AGILE TRANSFORMATION
rooted in PARTNERSHIPS

Annual Report **2018**

Your Partner Bank

INTRODUCTION

"Al Baraka Banking Group's philosophy, in essence, is that Allah, The Almighty, grants mankind the power to inherit the land on this earth. As such, Man is not the owner of wealth, but he is responsible for it.

The purpose of Man, by the commandment of Allah, The Almighty, is to construct, embellish, create and build on this earth. Man is therefore also ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah, The Almighty.

Therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth."

Shaikh Saleh Abdullah Kamel
Chairman of the Board of Directors
Al Baraka Banking Group

CONTENTS

OVER 2.7 million customers

Maintaining strong links to our heritage ensures better partnerships into the future

We believe that banking has a crucial role to play, and as bankers we have an incredible responsibility towards the resources in our hands.

BANKING INTO THE FUTURE
TO IMPACT THE WORLD AROUND US

VISION

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

MISSION

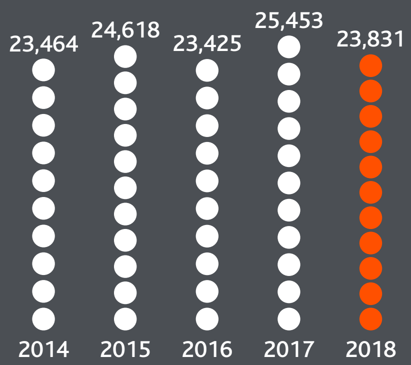
To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success

FINANCIAL HIGHLIGHTS

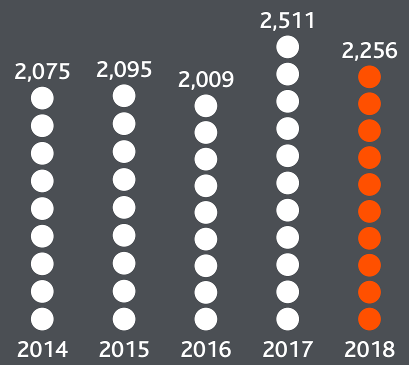
	2018	2017	2016	2015	2014
EARNINGS (US$ MILLIONS)					
Total Operating Income	988	999	1,074	1,000	918
Net Operating Income	447	430	507	464	396
Net Income	217	207	268	286	275
Net Income Attributable to Equity Holders of the Parent	129	129	152	163	152
Basic and Diluted Earnings per Share - US Cents*	7.93	9.19	12.29	13.19	12.30
FINANCIAL POSITION (US$ MILLIONS)					
Total Assets	23,831	25,453	23,425	24,618	23,464
Total Financing and Investments	17,861	19,123	17,465	18,358	17,624
Total Customer Accounts	19,627	20,670	19,179	20,164	19,861
Total Owners' Equity	2,256	2,511	2,009	2,095	2,075
Equity attributable to Parent	1,546	1,740	1,281	1,356	1,338
CAPITAL (US$ MILLIONS)					
Authorised	2,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	1,242.9	1,206.7	1,149.2	1,115.7	1,093.9
PROFITABILITY RATIOS					
Return on Average Owners' Equity	9%	9%	13%	14%	14%
Return on Average Parent's Equity	8%	9%	12%	12%	12%
Return on Average Assets	0.9%	0.8%	1.1%	1.2%	1.2%
Operating Expenses to Operating Income	55%	57%	53%	54%	57%
FINANCIAL POSITION RATIOS					
Owners' Equity to Total Assets	10%	10%	9%	9%	9%
Total Financing and Investments as a Multiple of Equity (times)	7.9	7.6	8.7	8.8	8.5
Liquid Assets to Total Assets	27%	25%	24%	24%	26%
Net Book Value per Share (US$)*	0.93	1.09	1.04	1.10	1.09
OTHER INFORMATION					
Total Number of Employees	12,937	12,795	12,644	11,458	10,853
Total Number of Branches	697	675	697	586	549

* Adjusted for treasury and bonus shares.

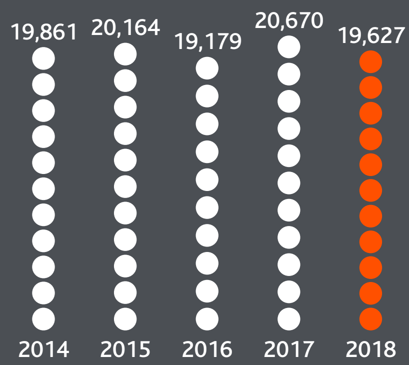
TOTAL ASSETS
(US$ MILLIONS)



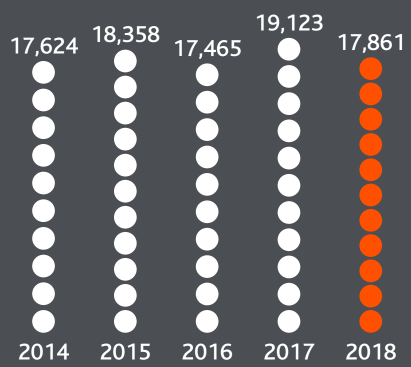
TOTAL OWNERS' EQUITY
(US$ MILLIONS)



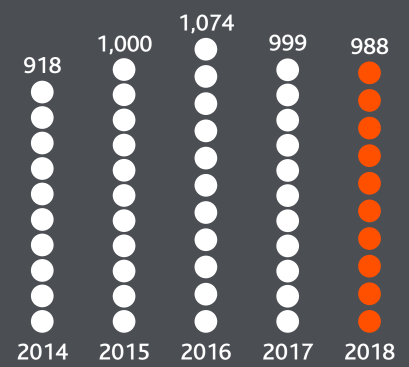
TOTAL CUSTOMER ACCOUNTS
(US$ MILLIONS)



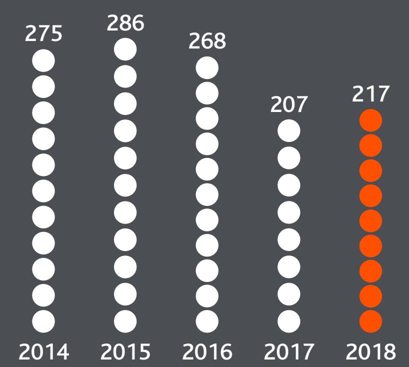
TOTAL FINANCING & INVESTMENTS
(US$ MILLIONS)



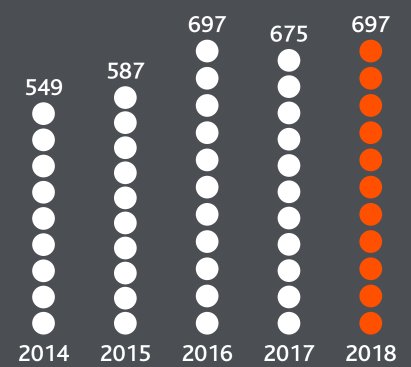
TOTAL OPERATING INCOME
(US$ MILLIONS)



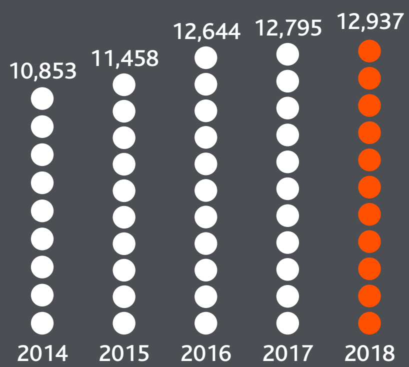
NET INCOME
(US$ MILLIONS)



TOTAL NUMBER
OF BRANCHES



TOTAL NUMBER
OF EMPLOYEES



Net Income
US$ 217
million

BOARD OF DIRECTORS & UNIFIED SHARI'A SUPERVISORY BOARD

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi ■
Vice Chairman

Mr. Abdullah Saleh Kamel ▲
Vice Chairman

Mr. Saleh Mohammed Al Yousef ■ ● ●
Board Member

Mr. Adnan Ahmed Yousif ●
Board Member and President & Chief Executive

Mr. Abdul Elah Sabbahi ● ●
Board Member

Mr. Ebrahim Fayez Al Shamsi ■ ▲ ●
Board Member

Mr. Jamal Bin Ghalaita ■ ●
Board Member

Mr. Yousef Ali Fadil Bin Fadil ■ ▲ ●
Board Member

Dr. Bassem Awadallah ■ ▲ ●
Board Member

Mr. Mohyedin Saleh Kamel ●
Board Member

Mr. Saud Saleh Al Saleh ■ ▲
Board Member

Dr. Khaled Abdulla Ateeq ●
Board Member

Mr. Salah Othman Abuzaid
Secretary to the Board

UNIFIED SHARI'A SUPERVISORY BOARD

Shaikh Abdulla Bin Sulaiman Al Mannea
Chairman

Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

Dr. Eltigani El Tayeb Mohammed
Secretary to the Unified Shari'a Supervisory Board

Note: *Shaikh Dr. Abdul Sattar Abu Ghuddah retired from his position as Chairman of the USSB on the 9th July, 2018*

COMMITTEE NAME	CHAIRMAN OF THE COMMITTEE	MEMBER OF THE COMMITTEE
Board Executive Committee	▲	●
Board Audit & Governance Committee	▲	●
Board Affairs & Remuneration Committee	▲	●
Board Risk Committee	▲	●
Board Sustainability & Social Responsibility Committee	▲	●
Independent Directors		■

The Compliance & Governance Committee was formed during January 2019

EXECUTIVE MANAGEMENT

Mr. Adnan Ahmed Yousif
President & Chief Executive

Mr. Hamad A. Al Oqab
Deputy Chief Executive

Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations and Administration

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Mr. Mohammed El Qaq
Senior Vice President - Head of Commercial Banking

Mr. Ahmed Albalooshi
Senior Vice President - Head of Information Technology

Mr. Azhar Aziz Dogar*
Senior Vice President - Head of Credit and Risk Management

Mr. Mohammed Alawi Hassan Al-Alawi**
Senior Vice President - Head of Internal Audit

Mr. Suhail Tohami***
Senior Vice President - Head of Treasury, Investments and Financial Institutions

Mr. Yaser Ismaeel Mudhafar
Senior Vice President - Head of Finance

Mr. Qutub Yousafali
Head of Group Compliance

Dr. Ali Adnan Ibrahim
First Vice President - Head of Sustainability and Social Responsibility

Mr. Mohammed Abdul Latif Al-Mahmood
First Vice President - Head of Shari'a Internal Audit

Dr. El Tigani El Tayeb Mohammed
Shari'a Officer

NOTE:

*Mr. Azhar Aziz Dogar, Senior Vice President, has been appointed as Head of Credit and Risk Management effective 1st February 2018 upon the retirement of Mr. Jozsef Peter Szalay on 31st January, 2018.

