

Al Baraka Banking Group B.S.C.
UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

16 Jumada Al-Akhirah 1441
10 February 2020

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 2019**

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 2019 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2019 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 2019.

Second:

We have reviewed the principles applied by the Group and reviewed the 2019 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 2019 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 Symposium1/31 and by the Unified Shari'a Supervisory Board.



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 2019 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 2019 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US\$ 2,235,005 as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2018. The Group has paid and distributed an amount of US\$1,865,172 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\$ 369,833 has been allocated to be paid maximum by end of first quarter of 2020.

For the year 2019, 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. Therefore if the shareholders have not empower the Group to pay Zakah, the shareholders have to pay the Zakah related to their shares, which equal to US Cent 19 for each 100 shares. In case of unavailability of such empowerment, then the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become debt until the liquidity become available.

Praise be to Allah.

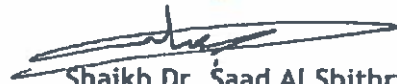
Chairman and Members



Shaikh Dr. Abdulla Al Mannea
Chairman



Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman



Shaikh Dr. Saad Al Shithry
Member



Shaikh Dr. Ahmed Mohiyeldin
Member

Dr. Layachi Sadek Feddad
Member



Shaikh Yousif Hassan Khilawy
Member

Zakah Calculation for the year ended 31 December 2019



Equity Attributable to Shareholders	1,466,088
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(230,869)
Perpetual tier 1 capital	(400,000)
Net Zakatable Equity Attributable to Shareholders	835,219
<u>Less:</u>	
Musharaka underlined by unzakatable assets	(137,337)
Investment in Islamic Sukuk underlined by unzakatable assets	(21,077)
Ijarah Muntahia Bittamleek	(202,507)
long-term investment in real estate	(27,300)
Properties and equipment	(252,407)
Intangible assets	(79,082)
Investment in Associates	(4,053)
Prepayments	(24,543)
Deferred tax asset	(35,958)
<u>Add:</u>	
Shareholders share on Zakatable Assets by Associates	3,801
Sale of long-term investment in real estate during the year	61
Deferred tax liability	3,921
Employees' end of services benefit	30,391
Zakatable amount	89,129
Zakah Percentage	2.5770%
Total Zakah due	2,297
Number of Shares (thousands)	1,234,572
Zakah per share (US\$ cents)	0.19

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 2019, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2019, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

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



Partner's registration no 244
23 February 2020
Manama, Kingdom of Bahrain

Al Baraka Banking Group B.S.C.

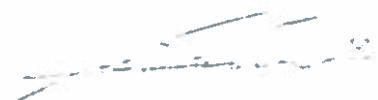
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 US\$ '000	2018 US\$ '000
ASSETS			
Cash and balances with banks	3	5,386,926	5,008,009
Receivables	4	10,894,937	10,303,868
Mudaraba and Musharaka financing	5	3,228,615	2,718,906
Investments	6	3,872,538	3,067,008
Ijarah Muntahia Bittamleek	7	1,756,756	1,770,833
Property and equipment	8	455,031	406,564
Other assets	9	663,728	556,050
TOTAL ASSETS		26,258,531	23,831,238
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		6,195,073	5,325,924
Due to banks		1,106,923	1,178,758
Long term financing	10	379,269	976,891
Other liabilities	11	1,098,200	971,310
TOTAL LIABILITIES		8,779,465	8,452,883
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	15,155,876	13,122,368
OWNERS' EQUITY			
Share capital	13	1,242,879	1,242,879
Treasury shares	13	(8,308)	(9,203)
Share premium		18,138	18,829
Perpetual tier 1 capital	14	400,000	400,000
Reserves		177,254	165,551
Cumulative changes in fair values		29,370	31,929
Foreign currency translations	13	(752,068)	(861,313)
Retained earnings		335,089	519,587
Proposed appropriations		24,858	37,286
Equity attributable to parent's shareholders and Sukuk holders		1,467,212	1,545,545
Non-controlling interest		855,978	710,442
TOTAL OWNERS' EQUITY		2,323,190	2,255,987
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		26,258,531	23,831,238



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.

Al Baraka Banking Group B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2019

			2018
	Notes	US\$ '000	US\$ '000
INCOME			
Net income from jointly financed contracts and investments	15	1,391,699	1,327,244
Return on equity of investment accountholders before Group's share as a Mudarib		(1,244,567)	(1,159,241)
Group's share as a Mudarib	16	357,774	372,914
Return on equity of investment accountholders		(886,793)	(786,327)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmaal)		504,906	540,917
Mudarib share for managing off-balance sheet equity of investment accountholders		14,797	8,366
Net income from self financed contracts and investments	15	216,983	242,967
Other fees and commission income	17	181,816	158,578
Other operating income	18	95,852	120,098
		1,014,354	1,070,926
Profit paid on long term financing	19	(46,957)	(83,107)
TOTAL OPERATING INCOME		967,397	987,819
OPERATING EXPENSES			
Staff expenses		325,291	306,350
Depreciation and amortisation	20	40,523	42,064
Other operating expenses	21	202,344	192,043
TOTAL OPERATING EXPENSES		568,158	540,457
NET OPERATING INCOME FOR THE YEAR BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		399,239	447,362
Net allowance for credit losses / impairment	22	(121,791)	(159,774)
NET INCOME BEFORE TAXATION		277,448	287,588
Taxation		(97,282)	(70,860)
NET INCOME FOR THE YEAR		180,166	216,728
Attributable to:			
Equity holders of the parent		105,672	129,084
Non-controlling interest		74,494	87,644
		180,166	216,728
Basic and diluted earnings per share - US cents	23	6.01	7.91



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.

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 US\$ '000	2018 US\$ '000
OPERATING ACTIVITIES			
Net income before taxation		277,448	287,588
Adjustments for:			
Depreciation and amortisation	20	40,523	42,064
Depreciation on Ijarah Muntahia Bittamleek	15.4	195,294	190,817
Unrealised (gain) on equity and debt-type instruments at fair value through statement of income	15.3	(21,952)	(5,619)
Gain on sale of property and equipment	18	(7,194)	(8,850)
Gain on sale of investment in real estate	15.3	(431)	(1,248)
Loss (gain) on sale of equity type instruments at fair value through equity	15.3	654	(457)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	(3,874)	(3,466)
Income from associates	15.3	(5,818)	(3,667)
Net allowance for credit losses / impairment		121,791	159,774
Operating profit before changes in operating assets and liabilities		596,441	656,936
Net changes in operating assets and liabilities:			
Reserves with central banks		(374,147)	478,668
Receivables		(703,307)	1,594,175
Mudaraba and Musharaka financing		(511,448)	(347,145)
Ijarah Muntahia Bittamleek		(180,628)	(105,888)
Other assets		(123,866)	(110,942)
Customer current and other accounts		869,141	(139,511)
Due to banks		(71,835)	(143,711)
Other liabilities		126,613	(74,995)
Equity of investment accountholders		2,037,376	(758,803)
Taxation paid		(92,836)	(97,999)
Net cash from operating activities		1,571,504	950,785
INVESTING ACTIVITIES			
Net purchase of investments		(792,093)	(265,789)
Net purchase of property and equipment		(76,344)	(9,552)
Dividends received from associates		1,053	3,207
Disposal (purchase) of investment in associate		13,032	(1,231)
Net cash used in investing activities		(854,352)	(273,365)
FINANCING ACTIVITIES			
Long term financing		(597,622)	(259,663)
Dividends paid to equity holders of the parent		(37,286)	(24,134)
Net movement in treasury shares		204	532
Profit distributed on perpetual tier 1 capital		(31,500)	(31,500)
Movement related to subsidiaries' tier 1 capital		2,396	1,990
Payment of expenses related to subsidiaries' tier 1 capital		-	(426)
Net changes in non-controlling interest		65,186	4,936
Net cash used in financing activities		(598,622)	(308,265)
Foreign currency translation adjustments		(110,139)	(312,543)
NET CHANGES IN CASH AND CASH EQUIVALENTS		8,391	56,612
Cash and cash equivalents at 1 January		2,917,794	2,861,182
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	2,926,185	2,917,794

