income	60,534	-20%	(10,089)	5%	3,186
	Total owners' equity	656,290	-20%	(109,382)	5%	34,542
Sudanese Pound	Net Income	20,965	-130%	(11,850)	5%	1,103
	Total owners' equity	63,490	-130%	(35,886)	5%	3,342
S.African Rand	Net Income	3,948	-15%	(515)	5%	208
	Total owners' equity	53,427	-15%	(6,969)	5%	2,812
Syrian Pound	Net Income	3,889	-20%	(648)	5%	205
	Total owners' equity	64,001	-20%	(10,667)	5%	3,368
Pakistani Rupees	Net (Loss)	(2,757)	-10%	251	5%	(145)
	Total owners' equity	92,439	-10%	(8,404)	5%	4,865
Tunisian Dinar	Net (Loss)	(1,441)	-10%	131	5%	(76)
	Total owners' equity	64,981	-10%	(5,907)	5%	3,420
Moroccan Dirham	Net (Loss)	(3,744)	-20%	624	5%	(197)
	Total owners' equity	28,375	-10%	(4,729)	5%	1,493

28 RISK MANAGEMENT (continued)

e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework is subject to periodic Internal Audit.

The Group categorizes 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 and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) 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 arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

Capital adequacy

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB. The Group capital adequacy ratio as of 31 December 2018 is 17.42% (2017: 17.27%) and the minimum requirement as per Central Bank of Bahrain is 12.5%.

28 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Minister of Industry and Commerce.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost have fair values amounting to US$ 2,697 million (2017: US$ 2,289 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 47,459 thousand (2017: US$ 50,556 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements.

30 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 16 million (2017: US$ 12 million). This amount has been taken to charity.

31 COMPARATIVE FIGURES

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