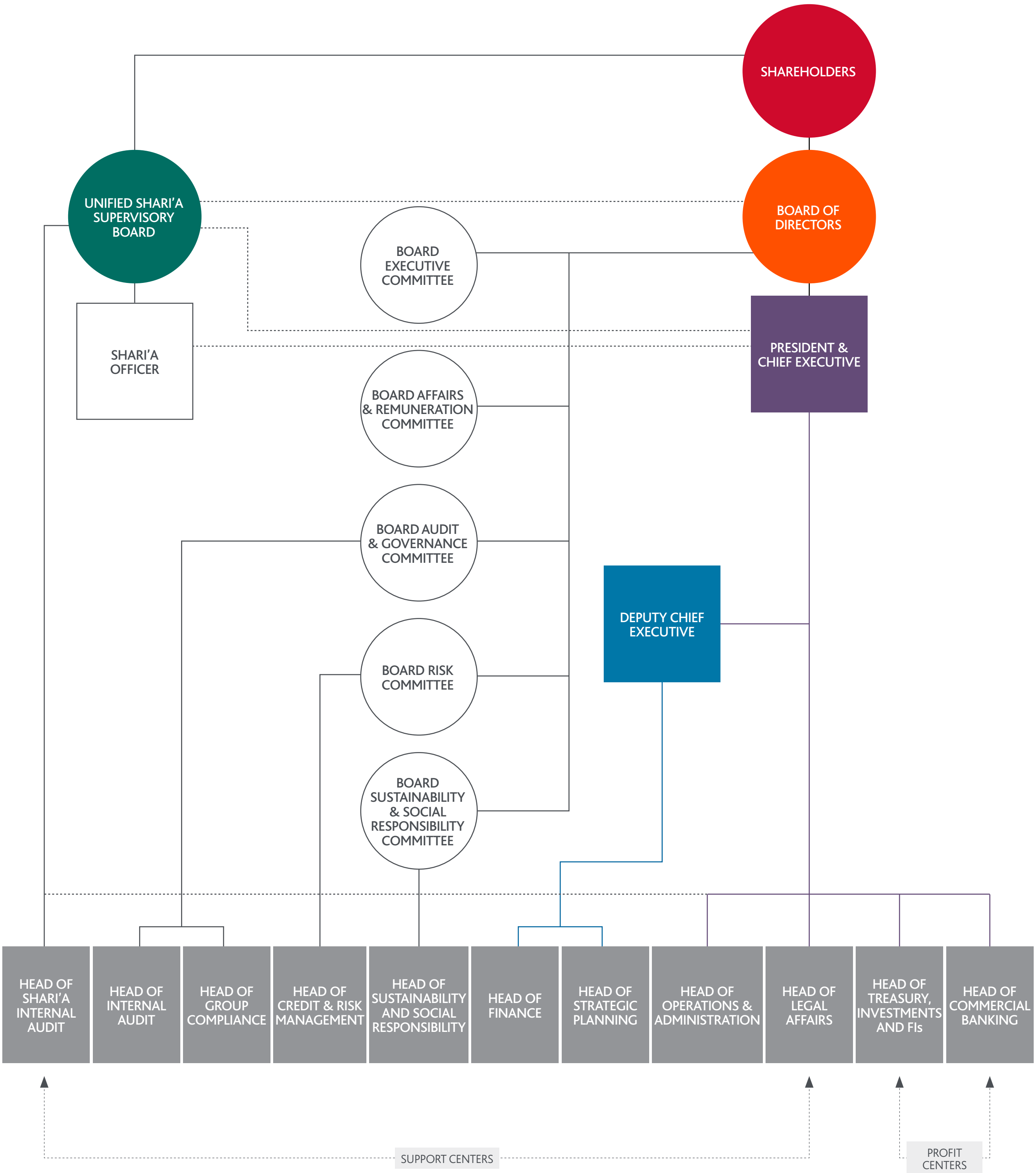
**Mr. Mohammed A. Al Alawi, Senior Vice President, has been appointed as Head of Internal Audit effective 1st February 2018 upon the retirement of Mr. Majeed H. Alawi on 31st January 2018.

***Mr. Suhail Tohami, Senior Vice President, has been appointed as Head of Treasury, Investments and Financial Institutions effective 3rd September 2018 upon the retirement of Mr. Khalid Al Qattan on 31st May 2018.

Good Governance

"Ethics in Business helps us to forge deeper customer relationships"

HEAD OFFICE ORGANISATION CHART



A Board Compliance & Governance Committee has been formed in January 2019.

FORGING DEEPER PARTNERSHIPS

The world is moving at a fast pace. We have not lost sight of customer intimacy and customer centricity. We recognize the challenges of a digitalization movement and will continue on the path of forging deeper partnerships with our customers for overall prosperity and development

COMPETE *to remain* AHEAD

DIRECTORS' REPORT

Shaikh Saleh Abdullah Kamel, *Chairman*

REVIEW OF 2018

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

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

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

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

Total operating income remained at US$ 1.0 billion in 2018 almost same as in 2017 partially impacted by substantial falls in units' local currencies. The Group's resilience to adverse conditions is evidenced by the fact that in spite of lower total assets and operating assets, net operating income increased by 4% to US$ 447 million (US$ 430 million in 2017) and net income increased by 5% to US$ 217 million (US$ 207 million in 2017). The net income attributable to equity holders of the ABG remained at US$129

US$ 1.0 BILLION
TOTAL OPERATING INCOME

US$ 447 MILLION
NET OPERATING INCOME

(All figures in US Dollars unless stated otherwise)

We consider that developing and maintaining strong compliance across all of our Units represents one of the highest priorities for the Group

million same from 2017. The growth in profitability would have been even higher if the devaluation impact were to be excluded.

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

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

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

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

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

2019 and Beyond

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

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

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

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

For and on behalf of the Board of Directors

Saleh Abdullah Kamel
Chairman

SERVING *the market* TEMPERAMENT

STRONG LOCAL IDIOM IN A LARGE GLOBAL NETWORK

While we have presence across 3 continents and 17 countries, we have not lost sight of the local customer needs in a diverse geography. We are strong local banks. This, we believe, is our biggest strength

PRESIDENT & CHIEF EXECUTIVE'S REPORT

Mr. Adnan Ahmed Yousif, *President & Chief Executive*

I am pleased to report that by pursuing our long-term strategy, the Al Baraka Banking Group achieved good results in 2018 in spite of very significant challenges in several of our key markets. The Group's resilience to these challenges was supported by the wide geographic diversification of its operations, which enabled it to offset challenges in a few markets by excellent performance in others. Prominent among the challenges was the devaluation of the local currencies against the US dollar in six of the countries where our Group operates and the turbulence, which the devaluation, together with the rising interest rates, caused for the economies. Therefore, the consolidated Group results, which are reported in US dollars, were lower than they would have been without devaluation.

Total Assets of the Group were US$ 23.8 billion as of 31 December 2018 and were down by 6% compared to US$ 25.5 billion as at the end of 2017. Operating Assets (Financing and Investments) were US$ 17.9 billion as of 31 December 2018, down 7% compared to a year ago. If the impact of the FX translation were to be excluded, both Total Assets and Operating Assets would have shown growth. As evidence of the Group's deep roots in its markets and the highly experienced management, Net Operating Income and Net Income, in dollar terms, showed satisfactory 4% and 5% growth to reach respectively US$ 447 million and US$ 217 million, in spite of the FX devaluation and other challenges.

During the year, the Group continued on its digital transformation journey with all of our Units working on their digital business strategies and mapping the transformation in human resources, organization and technology required for implementation. While moving ahead with digitalization, we also aim to retain our historic core value of partnership embedded in our Vision and Mission. A notable achievement in our digital transformation is Insha, a digital bank in Germany launched by Al Baraka Turk Participation Bank for their clients and other Turkish, and Muslim residents there. Insha is the first digital Islamic banking service provider in Europe and it is making excellent progress.

During 2018, we have adopted a smarter

US$ 23.8 BILLION
TOTAL ASSETS

US$ 217 MILLION
NET INCOME FOR THE YEAR

(All figures in US Dollars unless stated otherwise)

During the year, the Group continued on its digital transformation journey with all of our Units working on their digital business strategies and mapping the transformation in human resources, organization and technology required for implementation

approach to expansion both in terms of new branches and new geographies. BTI Bank, which was established in Morocco last year in partnership with BMCE-Bank of Africa, is making good progress, in line with the rules published by the Central Bank of Morocco for participation banks. The total number of branches in the Group increased by 22 to 697 and this reflects our renewed focus on our expansion strategy with careful control of costs and increasing efficiency.

Our internal policies, procedures and organization structures were subject to continuous review and enhancement. In this regard, we are putting special emphasis on strengthening the culture of compliance and compliance risk management.

Turning to 2019, we see it as a highly challenging year when slower economic growth, rising interest rates, trade disputes and foreign exchange rates volatility will continue to impact banks globally and in our region. We believe that Al Baraka Banking Group is well prepared for these challenges and can look upon some disruptions in a positive manner as the opening of new opportunities for our business. Therefore, we are optimistic about the future of the Group, as it pursues its goals in an agile and adaptable fashion.

Review of ABG Banking Subsidiaries ("Units"):

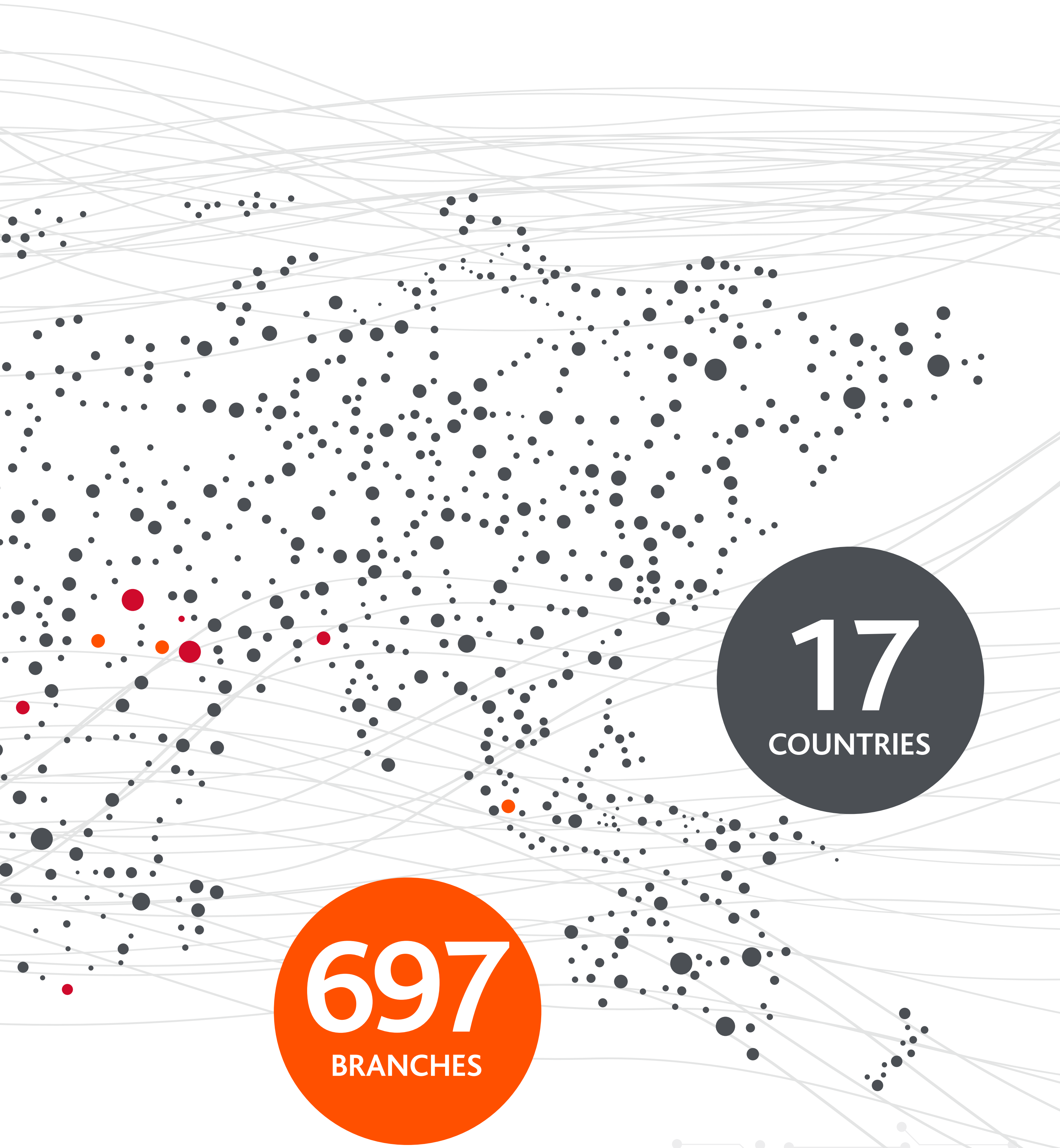
Each Unit is managed by its respective Board of Directors. And while reporting lines are to the Group, decision making is decentralised within the framework of ABG's strategic direction, and in full compliance with the regulations of the respective countries' central banks.