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 2019

Attributable to equity holders of the parent and Sukuk holders														
	Reserves					Cumulative changes in fair values					Non-controlling interest US\$ '000	Total owners' equity US\$ '000		
	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 appropriations US\$ '000	Total US\$ '000
Balance at 1 January 2019	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
Dividends paid	-	-	-	-	-	-	-	-	-	-	(37,286)	(37,286)	-	(37,286)
Movement in treasury shares	-	895	(691)	-	-	-	-	-	-	-	-	204	-	204
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	477	-	-	-	-	477	(2,284)	(1,807)
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	-	(3,036)	-	-	-	(3,036)	2,322	(714)
Net movement in other reserves	-	-	-	-	-	1,136	-	-	-	-	-	1,136	1,796	2,932
Foreign currency translation	-	-	-	-	-	-	-	-	(73,421)	-	-	(73,421)	(36,718)	(110,139)
Net income for the year	-	-	-	-	-	-	-	-	-	105,672	-	105,672	74,494	180,166
Transfer to statutory reserve (note 13)	-	-	-	-	10,567	-	-	-	-	(10,567)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(24,858)	24,858	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(26,755)	(26,755)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(2,235)	-	(2,235)	-	(2,235)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	2,396	-	2,396	(12,706)	(10,310)
Effect of change in ownership	-	-	-	-	-	-	-	-	182,666	(223,406)	-	(40,740)	40,740	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	104,647	104,647
Balance at 31 December 2019	1,242,879	(8,308)	18,138	400,000	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,467,212	855,978	2,323,190

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 2019

	Attributable to equity holders of the parent and Sukuk holders													
	Cumulative changes in													
	Reserves					fair values			Foreign currency translations reserve					
	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		Retained earnings US\$ '000	Proposed appropriations 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.

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2019

	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 2019	30,447	295,001	335,288	48,468	159,134	125,700	-	994,038
Deposits	214,769	797,383	292,869	1,774	37,684	162,503	-	1,506,982
Withdrawals	(189,175)	(665,883)	(207,389)	(4,110)	(61,157)	(8,260)	-	(1,135,974)
Income net of expenses	-	35,776	4,867	588	7,457	6,913	-	55,601
Mudarib's share	-	(10,665)	(3,147)	-	(116)	(869)	-	(14,797)
Foreign exchange translations	-	12,749	-	-	-	342	-	13,091
Balance at 31 December 2019	56,041	464,361	422,488	46,720	143,002	286,329	-	1,418,941
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

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

At 31 December 2019

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 23 February 2020.

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:

	<i>Ownership for 2019</i>	<i>Ownership for 2018</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>No. of branches/ offices at 31 December 2019</i>
<i>Held directly by the Bank</i>					
Banque Al Baraka D'Algerie (BAA)	55.65%	55.90%	1991	Algeria	31
Al Baraka Islamic Bank - Bahrain (AIB)	92.03%	91.12%	1984	Bahrain	200
Al Baraka Bank Tunis (ABT)	78.40%	78.40%	1983	Tunisia	37
Al Baraka Bank Egypt (ABE)	73.44%	73.68%	1980	Egypt	32
Al Baraka Bank Lebanon (ABBL)	98.98%	98.98%	1991	Lebanon	6
Jordan Islamic Bank (JIB)	65.80%	66.01%	1978	Jordan	108
Al Baraka Turk Participation Bank (ATPB)**	38.02%	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	14
BTI Bank *	49.00%	49.00%	2017	Morocco	5

* 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 ownership of Al Baraka Turk Participation bank (ATPB) reduced from 56.64% to 38.02% in December 2019. ATPB did rights issue to increase its capital from TRY 900 million to TRY 1,350 million in December 2019. The Bank did not participate into this rights issue. The majority of the rights eligibility of the Bank were assigned to Dallah Al Baraka Holding Company BSC. By subscribing to this rights issue, Dallah Al Baraka Holding Company BSC became 15.38% owner of ATPB shares. However, Dallah Al Baraka through a management agreement assigned all their voting power to the Bank. On the basis of this management agreement and the 38.01% ownership of shares in ATPB, the management and control of ATPB was held by the Bank as of 31 December 2019. Based on the management agreement, the Bank controls 53.4% of voting power in ATPB and hence has the power to govern the financial and operating policies of ATPB. On the basis of these controls ATPB is treated as a subsidiary and is consolidated in the financials of the Group.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

	<i>Subsidiary held through</i>	<i>Effective Ownership for 2019</i>	<i>Effective Ownership for 2018</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	54.42%	53.88%	2010	Pakistan
Itqan Capital	AIB	76.45%	75.69%	2007	Saudi Arabia
Al-Omariya School Company	JIB	62.11%	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	62.77%	62.97%	1998	Jordan
Future Applied Computer Technology Company	JIB	65.80%	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	65.80%	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	64.51%	64.51%	1991	South Africa
Insha GMBH	ATPB	38.02%	56.64%	2018	Germany

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 2019:

2.1 Adoption of FAS 28 - Murabaha and Other Deferred Payment Sales

The Group has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements except for additional disclosure that has been added in the relevant section (note 4.1(a)).

2.2 New standards issued but not yet effective

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.

This standard defines 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.

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture approach.

Under this approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under certain conditions.

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.2 New standards issued but not yet effective (continued)

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

Under this approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

An agent may maintain multi-level investment arrangements. Under such arrangement, the Bank will reinvest Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

FAS 32 Ijarah

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

FAS 33 Investment in sukuk, shares and similar instruments

This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held.

This standard supersedes FAS 25 "Investment in Sukuk" and shall be effective beginning or after 1 January 2020 with early adoption permitted.

FAS 34 Financial Reporting for Sukuk -holders

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

FAS 35 Risk Reserves

This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

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".

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.3 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

Impairment of financial assets

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

Stage 1: twelve months ECL

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

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (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.

At 31 December 2019

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.3 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)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (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)

2.3 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

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

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)

2.3 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 derecognised 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)

2.3 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.

At 31 December 2019

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.3 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.

At 31 December 2019

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.3 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.

At 31 December 2019

2 ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

2.3 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)

2.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

3 CASH AND BALANCES WITH BANKS

	2019 US\$ '000	2018 US\$ '000
Balances with central banks*	3,956,830	3,408,489
Balances with other banks	707,214	878,930
Cash and cash in transit	726,567	720,655
Less: allowance for credit losses	(3,685)	(65)
	<u>5,386,926</u>	<u>5,008,009</u>

* Balances with central banks include mandatory reserves amounting to US\$ 2,464,426 thousand (2018: US\$ 2,090,280 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2019 US\$ '000	2018 US\$ '000
Sales (Murabaha) receivables (note 4.1)	10,944,436	10,441,374
Ijarah receivables (note 4.2)	97,919	87,084
Salam receivables (note 4.3)	265,926	215,681
Istisna'a receivables (note 4.4)	157,738	126,232
Less: allowance for credit losses	(571,082)	(566,503)
	<u>10,894,937</u>	<u>10,303,868</u>

4.1 Sales (Murabaha) receivables

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Commodity murabaha	33,967	600,802	634,769	56,072	567,237	623,309
Other murabaha	1,659,381	10,214,951	11,874,332	1,896,579	9,315,374	11,211,953
Gross sales (murabaha) receivables	1,693,348	10,815,753	12,509,101	1,952,651	9,882,611	11,835,262
Deferred profits (note 4.1(a))	(272,405)	(1,292,260)	(1,564,665)	(299,791)	(1,094,097)	(1,393,888)
	<u>1,420,943</u>	<u>9,523,493</u>	<u>10,944,436</u>	<u>1,652,860</u>	<u>8,788,514</u>	<u>10,441,374</u>
Less: allowance for credit losses (note 22)	(157,268)	(361,961)	(519,229)	(159,738)	(361,881)	(521,619)
Net sales (murabaha) receivables	<u>1,263,675</u>	<u>9,161,532</u>	<u>10,425,207</u>	<u>1,493,122</u>	<u>8,426,633</u>	<u>9,919,755</u>
				2019 US\$ '000	2018 US\$ '000	
Non-performing				<u>684,126</u>	<u>654,917</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

4 RECEIVABLES (continued)

4.1(a) Murabaha deferred profit movement

	2019 US\$ '000	2018 US\$ '000
Deferred profit at the beginning of the year	1,393,888	1,721,783
Murabaha Sales during the year	5,246,048	4,986,515
Murabaha Cost of Sales	(3,903,575)	(3,864,691)
	2,736,361	2,843,607
Deferred profit collected during the year	(720,167)	(617,955)
Deferred profit settled during the year	(345,204)	(449,513)
Deferred profit waived during the period	(6,794)	(3,381)
FX translation	(99,531)	(378,870)
Deferred profit at the end of the year	1,564,665	1,393,888

4.2 Ijarah receivables

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross ijarah receivables	10,027	87,892	97,919	5,877	81,207	87,084
Less: allowance for credit losses (note 22)	(119)	(34,333)	(34,452)	(116)	(33,101)	(33,217)
Net ijarah receivables	9,908	53,559	63,467	5,761	48,106	53,867

	2019 US\$ '000	2018 US\$ '000
Non-performing	85,851	75,759

4.3 Salam receivables

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross salam receivables	-	265,926	265,926	-	215,681	215,681
Less: allowance for credit losses (note 22)	-	(12,441)	(12,441)	-	(7,724)	(7,724)
Net salam receivables	-	253,485	253,485	-	207,957	207,957

	2019 US\$ '000	2018 US\$ '000
Non-performing	24,264	14,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

4 RECEIVABLES (continued)

4.4 Istisna'a receivables

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Gross istisna'a receivables	-	157,738	157,738	1,580	124,652	126,232
Less: allowance for credit losses (note 22)	-	(4,960)	(4,960)	-	(3,943)	(3,943)
Net istisna'a receivables	-	152,778	152,778	1,580	120,709	122,289

	2019 US\$ '000	2018 US\$ '000
Non-performing	8,063	6,588

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 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	2,637,228	161,309	-	2,798,537
Satisfactory (5-7)	6,265,444	1,599,734	-	7,865,178
Default (8-10)	-	-	802,304	802,304
Less: allowance for credit losses	(54,358)	(115,719)	(401,005)	(571,082)
	8,848,314	1,645,324	401,299	10,894,937
	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	2,299,334	77,745	-	2,377,079
Satisfactory (5-7)	5,672,979	2,068,576	-	7,741,555
Default (8-10)	-	-	751,737	751,737
Less: allowance for credit losses	(29,750)	(124,404)	(412,349)	(566,503)
	7,942,563	2,021,917	339,388	10,303,868

4 RECEIVABLES (continued)

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

	31 December 2019			Total US\$ '000
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	
Balance at 1 January on adoption of FAS 30	29,750	124,404	412,349	566,503
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	4,073	(4,020)	(53)	-
- transferred to Stage 2	(3,378)	11,315	(7,937)	-
- transferred to Stage 3	(13,779)	(48,112)	61,891	-
Net remeasurement of loss allowance	12,896	(3,150)	148,541	158,287
Recoveries / write-backs	-	-	(46,050)	(46,050)
Allocation from investment risk reserve	20,741	34,604	(49,628)	5,717
Amounts written off	-	-	(113,220)	(113,220)
FX translation / others	4,055	678	(4,888)	(155)
	54,358	115,719	401,005	571,082
	31 December 2018			Total US\$ '000
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	
Balance at 1 January on adoption of FAS 30	32,409	83,877	460,627	576,913
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
Recoveries / write-backs	-	-	(59,960)	(59,960)
Allocation from investment risk reserve	1,603	5,958	14,458	22,019
Amounts written off	-	-	(59,740)	(59,740)
FX translation / others	(10,249)	2,579	(68,029)	(75,699)
	29,750	124,404	412,349	566,503

5 MUDARABA AND MUSHARAKA FINANCING

	2019 US\$ '000	2018 US\$ '000
Mudaraba financing (note 5.1)	2,207,515	1,711,827
Musharaka financing (note 5.2)	1,040,725	1,026,987
Less: allowance for credit losses	(19,625)	(19,908)
	3,228,615	2,718,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.1 Mudaraba financing

	2019			2018		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
Gross mudaraba financing	393,725	1,813,790	2,207,515	526,261	1,185,566	1,711,827
Less: allowance for credit losses (note 22)	(420)	(6,411)	(6,831)	-	(7,204)	(7,204)
Net mudaraba financing	<u>393,305</u>	<u>1,807,379</u>	<u>2,200,684</u>	<u>526,261</u>	<u>1,178,362</u>	<u>1,704,623</u>
					2019 US\$ '000	2018 US\$ '000
Non-performing					<u>16,311</u>	<u>-</u>

5.2 Musharaka financing

	2019			2018		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
Gross musharaka financing	493,070	547,655	1,040,725	468,081	558,906	1,026,987
Less: allowance for credit losses (note 22)	(582)	(12,212)	(12,794)	(776)	(11,928)	(12,704)
Net musharaka financing	<u>492,488</u>	<u>535,443</u>	<u>1,027,931</u>	<u>467,305</u>	<u>546,978</u>	<u>1,014,283</u>
					2019 US\$ '000	2018 US\$ '000
Non-performing					<u>21,415</u>	<u>12,974</u>

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 2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	2,152,918	68,381	-	2,221,299
Satisfactory (5-7)	737,563	251,652	-	989,215
Default (8-10)	-	-	37,726	37,726
Less: allowance for credit losses	(2,496)	(2,406)	(14,723)	(19,625)
	2,887,985	317,627	23,003	3,228,615

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

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

	31 December 2019			
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000
Balance at 1 January on adoption of FAS 30	2,957	8,138	8,813	19,908
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	86	(74)	(12)	-
- transferred to Stage 2	(58)	59	(1)	-
- transferred to Stage 3	(25)	(6,363)	6,388	-
Net remeasurement of loss allowance	(656)	298	2,416	2,058
Recoveries / write-backs	-	-	(319)	(319)
Allocation from (to) investment risk reserve	105	(7)	3	101
Amounts written off	-	-	(565)	(565)
FX translation / others	87	355	(2,000)	(1,558)
	2,496	2,406	14,723	19,625