The following pages review the performance of the Units in 2018. Except where local currency sums are explicitly mentioned, all figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (and IFRS where AAOIFI is silent), and without any Group-level adjustments.

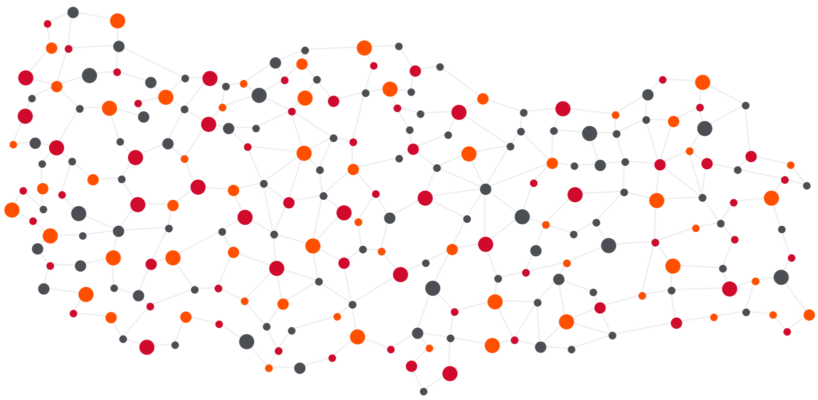
Al Baraka is consistently improving and continuing its fundamental approach to its customers – which is based on relationships

03

CONTINENTS


17
COUNTRIES
697
BRANCHES

TURKEY
Al Baraka Türk Participation Bank



1985 ESTABLISHED

230 BRANCHES

Unit Head	Mr. Meliksah Utku
Title	General Manager
Address	Saray Mahallesi, Dr. Adnan Büyükdeniz Caddesi, No. 6, 34768 Ümraniye, Istanbul, Turkey
Tel	+90 216 666 01 01
Fax	+90 216 666 16 00
Website	albaraka.com.tr

The Turkish economy had a highly challenging year with rising interest rates, more than 20% inflation rates and devaluation of the Turkish lira against the US dollar by about 28% since the end of 2017. Like most emerging markets, Turkey was impacted negatively by the increasing key interest rates in the US and Europe, the threat of trade wars and also by geopolitical tensions. Decisive action by the Turkish government in tightening monetary policy and easing political tensions produced stability for the currency and the economy towards the end of the year.

Al Baraka Turk Participation Bank, together with all other Turkish banks, faced the economic challenges by concentrating on management of the asset quality and funding costs. The bank continued its precautionary building up of provisions for non-performing assets and strengthened its funding structure with a US$ 205 million highly successful public offering of Sukuk and with other Wakala products.

The bank's total assets in local currency terms grew by 16% to TRY 42.2 billion; however, as a result of the lira devaluation against the dollar the total assets dropped from US$ 9.6 billion at year end 2017 to US$ 8.0 billion as of December 31, 2018. Similarly, net operating income rose by 5% to TRY 736.8 million; however, in dollar terms it was down by 18% to US$ 158.9 million. The bank's net income growth reflected not only the devaluation, but also a substantial increase in credit risk provisions to reach US$ 62.6 million (US$ 61.0 million in 2017).

In spite of slower growth, the bank continued to enjoy its strong position in the participation banking market and pursue its strategic objectives. The bank's digital banking service Insha targeted at Turkish and other Muslims in Germany is making excellent progress as part of the Bank's overall digital transformation. Insha was awarded for being the best digital banking initiative by Islamic Retail Banking.

The bank's ATM network in Turkey was enhanced considerably by enabling its customers to use ATMs at the post offices across the country. In the Islamic Investment field, the bank is offering to clients new investment funds and other products developed by its recently created Investment Banking Department. The strategic aim of increasing retail banking share in the Bank's overall business was aggressively pursued by introducing and enhancing several retail finance products during the year. The bank was awarded the "Best Use of IT in Retail Banking" during 2018.

(All figures in US Dollars unless stated otherwise)

JORDAN
Jordan Islamic Bank

1978
ESTABLISHED

105
BRANCHES

Unit Head	Mr. Musa Shihadeh
Title	CEO - General Manager
Address	P.O. Box 926225, Amman 11190, Jordan
Tel	+96 26 567 7377
Fax	+96 26 566 6326
Website	jordanislamicbank.com

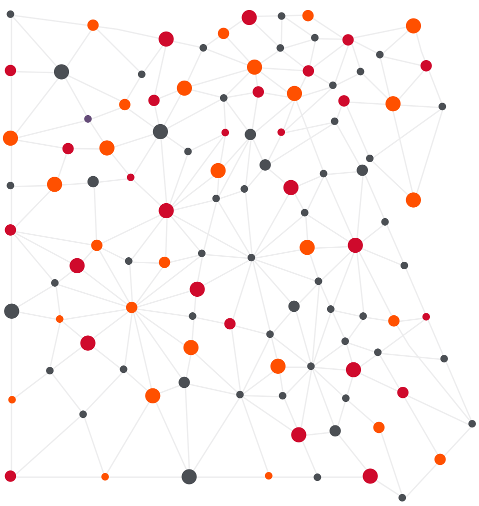
Jordan's economy continued to face multiple challenges arising from the regional conflicts, with the main one being the Syrian civil war. The growth of GDP was a modest 2%, with rising inflation to 4.5% and unemployment at 18.7%. With the financial support of Arab and other friendly states, the Government took steps to accelerate growth and improve economic conditions for the population including a large number of Syrian refugees in the country. The weak economy impacted the performance of the Jordanian banks and resulted in slow growth of their assets.

Jordan Islamic Bank retained its pre-eminent position as the first and largest Islamic bank in the country. Its total assets were US$ 5.9 billion as of December 31, 2018, the same figure as at the end of 2017. The bank remained highly liquid with some of its liquidity now placed in the newly issued Government Sukuk. Its net operating income was US$ 106.9 million vs US$ 114.2 million in 2017. Net income was US$ 70.3 million compared to US$ 76.4 million reflecting increases in operating expenses. Jordan Islamic Bank continued to enjoy a strong asset quality with provisions more than fully covering non-performing assets.

The bank is progressing well on several initiatives in its digital transformation strategy with focus on its large retail customer base. It introduced its contactless mobile phone payments by customers in stores, it uses social media for enhanced customer relationship management and it offers its corporate clients a payroll system, which is integrated with other human resource management requirements. The bank won the "Best Islamic Bank in Jordan" award from World Finance.

(All figures in US Dollars unless stated otherwise)

EGYPT
Al Baraka Bank Egypt



1980
ESTABLISHED

32
BRANCHES

Unit Head	Mr. Ashraf El Ghamrawi
Title	Vice Chairman & CEO
Address	Plot 29, Road 90, City Center, First Sector, 5th Settlement, New Cairo, P.O. Box: 84, Cairo, Egypt
Tel	+202 281 03600, +202 281 03500
Fax	+202 281 03501, +202 281 03503
Website	albaraka-bank.com.eg

In 2018, the Egyptian economy made good progress, which was also reflected in the country's improved credit rating. The Government continued the implementation of the agreed IMF program, which is moving the economy in the right direction. Average inflation rate was reduced to 16% in 2018 from 32% in 2017 and both the fiscal and external accounts of the country continued to improve. The exchange rate of the Egyptian pound against the dollar remained relatively stable. The economy is expected to get a further boost from the substantial new gas production, which will make the country self-sufficient in this energy resource.

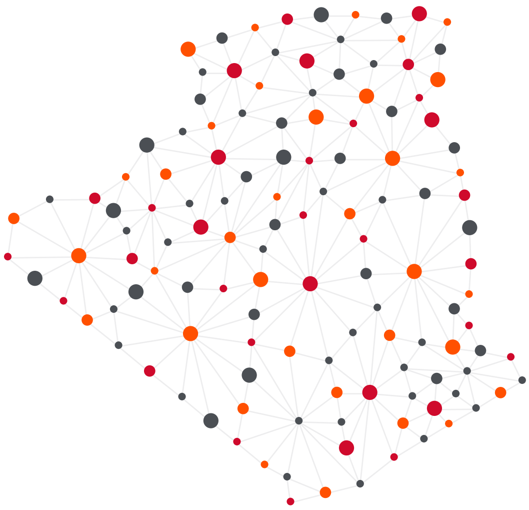
Al Baraka Bank Egypt's performance in 2018 was excellent. The Bank continued its steady growth with total assets growing by 23% to US$ 3.5 billion as of December 31, 2018 compared to US$ 2.8 billion at year end 2017. Similarly, the bank had very good results in both net operating income and net income, with each growing by more than 20% compared to last year and were US$ 99.2 million and US$ 73.6 million respectively.

In pursuing its strategy, the bank expanded its credit business with small and medium enterprises and also increased its trade finance activities. It is continuing with its plan of digital transformation and strengthening its internal processes such as Risk Management, Compliance and Corporate Governance. In the area of direct Islamic investments, the bank has created an investment company which is now in the process of reviewing various investment proposals in agriculture and other economic activities. The bank won the "Best Islamic Bank in Egypt" award from World Finance.

(All figures in US Dollars unless stated otherwise)

ALGERIA

Banque Al Baraka D'algerie S.P.A



1991
ESTABLISHED

31
BRANCHES

Unit Head	Mr. Mohammed Seddik Hafid
Title	Board Member & General Manager
Address	Hai Bouteldja Houidef, Villa No. 1, Rocade Sud, Ben Aknoun, Algiers, Algeria
Tel	+213 23 38 12 73
Fax	+213 23 38 12 76/77
Website	albaraka-bank.com

Higher energy prices helped raise the Algerian growth to 2.5% in 2018 from 1.7% in 2017 and improve both fiscal and external deficits. Inflation was relatively moderate at 4.7% while the foreign exchange reserves remained large with negligible foreign debt. However the exchange rate of the Algerian dinar relative to the US dollar was devalued by 3% during the year. Meanwhile, several important new banking regulations were announced such as increasing the minimum amount of capital for banks and adopting specific rules for participation banks.

Banque Al Baraka D'algerie continued its very good performance and grew its total assets by 4% to US$ 2.3 billion (US$ 2.2 billion in 2017). Total operating Income also rose by 28% to US$ 105.4 million (US$ 82.1 million in 2017) and net operating income was US$ 71.3 million compared to US$ 48.9 million in 2017. The bank's net income was US$ 45.5 million, an increase of 42% over 2017.

The bank increased its financing by Ijara and Istisna in the real estate sector in addition to maintaining its strong position in trade finance. The trade finance revenues increased by more than 60%. The bank also strengthened its retail market share in dealing with small businesses and professionals. Its digital transformation is focused on expanding electronic services through mobile phones, creating a call centre and internet portal. The bank won the "Best Islamic Bank in Algeria" award from World Finance.

(All figures in US Dollars unless stated otherwise)

BAHRAIN

Al Baraka Islamic Bank B.S.C. (C) - Bahrain

1984
ESTABLISHED

08
BRANCHES

Unit Head	Mr. Tariq Kaizm*
Title	Acting CEO
Address	Al Baraka Headquarters - Bahrain Bay, P.O.Box 1882, Manama, Kingdom of Bahrain
Tel	+973 17 535 300
Fax	+973 17 533 993
Website	albaraka.bh

The economy of Bahrain, which is well diversified, grew at a faster pace of about 4% during 2018. In addition, the GCC governments announced a financial support package for the Government of Bahrain to cope with its fiscal deficits and to reduce its debt burden. The government produced a comprehensive fiscal plan, which foresees reaching a balanced budget by 2022. Bahrain's position as a centre of Islamic Banking and Finance was further strengthened by new regulations by the Central Bank on risk, capital and liquidity management. Bahrain has also launched in 2018 a Global Islamic & Sustainable FinTech Center (GISFC) that consists of local and international members with the aim to boost the growth in Islamic finance through the use of FinTech.