5 MUDARABA AND MUSHARAKA FINANCING (continued)

	31 December 2018			
	Stage 2		Stage 3	
	Stage 1: 12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	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
Changes due to financing 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
Recoveries / write-backs	-	-	(672)	(672)
Allocation (to) from investment risk reserve	(146)	46	-	(100)
Amounts written off	-	-	(20,902)	(20,902)
FX translation / others	66	2,869	5,057	7,992
	2,957	8,138	8,813	19,908

6 INVESTMENTS

	2019 US\$ '000	2018 US\$ '000
Equity and debt-type instruments at fair value through statement of income (note 6.1)	291,611	215,160
Equity-type instruments at fair value through equity (note 6.2)	94,446	100,651
Debt-type instruments at amortised cost (note 6.3)	3,235,903	2,482,498
	3,621,960	2,798,309
Investment in real estate (note 6.4)	206,108	215,530
Investment in associates (note 6.5)	44,470	53,169
	3,872,538	3,067,008

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

	2019			2018		
	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	2,939	-	2,939	1,840	786	2,626
Equity Securities	283,976	879	284,855	211,544	608	212,152
	286,915	879	287,794	213,384	1,394	214,778
Unquoted investments						
Equity Securities	1,079	2,738	3,817	382	-	382
	1,079	2,738	3,817	382	-	382
	287,994	3,617	291,611	213,766	1,394	215,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

6 INVESTMENTS (continued)

6.2 Equity-type instruments at fair value through equity

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Quoted investments						
Equity Securities	10,981	28,158	39,139	14,085	31,301	45,386
Managed funds	3,627	4,655	8,282	9,554	4,660	14,214
	14,608	32,813	47,421	23,639	35,961	59,600
Unquoted investments						
Equity Securities	15,749	21,872	37,621	24,449	17,816	42,265
Managed funds	828	15,386	16,214	-	5,194	5,194
	16,577	37,258	53,835	24,449	23,010	47,459
Provisions for impairment	(5,082)	(1,728)	(6,810)	(4,628)	(1,780)	(6,408)
	26,103	68,343	94,446	43,460	57,191	100,651

6.3 Debt-type instruments at amortised cost

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Quoted investments						
Sukuk and similar items	1,196,959	1,155,569	2,352,528	642,498	804,619	1,447,117
Unquoted investments						
Sukuk and similar items	114,511	776,664	891,175	181,553	865,430	1,046,983
Less: allowance for credit losses	(785)	(7,015)	(7,800)	(919)	(10,683)	(11,602)
	1,310,685	1,925,218	3,235,903	823,132	1,659,366	2,482,498

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 2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
Good (1-4)	2,700,451	-	-	2,700,451
Satisfactory (5-7)	530,687	10,000	-	540,687
Default (8-10)	-	-	2,565	2,565
Less: allowance for credit losses	(4,651)	(584)	(2,565)	(7,800)
	3,226,487	9,416	-	3,235,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

6 INVESTMENTS (continued)

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

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

	31 December 2019			
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000
Balance at 1 January on adoption of FAS 30	2,334	2,246	7,022	11,602
Changes due to instruments recognised in opening balance that have:				
- transferred to Stage 1	38	(38)	-	-
- transferred to Stage 2	-	-	-	-
- transferred to Stage 3	-	-	-	-
Net remeasurement of loss allowance	2,103	(189)	408	2,322
Allocation from investment risk reserve	(47)	(1,435)	(2,563)	(4,045)
Recoveries / write-backs	-	-	-	-
Amounts written off during the year	-	-	(2,302)	(2,302)
FX translation / others	223	-	-	223
	4,651	584	2,565	7,800

	31 December 2018			
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit-impaired US\$ '000	Stage 3: Lifetime ECL credit-impaired US\$ '000	Total US\$ '000
Balance at 1 January on adoption of FAS 30	4,706	-	6,987	11,693
Changes due to instruments 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)
Allocation (from) to investment risk reserve	(79)	2,019	2,564	4,504
Recoveries / write-backs	-	-	-	-
Amounts written off during the year	-	-	(2,500)	(2,500)
FX translation / others	(28)	-	(29)	(57)
	2,334	2,246	7,022	11,602

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

6 INVESTMENTS (continued)

6.4 Investment in real estate

	2019			2018		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Land	4,698	120,754	125,452	3,258	127,288	130,546
Buildings	17,165	63,491	80,656	7,760	77,224	84,984
	21,863	184,245	206,108	11,018	204,512	215,530

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

	2019 US\$ '000	2018 US\$ '000
Beginning balance of the year	215,530	211,157
Acquisitions	15,584	22,477
Net gain (loss) from fair value adjustments	6,075	(1,583)
Disposals	(82)	(1,676)
Transfer	(27,178)	-
Foreign exchange translation / others - net	(3,821)	(14,845)
	(9,422)	4,373
Ending balance of the year	206,108	215,530

6.5 Investment in associates

Investment in associates comprise the following:

	2019			Market value US\$ '000
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	
Quoted associates	-	11,581	11,581	9,026
Unquoted associates	32,889	-	32,889	
	32,889	11,581	44,470	

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

7 IJARAH MUNTAHIA BITTAMLEEK

	2019			2018		
	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>	<i>Self financed US\$ '000</i>	<i>Jointly financed US\$ '000</i>	<i>Total US\$ '000</i>
Land and building						
Cost	23,261	1,914,053	1,937,314	37,525	1,878,304	1,915,829
Accumulated depreciation	(5,205)	(401,518)	(406,723)	(12,761)	(390,922)	(403,683)
Less: allowance for credit losses	(226)	(11,556)	(11,782)	(179)	(11,879)	(12,058)
Net book value	17,830	1,500,979	1,518,809	24,585	1,475,503	1,500,088
Equipment						
Cost	88,154	262,302	350,456	99,758	274,422	374,180
Accumulated depreciation	(40,023)	(74,287)	(114,310)	(29,245)	(80,134)	(109,379)
Less: allowance for credit losses	(132)	(5,771)	(5,903)	(230)	(6,186)	(6,416)
Net book value	47,999	182,244	230,243	70,283	188,102	258,385
Others						
Cost	-	13,735	13,735	-	20,946	20,946
Accumulated depreciation	-	(5,929)	(5,929)	-	(8,474)	(8,474)
Less: allowance for credit losses	-	(102)	(102)	-	(112)	(112)
Net book value	-	7,704	7,704	-	12,360	12,360
TOTAL						
Cost	111,415	2,190,090	2,301,505	137,283	2,173,672	2,310,955
Accumulated depreciation	(45,228)	(481,734)	(526,962)	(42,006)	(479,530)	(521,536)
Less: allowance for credit losses	(358)	(17,429)	(17,787)	(409)	(18,177)	(18,586)
Net book value	65,829	1,690,927	1,756,756	94,868	1,675,965	1,770,833

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

	31 December 2019			
	<i>Stage 1 US\$ '000</i>	<i>Stage 2 US\$ '000</i>	<i>Stage 3 US\$ '000</i>	<i>Total US\$ '000</i>
Good (1-4)	459,419	7,331	-	466,750
Satisfactory (5-7)	934,002	373,791	-	1,307,793
Default (8-10)	-	-	-	-
Less: allowance for credit losses	(4,627)	(13,160)	-	(17,787)
	1,388,794	367,962	-	1,756,756

7 IJARAH MUNTAHIA BITTAMLEEK (continued)

	31 December 2018		
	Stage 1	Stage 2	Stage 3
	US\$ '000	US\$ '000	US\$ '000
			Total
			US\$ '000
Good (1-4)	460,613	3,153	-
Satisfactory (5-7)	912,051	413,602	-
Default (8-10)	-	-	-
Less: allowance for credit losses	(3,999)	(14,587)	-
	1,368,665	402,168	-
			1,770,833

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

	31 December 2019		
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired
	US\$ '000	US\$ '000	US\$ '000
			Total
			US\$ '000
Balance at 1 January on adoption of FAS 30	3,999	14,587	-
Changes due to ijarah muntahia bittamleek recognised in opening balance that have:			
- transferred to Stage 1	(11)	11	-
- transferred to Stage 2	-	-	-
- transferred to Stage 3	-	-	-
Net remeasurement of loss allowance	705	(1,293)	-
FX translation / others	(66)	(145)	-
	4,627	13,160	-
			17,787

	31 December 2018		
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired
	US\$ '000	US\$ '000	US\$ '000
			Total
			US\$ '000
Balance at 1 January on adoption of FAS 30	8,470	10,649	-
Changes due to ijarah muntahia bittamleek 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	-
FX translation / others	(1,051)	260	-
	3,999	14,587	-
			18,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

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 2018	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
Additions	22,492	13,715	17,453	2,350	38,493	94,503
Disposals	(11,398)	-	(5,730)	(994)	(13,068)	(31,190)
Foreign exchange translations	(268)	361	(1,489)	240	(1,104)	(2,260)
At 31 December 2019	236,059	161,094	228,432	11,903	74,550	712,038
Depreciation:						
At 1 January 2018	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
Charged during the year (note 20)	8,513	-	19,123	1,130	3,271	32,037
Relating to disposals	(10,632)	-	(2,424)	(427)	(4,664)	(18,147)
Foreign exchange translations	(380)	-	(544)	16	(396)	(1,304)
At 31 December 2019	59,018	-	177,081	5,359	15,549	257,007
Net book values:						
At 31 December 2019	177,041	161,094	51,351	6,544	59,001	455,031
At 31 December 2018	163,716	147,018	57,272	5,667	32,891	406,564

9 OTHER ASSETS

	2019 US\$ '000	2018 US\$ '000
Bills receivables	199,615	123,733
Goodwill and intangible assets (note 9 (a))	75,082	75,923
Collateral pending sale	220,610	229,580
Good faith qard	30,177	22,092
Deferred taxation	62,850	65,032
Prepayments	68,622	37,082
Others	29,953	61,124
	686,909	614,566
Less: impairment / allowance for credit losses*	(23,181)	(58,516)
	663,728	556,050

* In 2018, An amount of US\$ 45 million is related to impairment of collateral pending sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2019			2018		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January	53,325	22,598	75,923	61,339	25,498	86,837
Additions	705	9,963	10,668	-	8,901	8,901
Amortisation charge for the year (note 20)	-	(8,486)	(8,486)	-	(9,144)	(9,144)
Foreign exchange translations	(2,670)	(353)	(3,023)	(8,014)	(2,657)	(10,671)
At 31 December	51,360	23,722	75,082	53,325	22,598	75,923

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:

	2019 US\$ '000	2018 US\$ '000
Al Baraka Turk Participation Bank	9,298	9,689
Al Barak Bank Egypt	914	818
Jordan Islamic Bank	26,646	26,646
Al Baraka Bank (Pakistan) Limited	14,502	16,172
	51,360	53,325

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

	2019 US\$ '000	2018 US\$ '000
Murabaha financing	99,841	557,964
Subordinated financing obtained by a subsidiary	279,428	249,287
Wakala	-	169,640
	379,269	976,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

11 OTHER LIABILITIES

	2019 US\$ '000	2018 US\$ '000
Payables	517,130	366,210
Cash margins	224,177	268,216
Managers' cheques	94,500	104,256
Current taxation *	74,885	72,905
Deferred taxation *	6,698	6,414
Accrued expenses	97,931	74,994
Charity fund	36,645	26,549
Others	23,097	29,371
Allowance for credit losses on unfunded exposures	23,137	22,395
	1,098,200	971,310

* In view of the 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)

	2019 US\$ '000	2018 US\$ '000
Equity of investment accountholders *	15,063,854	13,004,814
Profit equalisation reserve (note 12.1)	7,400	5,320
Investment risk reserve (note 12.2)	77,199	104,005
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	7,423	8,229
	15,155,876	13,122,368

* *Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US\$ 14,667 thousand (2018: US\$ 27,478 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:

	2019 US\$ '000	2018 US\$ '000
Balance at 1 January	5,320	6,006
Amount apportioned from income allocable to equity of investment accountholders	(962)	4,240
Amount used during the year	(21)	(4,792)
Foreign exchange translations	3,063	(134)
Balance at 31 December	7,400	5,320

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2019 US\$ '000	2018 US\$ '000
Balance at 1 January	104,005	187,149
Amount appropriated to provision (note 22)	(1,771)	(26,423)
Amount apportioned from income allocable to equity of investment accountholders	(24,616)	(47,755)
Foreign exchange translations	(419)	(8,966)
Balance at 31 December	<u>77,199</u>	<u>104,005</u>

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

	2019 US\$ '000	2018 US\$ '000
Balance at 1 January	8,229	8,934
Change in fair values during the year	(274)	2,404
Realised gain transferred to consolidated statement of income	(160)	(562)
Deferred taxation effect	165	(140)
Transfer to shareholders equity	(537)	(2,407)
Balance at 31 December	<u>7,423</u>	<u>8,229</u>
Attributable to investment in real estate	11,137	9,194
Attributable to equity-type instruments at fair value through equity	(3,714)	(965)
	<u>7,423</u>	<u>8,229</u>

13 OWNERS' EQUITY

	2019 US\$ '000	2018 US\$ '000
Share capital		
Authorised: 2,500,000,000 (2018: 2,500,000,000) ordinary shares of US\$ 1 each	<u>2,500,000</u>	<u>2,500,000</u>
<i>Issued and fully paid up:</i>		
At beginning of the year 1,242,879,755 (2018: 1,206,679,374) shares of US\$1 each	1,242,879	1,206,679
Issued during the year Nil bonus shares (2018: 36,200,381) of US\$1 each	-	36,200
At end of the year 1,242,879,755 (2018: 1,242,879,755) shares of US\$1 each	<u>1,242,879</u>	<u>1,242,879</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

13 OWNERS' EQUITY (continued)

Treasury shares

	<i>Number of shares ('000)</i>	<i>2019 US\$ '000</i>	<i>2018 US\$ '000</i>
At 1 January	9,203	9,203	9,550
Purchase of treasury shares	230	230	781
Sale of treasury shares	(1,125)	(1,125)	(1,128)
At 31 December	8,308	8,308	9,203

The market value of the treasury shares is US\$ 2,575 thousand (2018: US\$ 2,761 thousand) and it represents 0.7% (2018: 0.7%) 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 2019

<i>Names</i>	<i>Nationality/ Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
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 AlRajhi	Saudi	87,313,197	7.03%

At 31 December 2018

<i>Names</i>	<i>Nationality/ Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
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 AlRajhi	Saudi	87,313,197	7.03%

- 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 2019

	<i>Number of shares</i>	<i>Number of shareholders</i>	<i>% of total outstanding shares</i>
Less than 1%	104,768,232	1,097	8.43%
1% up to less than 5%	130,193,605	5	10.47%
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	1,106	100.00%

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2018

Categories:	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	10.47%
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%
	<u>1,242,879,755</u>	<u>1,087</u>	<u>100.00%</u>

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\$ 10,567 thousand (2018: US\$ 12,908 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.