Al Baraka Islamic Bank - Bahrain had a challenging year in 2018. While the bank retained its market position as one of the country's main Islamic banks, it faced increased credit provisioning requirement as a result of a combined effect of the new accounting rules of FAS 30 and corporate asset quality. Total assets rose by 7% to US$ 1.4 billion compared to US$ 1.3 billion in 2017, while total operating income and net operating income both grew and were US$ 43.2 million and US$ 9.6 million respectively compared to US$ 31.0 million and US$ 0.7 million in 2017. However, a substantial increase in credit provisions produced a loss of US$ 18.9 million in 2018 compared to a loss of US$ 2.6 million in 2017.

During the year, the bank launched several new initiatives for risk optimization, capital management and operating efficiency. In pursuance of its digital transformation strategy, the bank is introducing a New Omni Channel Internet Banking covering retail, SME and corporate market segments.

(All figures in US Dollars unless stated otherwise)

**Mr. Mohamed Al Mutaweh retired on 11th November 2018, and Mr. Tariq Kazim has been appointed as Acting CEO of Al Baraka Islamic Bank B.S.C. (C) - Bahrain, effective 29th November 2018.*

SYRIA

Al Baraka Bank Syria S.A.

2009
ESTABLISHED

13
BRANCHES

Unit Head	Mr. Mohammed Halabi
Title	CEO
Address	Alshahbander Street, P.O.Box 100, Damascus, Syria
Tel	+963 11 443 78 20
Fax	+963 11 443 78 10
Website	albarakasyria.com

The extensive damage suffered by the Syrian economy during the conflict of the past years is gradually being repaired. One of the main aims of the overall reconstruction is the rebuilding of the city of Aleppo. In terms of the banking industry, the Central Bank issued new regulations to ensure that credit and risk are prudently managed and liquidity is well maintained.

Al Baraka Bank Syria's total assets increased by 20% to US$ 908.6 million as of December 31, 2018, as compared to US$ 754.0 million as of 31 December 2017. The bank continued with its Takween for Entrepreneurs program, and its housing, medical and educational financing programs. However, a large part of its total assets continued to remain in cash and placements with the Central Bank and other banks. All non-performing assets are fully covered by provisions.

The bank's net operating income increased to US$ 14.0 million and net income for the year also improved substantially and reached US$ 9.5 million in 2018 against US$ 0.6 million in 2017.

The bank has completed the assessment and roadmap for its digital transformation strategy and will start its implementation in 2019.

The bank is increasing its focus on trade finance as imports for reconstruction grow, and it will open new branches selectively to expand its geographic coverage as normalization progresses.

The bank was awarded the "Best Islamic Bank in Syria" in 2018 by Islamic Finance and Business.

(All figures in US Dollars unless stated otherwise)

PAKISTAN

Al Baraka Bank (Pakistan) Limited

2010
ESTABLISHED

191
BRANCHES

Unit Head	Mr. Ahmed Shuja Kidwai*
Title	Board Member & CEO
Address	Al Baraka House, 162 Bangalore Town, Main Shahrah-e-Faisal, Karachi, Pakistan
Tel	+92 21 3430 7000
Fax	+92 21 3453 0981
Website	albaraka.com.pk

Pakistan's economy suffered from political and economic instability during a large part of 2018. The election of a new government in August and the measures it took to regain investors' confidence created new ground for hope. The long term economic cooperation with China and the Saudi balance of payment support during the year alleviated the pressure on the country's balance of payment. Since the end of 2017, the Pakistani Rupee devalued by about 21% against the US dollar and this had a major impact on all the banks' results.

The total assets of Al Baraka Bank (Pakistan) declined by 18% to US$ 893.0 million in 2018 compared to US$ 1.1 billion at the end of 2017, mainly as a result of the local currency devaluation. However, compared to net operating loss of US$ 3.0 million last year, the bank controlled its expenses and produced a net operating profit of US$ 5.3 million. After increased provisioning and taxes the bank's net income was US$ 0.7 million against a loss of US$ 2.8 million in 2017.

During the year, the bank further strengthened its risk management and compliance. In pursuing its digital transformation strategy, the bank upgraded its core banking systems, introduced chip-based debit cards and expanded the electronic bill payment system; it also plans to launch digital wallets, mobile biometric verification and several other similar digital services shortly.

(All figures in US Dollars unless stated otherwise)

*Mr. Shafqaat Ahmed retired on 28th February 2018, and Mr. Ahmed Shuja Kidwai has been appointed as the new CEO of Al Baraka Bank (Pakistan) Limited, effective 1st March 2018.

TUNISIA

Al Baraka Bank Tunisia

1983
ESTABLISHED

37
BRANCHES

Unit Head	Mr. Mohamed El Moncer
Title	General Manager
Address	88, Avenue Hedi Chaker 1002, Tunis, Tunisia
Tel	+216 71 186 500
Fax	+216 71 780 235
Website	**albarakabank.com.tn**

The unstable social and political conditions in Tunisia in 2018 had a negative impact on the economy, which also suffered climatic damage in agriculture and other sectors. Inflation, at about 7.5%, and unemployment of 15% exacerbated social tensions. GDP growth remained low at about 2.8% in 2018. The weakening of the country's external accounts contributed to the continuing depreciation of the Tunisian dinar against the US dollar. Since the end of 2017, the Tunisian dinar depreciated by about 17%.

The process of upgrading the Tunisian banking system continued in 2018 with the Central Bank issuing new regulations on bank deposit guarantee, liquidity and credit risk management.

Al Baraka Bank Tunisia's total assets as of December 31, 2018 decreased by 7.0% to US$ 481.1 million; however, excluding the impact of the local currency devaluation, there was an increase of 11.0% to TND 1.4 billion (TND 1.3 billion at the end of 2017).

Both total operating income and net operating income increased to US$ 27.5 million and US$ 7.5 million respectively. In light of the unstable conditions and continuing pressure on credit quality, the bank substantially increased its provisions, resulting in the net income after provisions and taxes of US$ 1.7 million (loss of US$ 1.6 million in 2017). The turnaround into net profits came as a result of management's efforts to improve customer service, increased marketing of new products and rationalization of expenses. The Bank has drawn up a road map for its digital transformation and started the process of implementation with specialist consultants. It expects to enhance its customer relationship management with the data from digital channels together with relying on social networks and other means for more effective marketing.

During the year, the bank signed an agreement with the Islamic Development Bank Group's trade finance arm to expand the scope of cooperation to cover import finance. Also in 2018, the bank won the "Best Islamic Financial Institution in Tunisia" award by Global Finance magazine.

(All figures in US Dollars unless stated otherwise)

SOUTH AFRICA

Al Baraka Bank Limited - South Africa

1989
ESTABLISHED

11
BRANCHES

Unit Head	Mr. Shabir Chohan
Title	Board Member & CEO
Address	2 Kingsmead Boulevard, Kingsmead Office Park, Stalwart Simelane Street, P.O.Box 4395, Durban 4000, South Africa
Tel	+27 31 364 9000
Fax	+27 31 364 9001
Website	albaraka.co.za

During 2018, political uncertainty in South Africa continued to hamper the economy and the introduction of needed reforms. GDP growth was low, whereas high unemployment remained the key challenge with the unemployment rate of 27% overall and 55% for the young. Inflation was around 5% and is expected to rise in 2019. The Rand (ZAR) exchange rate against the US dollar and other major currencies was highly volatile and overall was on a depreciating trend.

Total assets of Al Baraka Bank Limited – South Africa were US$ 474.0 million as of December 31, 2018 compared to US$ 475.0 million at the end of 2017. Musharaka financing continued to be the main Islamic product among its assets. On the liabilities side, the bank strengthened and diversified its funding by the successful issuance of ZAR 200.0 million (US$ 13.9 million) Tier 2 Sukuk and it plans to have further issues of Sukuk in the future. Total operating income increased by 11% to US$ 24.9 million compared to US$ 22.5 million in 2017. Net operating income also rose by 18% to US$ 7.0 million and net income after provisions and taxes was US$ 5.0 million, an increase of 25% over 2017 figures. The adverse economic conditions reduced the growth in financing and impacted asset quality provisions. The bank put increased emphasis on trade finance.

In pursuing its digital transformation strategy, the bank is completing the replacement of its core banking system and is introducing new Omni-Channel Internet Banking covering retail and corporate clients.

(All figures in US Dollars unless stated otherwise)

LEBANON

Al Baraka Bank Lebanon S.A.L.

1991
ESTABLISHED

06
BRANCHES

Unit Head	Mr. Mutasim Mahmassani
Title	Board Member & General Manager
Address	Justinian Street, BAC Center, 12th Floor, Sanayeh, near Chamber of Com & Inds., Beirut, Lebanon
Tel	+96117 48061 - 65
Fax	+96117 48061 - 65 Ext: 700
Website	al-baraka.com

In 2018, Lebanon was suffering under regional tensions and lack of political initiative domestically. As a result, the economy continued to be in a highly fragile state with persistent fiscal and current account deficit and very high debt. GDP growth was very modest at 1.3% while inflation was reported at 7.57%. Due to absence of a fully functioning Government, the country could not access the US$ 11 billion financial support, which was extended by the international community. Nonetheless, the foreign exchange reserves were further strengthened primarily by the inflows of non-resident deposits and the exchange rate of Lebanese pound to the US dollar remained stable.

Al Baraka Bank Lebanon managed to grow in spite of the challenging environment. Total assets as of December 31, 2018 were US$ 364.9 million an increase of 3% over 2017. The total operating income and net operating income also increased to US$ 11.4 million and US$ 0.4 million respectively. After incurring a net loss in 2017, the bank managed to turnaround into profit with the net income of US$ 0.1 million.

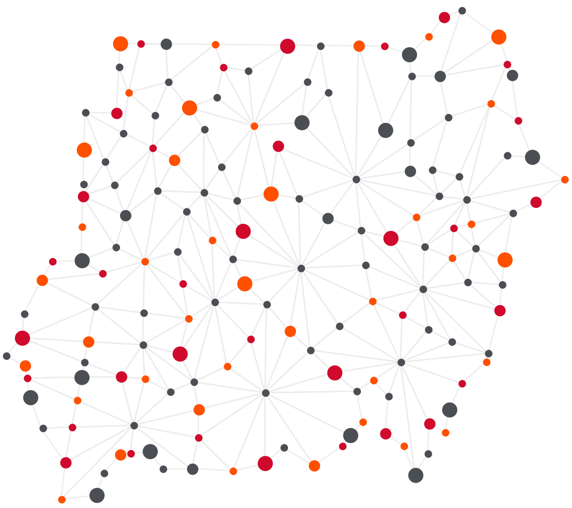
The bank pursued a highly selective, conservative business strategy and built up precautionary provisions against deteriorating credits. The Bank also diversified its products and undertook investment projects to be marketed to clients. The strategy for the digital transformation of the Bank was approved and will be implemented in 2019.

The bank was awarded "Best Islamic Bank in Lebanon" in 2018 by Islamic Finance and News.