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

<i>Subsidiary</i>	<i>Currency</i>	<i>2019 US\$ '000</i>	<i>2018 US\$ '000</i>
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	57,159	56,455
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	30,006	24,111
Al Baraka Bank Egypt (ABE)	Egyptian Pound	121,363	138,794
Al Baraka Turk Participation Bank (ATPB)*	Turkish Lira	373,936	468,562
Al Baraka Bank Limited (ABL)	South African Rand	18,593	19,174
Al Baraka Bank Sudan (ABS)	Sudanese Pound	85,822	87,051
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	31,437	33,519
Al Baraka Bank Syria (ABBS)	Syrian Pound	33,534	33,534
BTI Bank	Moroccan Dirham	218	113
		<u>752,068</u>	<u>861,313</u>

*The reduction in Turkish Lira is related to change of ownership in Al Baraka Turk Participation Bank (see details in note 2).

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

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 2019 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US\$ 2,235 thousand as Zakah on behalf of the shareholders deducted from the retained earnings for the financial year of 2018. The Group has paid and distributed an amount of US\$ 1,865 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\$ 370 thousands has been allocated to be paid maximum by end of first quarter of 2019.

	2019 US\$ '000	2018 US\$ '000
Zakah to be paid on behalf of shareholders for the year	2,235	3,961
Uses of Zakah:		
Zakah for the poor and needy	1,007	2,746
Zakah for new converts to islam	58	80
Scholarships	800	1,050
Total uses	1,865	3,876
Remaining Zakah to be paid	370	85

g. Proposed Appropriations

	2019 US\$ '000	2018 US\$ '000
Cash dividend 2% (2018: 3%)	24,858	37,286
	24,858	37,286

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

The Bank declare a cash dividend of US\$ 0.02 per issued share (2018: cash dividened of US\$ 0.03 per issued share and no bonus shares). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2018 was approved at the Annual General Meeting on 21 March 2019 and was effected in 2019 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.

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

	2019 US\$ '000	2018 US\$ '000
Receivables (note 15.1)	998,512	1,027,363
Mudaraba and Musharaka financing (note 15.2)	304,126	235,922
Investments (note 15.3)	319,227	249,362
Ijarah Muntahia Bittamleek (note 15.4)	109,305	137,631
Others	914	790
	1,732,084	1,651,068
Net income from jointly financed contracts and investments	1,391,699	1,327,244
Gross income from self financed contracts and investments	340,385	323,824
	1,732,084	1,651,068
Gross income from self financed contracts and investments	340,385	323,824
Profit paid on short term financing	(123,402)	(80,857)
Net income from self financed contracts and investments	216,983	242,967

15.1 Receivables

	2019 US\$ '000	2018 US\$ '000
Sales (Murabaha) receivables	968,863	1,004,541
Salam receivables	17,215	15,603
Istisna'a receivables	12,434	7,219
	998,512	1,027,363

15.2 Mudaraba and Musharaka financing

	2019 US\$ '000	2018 US\$ '000
Mudaraba financing	233,524	163,814
Musharaka financing	70,602	72,108
	304,126	235,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

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

15.3 Investments

	2019 US\$ '000	2018 US\$ '000
Equity-type instruments at fair value through equity	4,513	5,500
Debt-type instruments at amortised cost	282,737	224,576
Unrealised gain on equity and debt-type instruments at fair value through statement of income	21,952	5,619
(Loss) gain on sale of equity-type instruments at fair value through equity	(654)	457
Gain on sale of equity and debt-type instruments at fair value through statement of income	3,874	3,466
Rental income	556	1,052
Income from associates	5,818	3,667
Gain on sale of investment in real estate	431	5,025
	<u>319,227</u>	<u>249,362</u>

15.4 Ijarah Muntahia Bittamleek

	2019 US\$ '000	2018 US\$ '000
Income from Ijarah Muntahia Bittamleek	304,599	328,448
Depreciation on Ijarah Muntahia Bittamleek	(195,294)	(190,817)
	<u>109,305</u>	<u>137,631</u>

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

	2019 US\$ '000	2018 US\$ '000
Banking fees and commissions	131,469	95,771
Letters of credit	15,748	24,769
Guarantees	27,869	31,639
Acceptances	6,730	6,399
	<u>181,816</u>	<u>158,578</u>

18 OTHER OPERATING INCOME

	2019 US\$ '000	2018 US\$ '000
Foreign exchange gain*	88,658	111,248
Gain on sale of property and equipment	7,194	8,850
	<u>95,852</u>	<u>120,098</u>

*An amount of US\$ 15 million is related to foreign currency revaluation gain from subsidiaries.

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19 PROFIT PAID ON LONG TERM FINANCING

	2019 US\$ '000	2018 US\$ '000
Murabaha financing	5,540	18,557
Subordinated financing obtained by a subsidiary	28,427	29,212
Wakala	12,990	35,338
	<u>46,957</u>	<u>83,107</u>

20 DEPRECIATION AND AMORTISATION

	2019 US\$ '000	2018 US\$ '000
Property and equipment depreciation (note 8)	32,037	32,920
Intangible assets amortisation (note 9 (a))	8,486	9,144
	<u>40,523</u>	<u>42,064</u>

21 OTHER OPERATING EXPENSES

	2019 US\$ '000	2018 US\$ '000
General and administration expenses	114,877	98,074
Professional and business expenses	32,510	32,526
Premises related expenses	54,957	61,443
	<u>202,344</u>	<u>192,043</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	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)	Ishtisna'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
Allowance 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
Charged during the year	990	137,660	12,311	6,586	1,730	431	1,627	3,026	(588)	5,856	1,638	171,267
Written back/recovered during the year	-	(41,431)	(3,012)	(1,464)	(143)	-	(319)	-	-	(1,554)	(1,708)	(49,631)
	990	96,229	9,299	5,122	1,587	431	1,308	3,026	(588)	4,302	(70)	121,636
Written off during the year	1,055	617,848	42,516	12,846	5,530	7,535	14,012	21,036	17,998	62,818	22,325	825,619
Amount appropriated from investment risk reserve (note 12.2)	-	(104,833)	(8,387)	-	-	-	(565)	(2,302)	-	(18)	-	(116,105)
Foreign exchange translations/others - net	-	5,152	843	-	(278)	-	101	(4,047)	-	-	-	1,771
Allowance at 31 December	2,630	1,062	(520)	(405)	(292)	(804)	(754)	(77)	(211)	(39,619)	812	(38,178)
	3,685	519,229	34,452	12,441	4,960	6,831	12,794	14,610	17,787	23,181	23,137	673,107

During the year, an impairment loss of US\$ 155 thousand (2018: US\$ 507 thousand) was charged against investments and goodwill.
An amount of US\$ 6 810 thousand (2018: US\$ 6 408 thousand) is related to provision of equity type instruments at fair value through equity