(All figures in US Dollars unless stated otherwise)

SUDAN

Al Baraka Bank Sudan



1984
ESTABLISHED

28
BRANCHES

Unit Head	Mr. Abdullah Khairy Hamid
Title	General Manager
Address	Al Baraka Tower, P.O.Box 3583, Qasr Street, Khartoum, Sudan
Tel	+249 187 112 000
Fax	+249 183 788 585
Website	albaraka.com.sd

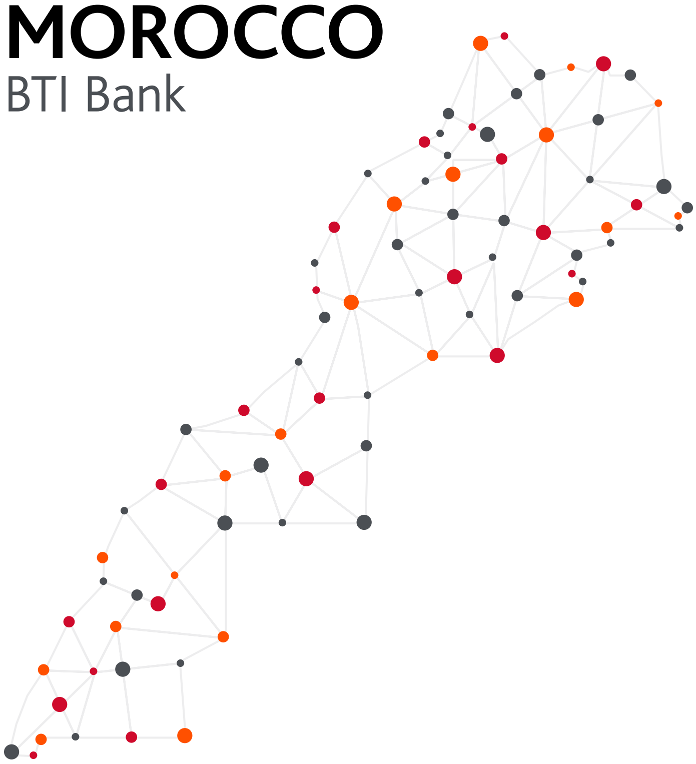
The Sudanese economy faced several major challenges and crises during the year. The severe shortage of foreign exchange led to an effective devaluation of the Sudanese pound by more than 80% in 2018 and required the establishment of an independent market mechanism for setting the exchange rate on daily basis. Inflation rose to 69%. The relaxation of some US sanctions has been insufficient to fully integrate the Sudanese banks into the global banking system. The anticipated inflow of foreign investments after lifting of sanctions has yet to occur.

In local currency terms, Al Baraka Bank Sudan showed excellent performance in spite of the huge challenges in the economy. The bank's total assets (including those in foreign currency) grew in Sudanese pounds to SDG 9.2 billion as of December 31, 2018 compared to SDG 4.5 billion at the end of 2017. In US dollar terms however, they dropped to US$ 193.3 million from US$ 499.7 million. Operating income and net operating income in local currency were both doubled and were SDG 775.4 million and SDG 440.8 million respectively; in US dollars, they were US$ 27.0 million and US$ 15.3 million. The bank's net income for 2018 was SDG 377.8 million equivalent to US$ 13.1 million.

The bank is in the process of determining its strategy for digital transformation and the necessary changes in its organization. It established a customer service centre and issued loyalty discount cards covering a wide range of products and services. In its financing program, the bank introduced financing for solar modules for homes and farms, purchase of medical instruments, and for educational fees for students at various stages.

(All figures in US Dollars unless stated otherwise)

MOROCCO
BTI Bank



2017
ESTABLISHED

04
BRANCHES

Unit Head	Mr. Mohamed Maarouf
Title	General Manager
Address	157, Avenue Hassan ll, Casablanca 20000, Morocco
Tel	+212 5 20 51 51 51
Website	btibank.ma

In 2018, the Moroccan economy made good progress with GDP growth expected at around 3%. During the year, the government took additional measures to boost growth and to support the private sector. The fiscal consolidation by the government aims to reduce the budget deficit to 3% (currently 3.3%) and public debt to 60% of the GDP within the next three years.

In the first full year of their operation, the participation banks expanded their business under the gradually developing rules laid down by the Central Bank. Participation banks were able to offer so far only the Murabaha financing product with most of such financing being provided for residential housing.

As of December 31, 2018 BTI Bank had total assets of US$ 33.6 million and total financing of US$ 9.8 million. The bank in its first year of operation incurred a net loss of US$ 5.9 million.

The bank, which is jointly owned by ABG and BMCE Bank of Africa is planning to expand across Morocco over the next few years.

(All figures in US Dollars unless stated otherwise)

SAUDI ARABIA
Itqan Capital

2007
ESTABLISHED

Unit Head	Mr. Abdullah Farid Shaker
Title	Managing Director & CEO
Address	The Headquarters Business Park - West Tower - 15th Floor, Corniche Road, P.O. Box 8021, Jeddah 21482, Kingdom of Saudi Arabia
Tel	+966 12 510 6030
Fax	+966 12 510 6033
Website	itqancapital.com

The Saudi economy is undergoing important reforms many of which were introduced during 2018. GDP growth was 2.2% compared to 0.9% in 2017. Fiscal deficit narrowed to 5% while unemployment remained unchanged at about 13%. Employment remains the main economic challenge for the country.

Itqan Capital, is the Group's investment banking subsidiary mainly focused on asset management and custody services.

During 2018, Itqan was implementing the restructuring strategy approved by its Board of Directors. The company achieved significant growth in assets under management with equity assets increasing by 110% and real estate by 210%.

Assets under custody also doubled. At the same time, expenses were tightly controlled.

The total assets of Itqan as of December 31, 2018 were US$ 22.6 million. As a result of restructuring expenses Itqan had a gross operating loss of US$ 1.8 million and net loss of US$ 5.3 million.

(All figures in US Dollars unless stated otherwise)

INDONESIA

Al Baraka Banking Group (Representative Office)

2008
ESTABLISHED

Unit Head	Ms. Nurul Bariah Djaafar
Title	Chief Representative
Address	Ravindo Building, 10th Floor, Jalan Kebon Sirih, No. 75, Jakarta Pusat 10340, Indonesia
Tel	+62 21 316 1345
Fax	+62 21 316 1074
Website	albaraka.com

In 2018, the Indonesian economy, fueled by strong investment and consumer demand, grew by more than 5% while inflation moderated to about 3%. On the other hand, the country's external accounts were under some pressure and the local currency depreciated by around 8% against the US dollar. The continued good economic progress is based on political stability maintained in the country.

Islamic banking is growing rapidly in Indonesia and accounted for around 6% of total banking assets in 2018. The largest Islamic banks are subsidiaries of the largest conventional banks.

ABG's Representative Office continued to market the Group's trade finance services and explore further expansion opportunities in South East Asia, while maintaining close relationships with the Central Bank and other authorities.

(All figures in US Dollars unless stated otherwise)

LIBYA

Al Baraka Banking Group (Representative Office)

2011
ESTABLISHED

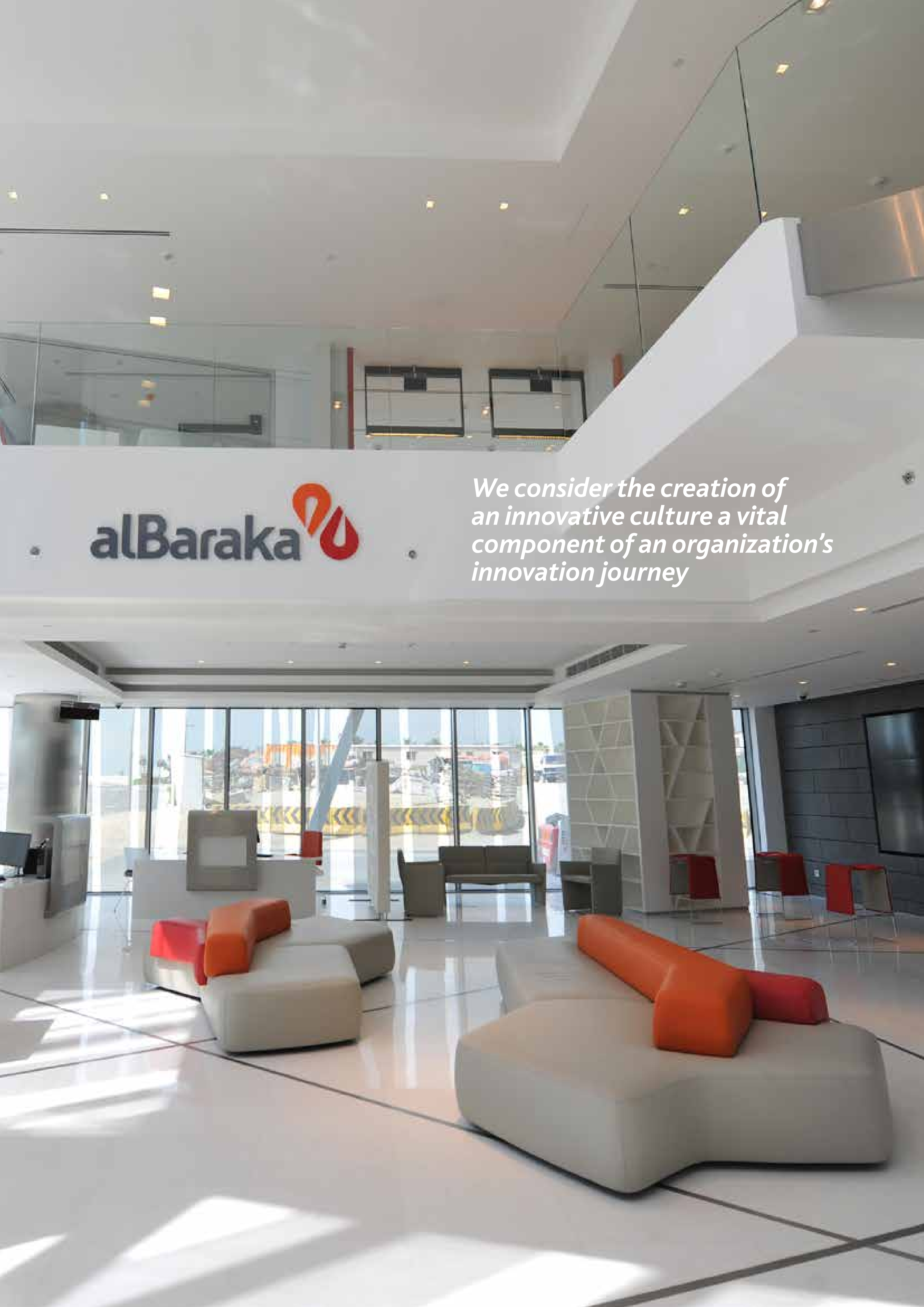
Unit Head	Mr. Mohamed Elkhazmi
Title	Chief Representative
Address	Tripoli Tower, Tower 1, 14th Floor, Office No. 144, P.O. Box 93271, Tripoli, Libya
Tel	+218 (21) 3362310 / +218 (21) 3362311
Fax	+218 (21) 3362312
Website	**albaraka.com**

Oil production was the main economic activity in Libya in 2018 and resulted in total oil exports of 1.2 million barrels per day on average during the year.

The banking sector however continued to face big challenges on many fronts and suffered liquidity shortages. Meanwhile, several new Islamic banks are being established and Islamic financing and investment products are launched.

ABG's Representative Office continued to cultivate and market the Group's treasury and trade finance products to the Libyan Central Bank, government investment companies and commercial banks and provide support to establishment of Islamic banking in the country.

(All figures in US Dollars unless stated otherwise)



We consider the creation of an innovative culture a vital component of an organization's innovation journey

Enriching Customer Experience:

Albaraka Garaj and Insha

In today's world and, in an increasingly competitive environment, companies strive to learn how to innovate and grow. Albaraka Garaj Acceleration Center, which was launched by Al Baraka Turk Participation Bank (Al Baraka Turk), collaborates with startups to experience efficient innovation models. Albaraka Garaj has helped the Group with the creation of an innovation culture that we consider as the vital component of an organization's innovation journey. Albaraka Garaj provides a range of opportunities for entrepreneurs working on technological applications in order to bring innovative solutions to the banking and finance sector, and, at the same time, it nourishes a culture of entrepreneurship and technology within the institution.

How does that happen? Since the startups we have chosen are in the field of finance and technology, we are able to transfer their know-how directly to the corporation. Because we work directly with entrepreneurs, adaptation of internal projects is easier and more efficient. At the same time, it contributes to the personal development of the employees.

Rising on a Unique Business Model!

Insha was Launched in Germany by Al Baraka Turk as **Europe'**s FIRST INTEREST FREE, DIGITAL ONLY Banking Service, that is Shari'a compliant and branch-free.

Insha has the necessary approvals and licenses from Deutsche Bundesbank. It is a banking platform that will provide participation banking services in continental Europe with a modular structure using the open banking infrastructure of SolarisBank AG. By using SolarisBank AG's banking license and infrastructure, Albaraka Türk finds the opportunity of using its own brand in Europe.

In this first phase of **Insha** banking services offering, basic banking services such as account opening, account management, payments and money transfer are provided. Turkish, German and English language support services and a one-click Call Center services are offered. Money transfer services from Germany to Turkey also work 5/24. In the next stage, the main products of participation banking, insurance products, investment banking products will be included in the system.

Insha does not only provide mobile and internet banking services but also additional free services such as digital services including prayer reminder, mosque location, zakat calculator etc. In its first stage, **Insha** will serve customers in Germany and will soon start serving customers in France, Italy, Austria, the Netherlands, Spain and Belgium, and finally will spread across continental Europe.

CORPORATE GOVERNANCE

Al Baraka Banking Group was formed in 2002 to bring together 10 individual banks, sharing common ownership and ethical vision but differing in most other respects, under a single management group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. From the beginning, ABG regarded the inculcation of a disciplined corporate governance and risk management culture as a fundamental prerequisite to effective management of the Group. The adoption and maintenance, through continual and vigilant review, of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation. This has been essential for establishing an overarching governing structure under which the functions, roles and responsibilities are clearly divided between the Board of Directors, Board Committees and Executive Management, officers and staff of the organisation.

THE BOARD OF DIRECTORS

The Board of Directors (the "Board") is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management; and is accountable to the shareholders for the financial and operational performance of the Group. It is responsible for raising and allocating of capital, for monitoring of the Executive Management and its conduct of the Group's operations, for making critical business decisions and for building long-term shareholder value. The Board, through approving and monitoring the Group's risk appetite, and identifying and guarding against the longer term strategic threats to the business, ensures that the Group manages risk effectively.

The Board is also responsible, inter alia, for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities, and monitoring the effectiveness of the Executive Management, including its ability to plan and execute strategies;
- holding the Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets, and reviewing performance against those budgets and against key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment, i.e. that internal audit, compliance, risk management and finance and reporting functions, are well resourced and structured;
- ensuring that the Group's operations are supported by a reliable, sufficient and well-integrated information system;
- recognizing and communicating to the Executive Management the importance of the internal audit function at ABG and its subsidiaries, periodically reviewing internal control procedures, and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to the Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and Islamic Accounting Standards, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is in compliance with it;
- ensuring that the control environment maintains necessary client confidentiality, and that clients' rights and assets are properly safeguarded;
- convening and preparing the agenda for shareholder meetings;
- ensuring equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans. It also assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness, and for defining and enforcing standards of accountability that enable the Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks, and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group. These 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. This system 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.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all laws and regulations; in particular those enunciated by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive. This responsibility is carried out through a dedicated Compliance Department, with a mandate to cover all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer (KYC) and Anti-Money Laundering (AML) framework. ABG is continuously enhancing its compliance framework and that of each of its subsidiaries.

In 2010, the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles. These requirements were in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high-level controls and policies. In 2014, the CBB introduced further requirements addressing the matter of remuneration of Approved Persons and Material Risk Takers (see below), which requirements were duly adopted by ABG. ABG conducts annually detailed internal assessments to ensure compliance with these requirements and, in the event that any shortfall is identified, sets specific milestones for implementation of measures to address the shortfall. The CBB, ABG's shareholders, the Board of Directors and the Executive Management are all kept fully appraised of such shortfalls, if any, and the milestones set. In accordance with this procedure, ABG earlier applied for and received the CBB's consent to appoint the Chairman of the Board of Directors, although he is not an independent director as defined in the CBB Rulebook.

ABG continuously ensures that the Group's minority shareholders are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved for 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, risk management and information technology development) and the performance of the Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and they maintain informal contact among themselves between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to the Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of the Executive Management at Board meetings, if appropriate, regarding matters, which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association, the Board of Directors shall consist of no fewer than five and no more than 15 members. 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 with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of the Commercial Companies Law (CCL) or ABG's Articles of Association;
- abuse by the individual of his/her position as Director or failure to comply with the provisions of his/her appointment or the terms of the Charter of the Board or of its Committees;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board;
- the individual's formal resignation from the Board following reasonable prior notice; or
- occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors to replace those members whose three-year term is due to expire, such nominations must be submitted to the Chairman of the Board, within the time frame provided in the announcement, then to the Board Affairs and Remuneration Committee for it to make its recommendations to the Board. As part of the nomination process, each nomination must

CORPORATE GOVERNANCE (Continued)

comply with local rules and regulations, and must be submitted for approval to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for consideration and election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the CCL and ABG's Articles of Association.

In line with corporate governance best practice, there is a succession plan for the Executive Management. This is reviewed annually and submitted to the CBB.

Each new Director elected to the Board receives a written appointment letter, detailing the powers, duties, responsibilities and obligations of that Director, and other relevant terms and conditions of his appointment.

There are currently 13 Directors on the Board. They have varied backgrounds and experience and are, individually and collectively, responsible for performing the responsibilities of the Board, and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive, all Directors are non-executive and fully independent of management, and they are individually responsible for scrutinising and challenging management decisions and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors, and the President & Chief Executive has separate, clearly defined responsibilities. The size and composition of the Board and its Committees are regularly assessed, while the effectiveness, contribution and independence of individual Directors are assessed annually in light of interests disclosed and conduct. The independence or non-independence of Directors is, likewise, reviewed annually.

All Directors are remunerated solely by means of an annual retainer fee and sitting fees paid for each meeting attended. Their travel expenses are also reimbursed as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group. Details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of more than one third of Directors as independent Directors, as defined in the CBB Rulebook.

On 20 March 2017, the shareholders' Ordinary General Meeting elected the following members of the Board for a three-year term:

Non-Executive Directors

1. **Shaikh Saleh Abdullah Kamel** - *Chairman*
2. **Mr. Abdullah Saleh Kamel** - *Vice Chairman*
3. **Mr. Abdul Elah Sabbahi**
4. **Mr. Mohyedin Saleh Kamel**
5. **Dr. Khaled Abdulla Ateeq**

Independent Directors

1. **Mr. Abdulla A. Saudi** - *Vice Chairman*
2. **Mr. Saleh Mohammed Al Yousef**
3. **Mr. Ebrahim Fayez Al Shamsi**
4. **Mr. Jamal Bin Ghalaita**
5. **Dr. Bassem Awadallah**
6. **Mr. Saud Saleh Al Saleh**
7. **Mr. Yousef Ali Fadil Bin Fadil**

Executive Director

1. **Mr. Adnan Ahmed Yousif** - *President & Chief Executive*

BOARD COMMITTEES

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel (Non-Executive Director), and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive (Executive Director), Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director). The Board Executive Committee comprises a minimum of four Directors and meets at least four times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Saud Saleh Al Saleh (Independent Director), and its other members are Mr. Ebrahim Fayez Al Shamsi (Independent Director) and Mr. Yousef Ali Fadil Bin Fadil (Independent Director). The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings. It also recommends to the Board the level of remuneration of the Executive Management members and other ABG employees under an approved performance- linked incentive structure. The Committee also performs the role of a Nominations Committee, as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. When an issue relating to the personal interest of a Director is discussed in the Committee, the interested Director withdraws from the meeting and abstains from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the Chief Executive Officer, the Chief Financial Officer, the Board Secretary and other executive officers considered appropriate (except for the Head of the Internal Audit Department), and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors, and for conducting seminars and other training programmes from time to time for members of the Board.

Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Ebrahim Fayez Al Shamsi (Independent Director). Other members are Dr. Bassem Awadallah (Independent Director), and Mr. Mohyedin Saleh Kamel (Non-executive Director). The Committee is governed by a formal written Charter, adopted by it and approved by the Board. The Committee meets formally at least four times a year. External auditors attend at least one meeting annually; moreover, external auditors have unrestricted access to the Committee and its Chairman throughout the year.

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective internal auditing and continuous internal controls monitoring environment, and a sound system of accounting and financial control, are in place. The Committee achieves this through regular review of internal audit reporting, external auditors' management letters, central banks' inspection reports, and the Group's accounting and financial policies and practices, financial reporting and disclosure controls and procedures, and the adequacy and effectiveness of the internal control procedures at the Head Office and at ABG's subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements and accounting standards. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors, and makes recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the Head of the Group's Internal Audit Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board. These include systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws and regulations and best banking practice. The Committee ensures that all such information is produced on a timely basis. The various internal controls and processes are subject to independent review by the Group's Internal Audit Department, which reports directly to the Committee, as stated above, and external auditors and regulators as appropriate. Management letters and other issues of importance raised by external auditors, and inspection reports issued by the CBB's inspectors, or inspectors of any other applicable authorities where ABG or its subsidiaries operate, are reviewed by the Committee once issued. Acting on behalf of the Board, the Committee ensures that appropriate corrective action is taken.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a 'whistleblower' programme, allowing employees confidentially to raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or, alternatively, to an identified officer or employee who, in turn, reports the matter to the Committee.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Yousef Ali Fadil Bin Fadil (Independent Director), with its other members being Mr. Jamal Bin Ghalaita (Independent Director), Dr. Khaled Ateeq (Non-Executive Director) and Dr. Ahmed Mohiyeldin Ahmed, who is representing the Unified Shari'a Supervisory Board. The Board Risk Committee meets formally at least twice a year but may meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President & Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings.

The Group's risk appetite is determined by the Board, based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures, as well as to ensure effective risk identification, management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

Board Sustainability and Social Responsibility Committee

The Board Sustainability and Social Responsibility Committee is chaired by Dr. Bassem Awadallah (Independent Director), and other members are Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director).

The Committee leads the Al Baraka Sustainability and Social Responsibility Programme. It oversees the formulation of policies and strategies by the Executive Management, intended to make ABG and its subsidiaries a model Islamic banking group, offering banking and financial services in a sustainable and socially responsible manner and in conformity with the objectives of Shari'a.

The Committee aims to adhere to the spirit of Islamic finance that enjoins Sustainability and Social Responsibility as a principal feature of Islamic banking and finance. The Committee demonstrates its commitment to the spirit of Sustainability and Social Responsibility inherent in Islamic finance by setting various quarterly and annual targets for the Executive Management.