	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)	Ishtisna'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	-	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/recovered 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
Written off during the year	129	634,301	33,382	8,535	3,705	16,693	16,225	17,363	19,377	65,187	26,556	841,453
Amount appropriated from investment risk reserve (note 12.2)	-	(59,740)	-	-	-	(20,902)	-	(3,308)	-	-	-	(83,950)
Foreign exchange translations/others - net	-	20,601	788	-	630	-	(100)	4,504	-	-	-	26,423
Provisions at 31 December	(64)	(73,543)	(953)	(811)	(392)	11,413	(3,421)	(549)	(791)	(6,671)	(4,161)	(79,943)
	65	521,619	33,217	7,724	3,943	7,204	12,704	18,010	18,586	58,516	22,395	703,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2019	Cash and balances with banks		Sales (Murabaha) receivables		Ijarah receivables	Salam receivables	Istisna'a receivables	Mudaraba financing	Musharaka financing	Investments	Ijarah Muntahia Bittamleek	Other assets	Other liabilities	Total
	US\$ '000 (note 3)	US\$ '000 (note 4.1)	US\$ '000 (note 4.2)	US\$ '000 (note 4.3)	US\$ '000 (note 4.4)	US\$ '000 (note 5.1)	US\$ '000 (note 5.2)	US\$ '000 (note 6.2 & 6.3)	US\$ '000 (note 7)	US\$ '000 (note 9)	US\$ '000 (note 11)	US\$ '000	US\$ '000	US\$ '000
Middle East	3,664	259,583	8,834	-	371	6,831	3,852	9,716	-	18,895	16,881	18,895	16,881	328,627
North Africa	21	27,506	22,829	5,295	793	-	715	1,006	17,374	1,835	2,958	1,835	2,958	80,332
Europe	-	209,099	-	-	-	-	-	222	369	1,324	3,140	1,324	3,140	214,154
Others	-	23,041	2,789	7,146	3,796	-	8,227	3,666	44	1,127	158	1,127	158	49,994
Total	3,685	519,229	34,452	12,441	4,960	6,831	12,794	14,610	17,787	23,181	23,137	23,181	23,137	673,107
2018														
Middle East	48	226,610	14,599	-	650	7,204	3,944	13,629	-	12,114	18,235	12,114	18,235	297,033
North Africa	17	28,211	15,543	4,114	480	-	156	956	17,819	2,177	1,745	2,177	1,745	71,218
Europe	-	243,098	-	-	-	-	-	93	477	41,567	2,186	41,567	2,186	287,421
Others	-	23,700	3,075	3,610	2,813	-	8,604	3,332	290	2,658	229	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	58,516	22,395	703,983

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2019 amounts to US\$ 684.5 million (2018: US\$ 589.1 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:

	2019	2018
Net income attributable to the equity shareholders of the parent for the year - US\$ '000	105,672	129,084
Less: Profit distributed on perpetual tier 1 capital	(31,500)	(31,500)
	<u>74,172</u>	<u>97,584</u>
Number of shares outstanding at the beginning of the year (in thousands)	1,242,879	1,242,879
Treasury shares effect (in thousands)	(8,754)	(9,563)
Weighted average number of shares outstanding at the end of the year (in thousands)	<u>1,234,125</u>	<u>1,233,316</u>
Earnings per share - US cents	<u>6.01</u>	<u>7.91</u>

24 CASH AND CASH EQUIVALENTS

	2019 US\$ '000	2018 US\$ '000
Balances with central banks excluding mandatory reserve	1,492,404	1,318,209
Balances with other banks	707,214	878,930
Cash and cash in transit	726,567	720,655
	<u>2,926,185</u>	<u>2,917,794</u>

Al Baraka Banking Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	Directors and key management personnel				Other related parties	2019	2018
	Associated companies	Major shareholders		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net income from jointly financed contracts and investments	2,767	11	90	-	-	2,868	2,111
Net (loss) income from self financed contracts and investments	-	-	-	-	-	-	(2,444)
Return on equity of investment accountholders	255	859	621	-	-	1,735	620
Other fees and commission income	365	1,952	-	2	2	2,319	485

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

	2019	2018
	US\$ '000	US\$ '000
Short term benefits	8,851	8,567
Long term benefits	1,559	1,386

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 2019 amounted to US\$ 1.5 million (2018: US\$ 1.5 million).

Al Baraka Banking Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

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	2019 US\$ '000	2018 US\$ '000
Assets:						
Receivables	2,101	-	340	-	2,441	2,724
Mudaraba and Musharaka financing	-	-	1,656	-	1,656	-
Investments	15,615	-	-	168	15,783	22,799
Ijarah Muntahia Bittamleek	-	-	62	-	62	204
Other assets	1,509	-	546	99	2,154	1,705
Liabilities:						
Customer current and other accounts	6,176	27,634	724	-	34,534	26,359
Due to banks	7	-	-	-	7	15,139
Other liabilities	-	4	4	-	8	-
Equity of investment accountholders	6,122	10,838	7,387	-	24,347	26,094
Off-balance sheet equity of investment accountholders	15,021	23,514	8,831	-	47,366	48,226

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

Al Baraka Banking Group B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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	2018		Transaction		2019	
			Number of		Number of		Number of	
			shares		shares		shares	
Saleh Abdulla Kamel	Chairman	Saudi	680,431	667	-	-	680,431	667
Abdulla Ammar Saudi	Vice Chairman	Bahraini	666,350		-	-	666,350	
Abdulla Saleh Kamel	Vice Chairman	Saudi	338,598		-	-	338,598	
Mohyidin Saleh Kamel	Board Member	Saudi	707,976		-	-	707,976	
AbdulElah Sabbahi	Board Member	Saudi	225,899		-	-	225,899	
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	362		-	-	362	
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration	Bahraini	339,231		-	-	339,231	

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26 COMMITMENTS AND CONTINGENCIES

	2019 US\$ '000	2018 US\$ '000
Letters of credit	635,669	709,048
Guarantees	2,027,755	2,151,650
Acceptances	111,075	76,287
Undrawn commitments	874,750	914,940
Sharia'a compliant promise contracts	84,641	138,686
Others	-	125
	3,733,890	3,990,736

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:

Segment	2019			2018		
	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000
Middle East	13,147,200	3,183,416	8,602,235	11,594,671	2,907,485	7,338,507
North Africa	2,711,726	1,412,977	992,650	2,743,750	1,429,458	1,042,643
Europe	8,509,482	3,654,755	4,361,686	7,919,036	3,662,996	3,768,663
Others	1,890,123	528,317	1,199,305	1,573,781	452,944	972,555
	26,258,531	8,779,465	15,155,876	23,831,238	8,452,883	13,122,368

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

Segment	2019			2018		
	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000	Total operating income US\$ '000	Net operating income US\$ '000	Net income US\$ '000
Middle East	491,027	245,515	118,293	414,924	198,191	114,643
North Africa	145,346	77,421	46,888	132,279	68,822	37,792
Europe	242,382	52,028	2,469	347,782	155,280	48,415
Others	88,642	24,275	12,516	92,834	25,069	15,878
	967,397	399,239	180,166	987,819	447,362	216,728

At 31 December 2019

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.