All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

CORPORATE GOVERNANCE (Continued)

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2018

Name of the Board/ Committees	No. of meetings in 2018	Dates of the meetings	Member's name	No. of meetings attended
Board of Directors	6	20/02/2018 20/03/2018 07/05/2018 06/08/2018 07/11/2018 25/12/2018	**Sh. Saleh Abdullah Kamel**	6
			Mr. Abdulla A. Saudi	5
			Mr. Abdullah Saleh Kamel	6
			Mr. Saleh Mohammed Al Yousef	6
			Mr. Adnan Ahmed Yousif	6
			Mr. Abdul Elah Sabbahi	6
			Mr. Ebrahim Fayez Al Shamsi	6
			Mr. Yousef Ali Fadil Bin Fadil	6
			Mr. Jamal Bin Ghalaita	5
			Dr. Bassem Awadallah	6
			Mr. Mohyedin Saleh Kamel	6
			Mr. Saud Saleh Al Saleh	3
			Dr. Khaled Abdulla Ateeq	6
Board Executive Committee	4	28/01/2018 23/04/2018 30/09/2018 06/12/2018	**Mr. Abdullah Saleh Kamel**	3
			Mr. Abdul Elah Sabbahi	4
			Mr. Saleh Mohammed Al Yousef	4
			Mr. Adnan Ahmed Yousif	4
Board Audit & Governance Committee	5	11/02/2018 06/05/2018 06/08/2018 06/11/2018 25/12/2018	**Mr. Ebrahim Fayez Al Shamsi**	5
			Dr. Bassem Awadallah	5
			Mr. Mohyedin Saleh Kamel	4
			Dr. Ahmed Mohiyeldin Ahmed*	3
Board Affairs & Remuneration Committee	4	01/02/2018 05/05/2018 18/10/2018 30/12/2018	**Mr. Saud Saleh Al Saleh**	2
			Mr. Ebrahim Fayez Al Shamsi	4
			Mr. Yousef Ali Fadil Bin Fadil	4
Board Risk Committee	4	19/03/2018 07/05/2018 26/09/2018 18/11/2018	**Mr. Yousef Ali Fadil Bin Fadil**	4
			Mr. Jamal Bin Ghalaita	2
			Dr. Khaled Abdulla Ateeq	4
Sustainability and Social Responsibility Committee	3	20/02/2018 07/05/2018 07/11/2018	**Dr. Bassem Awadallah**	3
			Mr. Abdul Elah Sabbahi	3
			Mr. Saleh Mohammed Al Yousef	3

**Dr. Ahmed Mohiyeldin Ahmed was appointed on 20 March 2018 as Member of the Board Audit & Governance Committee representing the Unified Shari'a Supervisory Board as per the CBB requirement.*

BOARD OF DIRECTORS' PROFILES

Shaikh Saleh Abdullah Kamel

Chairman

He is the Chairman of the Dallah Al Barak Group, one of the largest business groups in Saudi Arabia. He founded the group more than 50 years ago and created Al Baraka Investment and Development, a holding company for many Islamic Banks, Financial Institutions and companies operating according to Islamic teachings in various diversified businesses around the world.

Shaikh Saleh Abdullah Kamel is recognized as one of the pioneer personalities in the field of Islamic banking and finance and he enjoys the reputation of being the highest authority in the field of Islamic economy.

In addition to being Chairman and Board Member of many companies within The Dallah Al Baraka Group, he is on the Boards of many social, charitable and cultural societies and foundations like Arab Thought Foundations, King Abdulaziz and His Companions Foundation for the Gifted, Islamic Solidary Fund, Arab Academy for Finance and Banking.

Shaikh Saleh Abdullah Kamel is the President of Islamic Chambers of Commerce, Industry and Agriculture, the General Council for Islamic Banks and Financial Institutions and the Jeddah Chamber of Commerce and Industry. He is a Member of President's Advisory Panel at the Islamic Development Bank. In recognition of his personal endeavors and the remarkable contribution of the Dallah Al Baraka Group in enhancing economic development and creating jobs and well being, Shaikh Saleh Abdullah Kamel has been awarded many medals, titles and prizes including Jordanian Independence Decoration, King Abdulaziz Decoration, Saudi Arabia, Al Alawi Decoration, Morocco, Royal Award for Islamic Finance, Malaysia and Islamic Banker Award by the Islamic Development Bank.

Mr. Abdulla A. Saudi

Vice Chairman

Chairman, United Bank for Commerce and Investments, Tripoli, Libya and Executive Chairman, ASA Consultants W.L.L., Bahrain. Board member of Credit Lebanese Bank Beirut. Previously, Founder, President & Chief Executive, Arab Banking Corporation (B.S.C.), Bahrain from 1980 to 1994. He also founded Arab Financial Services (E.C.) and ABC Islamic Bank (E.C.), Bahrain. Prior to that he was the Founder, Chairman and General Manager of Libyan Arab Foreign Bank, Tripoli 1972-1980. In addition, he held positions at the Central Bank of Libya for 14 years. Mr. Saudi is a world-renowned international banker of over five decades standing. He has received many international accolades and decorations, including: the title of one of the "Most Innovative Bankers" in 1980 at a presentation at Georgetown University, Washington D.C.; "Best Banker" award from the Association of Arab American Banks in 1990; "Arab Banker of the Year" award from the Union of Arab Banks in 1993. He also has several gold medals and awards, notably those bestowed by the King of Spain and the President of Italy in 1977, and the Grand Medal of the Republic of Tunisia in 1993. Recently, he was honoured with the Integrity Award for Combating Forgery by the Arab Union - subordinate of the Arab League – in 2012. Mr. Saudi, a Libyan national, holds a Certificate in Management and Accounting.

Mr. Abdullah Saleh Kamel

Vice Chairman

President and Chief Executive Officer of Dallah Albaraka Group, Saudi Arabia. Chairman of Aseer Company; Chairman of Amlak Real Estate Development and Finance; Chairman of Okaz Press and Publishing Corporation; Vice-Chairman of King Abdullah Economic City Emaar. Previously held executive positions at Dallah Albaraka Group, culminating in the position of Vice President for Business Sector until 1999 when he assumed his current position. Mr. Abdullah Kamel has over 29 years' experience in key business positions. Mr. Abdullah Kamel is active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (a Board Member twice), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Mr. Abdullah Kamel, a Saudi national, studied Economics at University of California, Los Angeles, USA.

Mr. Saleh Mohammed Al Yousef

Board Member

Board Member of Al Baraka Bank Lebanon. Previously, Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. Prior to that, Mr. Al Yousef held executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He also served as Chairman of ABC Islamic Bank (E.C.), Bahrain and on the Supervisory Board of Arab Banking Corporation – Daus & Co. GmbH, Frankfurt Germany; as Chairman and Managing Director of Afkar Holding Co.; Commissioner, Capital Markets Authority, Kuwait; and on the Boards of Directors of the Financial Securities Group; Gulf Bank K.S.C. Kuwait; Arab Banking Corporation (B.S.C.), Bahrain; Ahli United Bank B.S.C., London; and Gulf Investment Corporation, Kuwait. He has over 35 years' experience in the banking industry. A Kuwaiti national, he holds a Bachelor of Commerce Degree from Kuwait University.

Mr. Adnan Ahmed Yousif

Board Member and President & Chief Executive

Mr. Adnan holds over three decades of international banking experience. As President & Chief Executive, Mr. Yousif has led Al Baraka Banking Group (ABG) since its inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world. He is the Chairman of Jordan Islamic Bank, Al Baraka Bank Sudan, Al Baraka Turk Participation Bank, Al Baraka Bank Egypt, Al Baraka Bank Ltd. South Africa, Banque Al Baraka D'Algerie S.P.A., Al Baraka Bank Pakistan Ltd., Al Baraka Bank Lebanon S.A.L, Al Baraka Bank Syria S.A., Vice Chairman of Al Baraka Islamic Bank B.S.C.(c), Bahrain and a Board member of Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia.

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

CORPORATE GOVERNANCE (Continued)

In 2011, Mr. Yousif received the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain. In 2017, Mr. Yousif received the Honorary Freedom Award, the highest honor from the City of London for his outstanding contributions to international banking services. In recognition of his efforts in evolving a unique business model for Islamic banking, he was awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility in 2015.

Mr. Yousif has been declared as the Islamic Finance Personality of the Year 2017 by the Global Islamic Finance Awards (GIFA). He was also awarded by the LARIBA American Finance House the 2012 LARIBA Award for Excellence in Achievement in recognition of his leadership role in consolidating and operating the largest diversified Islamic banking group in the world. In 2004 and 2009, he received the Islamic Banker of the Year award.

In 2017, Mr. Yousif won the 12th Islamic Business & Finance Awards for his Outstanding Contribution in CSR in Islamic banking. In 2016, the CSR Regional Network named him as the High Commissioner for advocating the United Nations Sustainable Development Goals 2030. The CSR Regional Network, in 2015, named him the CSR International Ambassador (Kingdom of Bahrain). He also received the Gold Award for Sustainable Development for his major role in the social responsibility programs nationally and internationally in 2016, as well as recognition for the leading role of ABG in the field of CSR at Oman International Conference on Social Responsibility.

Mr. Yousif was previously at the Arab Banking Corporation for over 20 years, and last served as a Director on its Board. He holds a Master's in Business Administration degree from University of Hull, U.K. In recognition of Mr. Yousif's outstanding contribution in the field of contemporary Islamic finance and for modernizing its theoretical fundamentals in practice, the Al Jinan University of Lebanon granted him an Honorary Doctorate of Philosophy in Business Administration.

Mr. Abdul Elah Sabbahi
Board Member

Vice President, Dallah Albaraka Group Saudi Arabia; Chairman of Al Baraka Bank Tunisia. Chairman of Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Albaraka Holding Co. E.C., Bahrain; Al Amin Investment Co., Jordan and a number of other international companies. Mr. Sabbahi has over 38 years' experience in international banking and business, the last 27 of which were with the Dallah Albaraka Group in Saudi Arabia. Mr. Sabbahi, a Saudi national, holds a Bachelor of Science Degree in Accounting from King Abdulaziz University, Saudi Arabia.

Mr. Ebrahim Fayez Al Shamsi
Board Member

Board Member, Al Baraka Turk Participation Bank and Al Baraka Bank Syria. Previously a Member of the Board of Arab Fund for Economic & Social Development, Kuwait; Chief Executive Officer of Emirates Islamic Bank, Dubai; and Deputy General Manager, Abu Dhabi Fund for Development. Mr. Al Shamsi has 45 years' varied experience in the financial services industry and in service of the U.A.E. Government. Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree.

Mr. Jamal Bin Ghalaita
Board Member

Mr. Bin Ghalaita is currently Advisor to the Chairman of Emirates Islamic UAE, having been Chief Executive Officer (CEO) of this bank since 2011. He was previously a Board Member of Emirates Islamic Bank while serving as Group Deputy CEO and General Manager, Consumer Banking and Wealth Management at Emirates NBD,the parent of Emirates Islamic. He has driven unprecedented growth at Emirates Islamic, as acknowledged through awards, including "Best Islamic Bank" in the U.A.E. Mr. Bin Ghalaita also serves as the Chairman of Emirates Islamic Financial Brokerage LLC and he is a Board Member of Tanfeeth LLC. A U.A.E. national, he has been a banker for over 28 years, with key roles in corporate, retail, trade finance and human resources at Emirates NBD Group. Achievements include planning the launch of Emirates Islamic Bank and establishing new areas of business at Emirates NBD, including private banking, asset management and Emirates Money. Additionally, he is credited with overseeing the growth of the consumer banking and wealth management business.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Board Member of Al Baraka Islamic Bank, Bahrain and of Ajman Bank UAE. Previously, General Manager of the Emirates Financial Company and before that he served as Executive Manager for Investment, Dubai Islamic Bank. He held senior positions at National Bank of Umm Al Qaiwain and also served on the boards of directors of other financial institutions including Union Insurance Company (U.A.E.), Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 32 years' experience in banking. Mr. Bin Fadil, a U.A.E. National, holds a Bachelor's degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, U.S.A.