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28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2019 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	20 years and above	Undated	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets											
Cash and balances with banks	4,183,191	7,835	10,597	20,000	391,168	9,807	-	-	-	764,328	5,386,926
Receivables	1,803,083	864,854	1,246,223	1,498,193	2,524,020	1,943,389	744,506	266,606	4,063	-	10,894,937
Mudaraba and Musharaka financing	1,933,154	9,792	16,211	26,693	667,145	430,979	121,026	23,463	-	152	3,228,615
Investments	224,330	169,914	390,586	339,534	1,170,147	621,021	406,004	(61,696)	-	612,698	3,872,538
Ijarah Muntahia Bittamleek	44,643	34,523	86,317	120,988	433,509	285,874	421,193	309,765	19,944	-	1,756,756
Property and equipment	-	-	-	-	-	-	-	-	-	455,031	455,031
Other assets	147,697	21,990	43,897	91,556	27,306	63,087	4,650	1,539	-	262,006	663,728
Total assets	8,336,098	1,108,908	1,793,831	2,096,964	5,213,295	3,354,157	1,697,379	539,677	24,007	2,094,215	26,258,531
Liabilities											
Customer current and other accounts	6,195,073	-	-	-	-	-	-	-	-	-	6,195,073
Due to banks	552,272	256,845	105,053	23,310	38,000	-	-	131,443	-	-	1,106,923
Long term financing	1,993	62	-	44,212	83,158	17,440	232,404	-	-	-	379,269
Other liabilities	536,937	115,338	74,178	70,266	20,896	23,283	241	249,535	-	7,526	1,098,200
Total liabilities	7,286,275	372,245	179,231	137,788	142,054	40,723	232,645	380,978	-	7,526	8,779,465
Equity of investment accountholders	6,288,760	1,603,538	767,885	1,535,142	2,602,576	881,752	1,377,304	98,919	-	-	15,155,876
Total liabilities and equity of investment accountholders	13,575,035	1,975,783	947,116	1,672,930	2,744,630	922,475	1,609,949	479,897	-	7,526	23,935,341
Net liquidity gap	(5,238,937)	(866,875)	846,715	424,034	2,468,665	2,431,682	87,430	59,780	24,007	2,086,689	2,323,190
Cumulative net liquidity gap	(5,238,937)	(6,105,812)	(5,259,097)	(4,835,063)	(2,366,398)	65,284	152,714	212,494	236,501	2,323,190	-
Off-balance sheet equity of investment accountholders	35,499	174,234	219,965	680,233	20,274	121,520	134,259	317	20,868	11,772	1,418,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2018 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	20 years and above	Undated	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	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	363,194	116,353	39,539	104,992	166	59	-	-	994,038

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

	<i>Maximum exposure</i>	
	2019	2018
	US\$ '000	US\$ '000
Balances with central banks	3,956,830	3,408,489
Balances with other banks	707,214	878,930
Receivables	10,894,937	10,303,868
Mudaraba and Musharaka financing	3,228,615	2,718,906
Investments	3,872,538	3,067,008
Other assets	236,564	148,433
Total	22,896,698	20,525,634
Commitments and contingencies	3,733,890	3,990,736
	26,630,588	24,516,370

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 2019				
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	9,878,412	785,303	802,304	11,466,019
Mudaraba and Musharaka financing	3,205,304	5,210	37,726	3,248,240
Other assets	250,190	1,668	7,887	259,745
	13,333,906	792,181	847,917	14,974,004

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

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 2019				
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	119,090	505,294	160,919	785,303
Mudaraba and Musharaka financing	1,678	429	3,103	5,210
Other assets	398	576	694	1,668
	121,166	506,299	164,716	792,181

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

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:

	2019			2018		
	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000	Assets US\$ '000	Liabilities US\$ '000	IAH US\$ '000
Manufacturing	3,973,201	207,022	249,199	3,670,844	100,106	277,065
Mining and quarrying	87,175	5,623	38,993	122,771	4,647	21,572
Agriculture	159,492	29,803	11,967	179,627	21,003	4,999
Construction and real estate	2,834,481	28,612	20,410	2,796,364	21,853	25,271
Financial	5,246,635	1,524,956	1,933,975	4,493,331	2,081,910	1,690,425
Trade	1,752,862	267,965	282,359	1,608,667	254,441	175,776
Personal and consumer finance	2,641,012	4,657,786	10,540,573	2,834,613	3,933,665	8,954,660
Government	6,949,245	85,353	105,790	5,648,272	55,087	70,743
Other Sectors	2,614,428	1,972,345	1,972,610	2,476,749	1,980,171	1,901,857
	26,258,531	8,779,465	15,155,876	23,831,238	8,452,883	13,122,368

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\$ 383,115 thousand (2018: US\$ 313,185 thousand) comprising of equity-type instruments at fair value through equity amounting to US\$ 94,443 thousand (2018: US\$ 100,651 thousand) and equity-type instruments at fair value through statement of income amounting to US\$ 288,672 thousand (2018: US\$ 212,534 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:

	2019		
	Operational	Strategic	Total
	equivalent	equivalent	equivalent
	Long (Short) US\$ '000	Long (Short) US\$ '000	Long (Short) US\$ '000
Currency			
Turkish Lira	64,897	175,310	240,207
Jordanian Dinar	8,406	413,150	421,556
Egyptian Pound	(9,832)	188,947	179,115
Sudanese Pound	2,718	28,001	30,719
Algerian Dinar	(3,935)	122,139	118,204
Lebanese Pound	(2,169)	15,249	13,080
Pound Sterling	(5,176)	-	(5,176)
Tunisian Dinar	(8,558)	47,128	38,570
Euro	(24,528)	-	(24,528)
South African Rand	(828)	35,075	34,247
Pakistani Rupees	(32,940)	94,475	61,535
Syrian Pound	(36,782)	20,586	(16,196)
Moroccan Dirham	(20,718)	12,988	(7,730)
Others	88,379	-	88,379

	2018		
	Operational	Strategic	Total
	equivalent	equivalent	equivalent
	Long (Short) US\$ '000	Long (Short) US\$ '000	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)
Tunisia 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

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 judgement of the management of the Group.

At 31 December 2019

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 2019

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	50,621	-15%	(6,603)	5%	2,664
	Total owners' equity	221,481	-15%	(28,889)	5%	11,657
Egyptian Pound	Net Income	55,857	-20%	(9,309)	5%	2,940
	Total owners' equity	260,269	-20%	(43,378)	5%	13,698
Turkish Lira	Net Income	3,961	-20%	(660)	5%	208
	Total owners' equity	462,542	-20%	(77,090)	5%	24,344
Sudanese Pound	Net Income	8,191	-130%	(4,630)	5%	431
	Total owners' equity	36,973	-130%	(20,898)	5%	1,946
S.African Rand	Net Income	4,764	-15%	(621)	5%	251
	Total owners' equity	54,371	-15%	(7,092)	5%	2,862
Syrian Pound	Net Income	14,845	-20%	(2,474)	5%	781
	Total owners' equity	89,506	-20%	(14,918)	5%	4,711
Pakistani Rupees	Net (Loss)	(436)	-10%	40	5%	(23)
	Total owners' equity	71,161	-10%	(6,469)	5%	3,745
Tunisian Dinar	Net (Loss)	4,072	-10%	(370)	5%	214
	Total owners' equity	60,113	-10%	(5,465)	5%	3,164
Moroccan Dirham	Net (Loss)	(5,807)	-20%	968	5%	(306)
	Total owners' equity	26,505	-20%	(4,418)	5%	1,395

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

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 Ratio (CAR) and Net Stable Funding Ratio (NSFR)

The regulatory capital, risk-weighted assets and NSFR have been calculated in accordance with Basel III as adopted by the CBB. The Group capital adequacy ratio as of 31 December 2019 is 16.71% (2018: 17.42%) and the minimum requirement as per Central Bank of Bahrain is 12.5%. The Group NSFR as of 31 December 2019 is 270% and the minimum requirement as per Central Bank of Bahrain is 100%.

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\$ 3,519 million (2018: US\$ 2,697 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US\$ 53,835 thousand (2018: US\$ 47,459 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.

At 31 December 2019

30 EARNINGS PROHITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US\$ 12 million (2018: US\$ 16 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.