Dr. Bassem Awadallah
Board Member

He is the Chief Executive Officer of Tomoh Advisory, a strategy and financial consultancy based in the United Arab Emirates. He is also Vice Chairman of Arab Bank (Jordan) and member of the Board of Directors of Arab National Bank (Saudi Arabia); Previously, he held the following positions in Jordan: Economic Secretary to the Prime Minister (1992-1996); Economic Advisor to the Prime Minister (1996-1999); Director of the Economic Department at the Royal Hashemite Court (1999-2001); Minister of Planning and International Cooperation (2001-2005); Minister of Finance (2005); Director of the Office of His Majesty King Abdullah II (April 2006-November 2007); and Chief of the Royal Hashemite Court (November 2007-October 2008). Dr. Awadallah also served as the Secretary General of the Islamic Chamber of Commerce and Industry (2010-2013). He was awarded the King Abdullah Bin Abdulaziz Visiting Fellowship at the Oxford Centre for Islamic Studies in 2012. He is also a member of the Advisory Board of the Middle East Centre at the London School of Economics and Political Science, and is Vice Chairman of the Board of Trustees of Al-Quds University, in Palestine. Dr. Awadallah is the recipient of the Al Hussein Medal for Distinguished Service, the Al Kawkab Decoration of the First Order, and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan, as well as other decorations from several countries. Dr. Awadallah has 32 years of diverse experience. He holds a PhD in Economics and a Master of Science in Economics from the London School of Economics and Political Science. He also holds a Bachelor of Science in Foreign Service, International Economics, International Finance and Commerce, from Georgetown University, Washington, D.C.

Mr. Mohyedin Saleh Kamel

Board Member

Deputy Chief Executive Officer of Direct Investments, Dallah Albaraka Holding Company,E.C. Previously, Chairman of the Boards of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd.; Member of the Boards of Directors of Dallah Real Estate Investment Company, Egypt; Almaza Real Estate Development Company, Egypt; Jabal Omar Development Company; Al Khozami Company; Saudi Research and Marketing Group; Dallah Health Co.; Okaz Organization for Press and Publication; VFS Tasheel International Company and Member of the Management Committee of Dallah Albaraka Holding Company, E.C; Mr. Mohyedin Kamel is a past member of the Board of Directors of Jeddah Chamber of Commerce and Industry and is active in public and community work in Saudi Arabia. A Saudi national with 16 years of varied experience, he studied Economics at the University of San Francisco, USA.

Mr. Saud Saleh Al Saleh

Board Member

Mr. Saud Saleh Al Saleh is the chairman of MAAD International Company and of Gulf Complexes for Housing Company, both in Saudi Arabia. He is Head of the Board of Trustees of the Riyadh Economic Forum and Board Member of Emaar Economic City. He previously worked as the Chairman of SAIB-BNP Paribas Assets Management Company, Vice Chairman of American Express (Saudi Arabia) Limited (ASAL), and Board Member of the Saudi Arabian General Investment Authority (SAGIA), General Organization for Social Insurance (GOSI), the Higher Education Fund and Saline Water Conversion Corporation (SWCC), Saudi Orix Leasing Company (SOLC), Boeing Industrial Technology Group L.P. (BITG), AMLAK International for Real Estate Development and Mortgage Finance and The Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. (MEDGULF). Mr. Al Saleh has more than 32 years of experience in banking which includes 25 years of service at The Arab National Bank in Riyadh followed by management positions at the Saudi Investment Bank in Riyadh. He advanced gradually and became General Manager of The Saudi Investment Bank. Following that he was appointed with ministerial rank to the position of a General Secretary of the Supreme Economic Council of the Kingdom of Saudi Arabia. Mr. Al Saleh, a Saudi national, holds a Bachelor of Science degree in Business Administration from Portland State University, Oregon, USA and an M.A. in Economics from The University of Rhode Island, USA. Also, he holds many advanced courses in the financial and legal fields.

Dr. Khaled Abdulla Ateeq

Board Member

Chief Executive Officer (CEO) and a Board Member of Family Bank in Bahrain. Dr. Ateeq served as the Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating in Bahrain or incorporated in Bahrain, complied with laws and regulations issued by the CBB. In addition, Dr. Ateeq is a Director of Al Baraka Islamic Bank (Bahrain). He has held senior posts with a number of firms, including Deputy CEO at Venture Capital Bank. He has over 37 years of experience in banking, finance, auditing, and accounting. Before joining the CBB, Dr. Ateeq was an Assistant Professor at the University of Bahrain. Dr. Ateeq holds a PhD in Philosophy in Accounting from Hull University, U.K.

UNIFIED SHARI'A SUPERVISORY BOARD

The Unified Shari'a Supervisory Board of Al Baraka Banking Group **("Shari'a Board"/"USSB")** is elected for a three year term by the shareholders during the AGM based on recommendations from the Board of Directors. The Shari'a Board has the following responsibilities:

- Overseeing the operations and activities of the Group to ensure compliance with Islamic Shari'a principles
- Monitoring and reviewing transactions to ensure full compliance with the Board's decisions
- Reviewing files, records, and group documents at any time. The Shari'a Board can also request any information deemed necessary and approves all relevant documents relating to new products and services including contracts, agreements, marketing and promotional material, or other legal documents used in the Group's operations

The Shari'a Board operates in accordance with its internal regulations, which clarify its policies, procedures and responsibilities. In carrying out its duties, the Shari'a Board has the full right to communicate with the Board of Directors, the Executive Management, and the management and staff of the subsidiary units. In addition to reviewing and advising on Shari'a compliance in all products and services.

It is worth noting that the Shari'a Audit has been separated from the Internal Audit department into an independent department reporting functionally to the Shari'a Board, and administratively to the President and Chief Executive. Also, the new position of the "Shari'a Officer" has been created; the Shari'a Officer reports functionally to the Shari'a Board and administratively to the President and Chief Executive. Both the Shari'a Officer and the Head of Shari'a Audit are working in conformity with a charter that defines their technical duties in accordance with the instructions of the Central Bank.

CORPORATE GOVERNANCE (Continued)

SHARI'A COMPLIANCE

Al Baraka Banking Group places great importance on Shari'a compliance, whether in the transactions of the ABG head office or of its subsidiaries. The compliance policy of Al Baraka Banking Group is in accordance with the Shari'a rules and principles stipulated in the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the decisions of the Centralized Shari'a Supervisory Board. All units of Al Baraka Banking Group are committed to comply with Shari'a standards issued by the AAOIFI, and fatwas and decisions circulated by the Shari'a Board to the extent that they do not conflict with local laws.

SHARI'A BOARD'S MEETINGS

The Shari'a Board meets at least 6 times a year. An annual retainer fee is paid to the members of the Board, in addition to a sitting fee for the members of the Board for each meeting attended, with compensation for travel expenses as required. No remuneration associated with the performance of the Group shall be paid to members of the Board.

THE UNIFIED SHARI'A SUPERVISORY BOARD'S PROFILE

Shaikh Abdulla Bin Sulaiman Al Mannea

Chairman

Shaikh Abdulla Bin Sulaiman Al Mannea holds an MA in Jurisprudence and Economics from the College of Finance in KSA. He is a member of the Permanent Committee for Scholarly Research and Ifta in KSA, which is a committee that includes prominent scholars in Saudi Arabia. He is also a member of a number of prestigious Islamic jurisprudential councils, including the International Islamic Fiqh Academy in Jeddah and the Muslim World League Islamic Fiqh Academy in Makkah. He has previously held the position of Chief Justice of the Supreme Court of Makkah, and is a member of the Shari'a Council of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in the Kingdom of Bahrain. He also holds memberships in several Shari'a councils at Islamic financial institutions in KSA and the GCC.

Shaikh Dr. Abdullatif Mahmood Al Mahmood

Vice Chairman

Shaikh Dr. Abdullatif Mahmood Al Mahmood has a PhD in Islamic Jurisprudence and Shari'a from Zaytoona University in Tunisia, an MA in Comparative Jurisprudence from Al-Azhar University, and a Diploma in Education from Ain Shams University, Cairo. Since 2001, he has served as President of the Department of Islamic Studies and Arabic Language at the University of Bahrain (UoB), and has been a teacher of Islamic studies at UoB since 1985. He also holds memberships in several Shari'a Supervisory Bodies at Islamic financial institutions including Bahrain Islamic Bank, Takaful, And the Arab Islamic Banking Association in Bahrain and London.

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan

Member

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan holds an MA and PhD in Comparative Jurisprudence from the Higher Judicial Institute. He is a teacher of comparative jurisprudence at the Higher Judicial Institute, and a Board member of the Human Rights Council. He serves as a consultant for a number of Islamic financial institutions. He is also a member of the Scientific Society of Jurisprudence, Saudi Arabia and the Saudi Judicial Society.

Dr. Ahmed Mohiyeldin Ahmed

Member

Dr. Ahmed Mohiyeldin Ahmed holds a PhD in Islamic Economics and an MA in Jurisprudence of Transactions from Umm Al Qura University in Makkah, and a BA in Economics from Omdurman Islamic University, Sudan. He has previously served as Head of Research and Development at Al Baraka Banking Group, and is currently a member of the Shari'a supervisory board at ABE and the Shari'a Board at RHB in Malaysia. He also holds membership in the Islamic Fiqh Academy in Jeddah. He was Secretary General of the Islamic Chamber of Commerce, Agriculture and Industry at the Organization of Islamic Cooperation.

Dr. Eltigani El Tayeb Mohammed

Secretary of Unified Shari'a Supervisory Board

Dr. Eltigani El Tayeb Mohammed holds a PhD in Islamic Shari'a from the University of Khartoum in Sudan. He currently serves as Shari'a Officer for the Group.

Meeting schedule for the Unified Shari'a Supervisory Board

The Shari'a Board held 6 meetings in 2018. Below are the details of membership and the number of meetings attended:

Name	Position	Number of meetings attended
Shaikh Dr. Abdul Sattar Abu Ghuddah	*Chairman till 9th July 2018**	2
Shaikh Abdulla Al Mannea	*Chairman from 11th July 2018 and Vice Chairman until July 10th 2018***	6
Shaikh Dr. Abdullatif Al Mahmood	*Vice Chairman from 11th July 2018****	6
Shaikh Dr. Abdulaziz Al Fowzan	*Member*	2
Shaikh Dr. Ahmed Mhiyeldin Ahmed	*Member*	6

*Resigned from his position as Chairman of the Shari'a Board on 9th July 2018
**Confirmed to be Chairman on 11th July 2018
***Confirmed to be Vice Chairman on 11th July 2018

EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Unified Shari'a Supervisory Board are carried out; providing the Board of Directors with analysis, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. The Executive Management disseminates to the Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Group wide policies and common operational processes and procedures.

As at the end of 2018, the Executive Management Team consisted of the President & Chief Executive, Deputy Chief Executive and the Heads of: Strategic Planning; Operations and Administration; Legal Affairs; Commercial Banking; IT; Audit; Credit and Risk Management; Treasury, Investments and Financial Institutions; Finance; Compliance; Sustainability and Social Responsibility; a Shari'a Internal Audit; and Secretary of the Unified Shari'a Board. All members of the Executive Management Team have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of each member. Executive Management also exercises control via a number of committees with specific responsibilities, among which are:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President & Chief Executive with the remaining membership comprising of the Deputy Chief Executive and Heads of: Strategic Planning; Operations and Administration; Legal Affairs; Commercial Banking; Credit and Risk Management; IT; Treasury, Investments and Financial Institutions; Finance; Sustainability and Social Responsibility; and with Head of Internal Audit and Head of Shari'a Internal Audit as observers.

Asset and Liability Committee

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long-term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of ABG and the Group units and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Deputy Chief Executive and the Heads of: Strategic Planning; Operations and Administration; Credit and Risk Management; Treasury, Investments and Financial Institutions; and Finance.

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive, with the remaining membership being drawn from among the Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks, and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President & Chief Executive, with remaining membership comprising of the Deputy Chief Executive and Heads of: Operations and Administration; and Credit and Risk Management; together with the Manager of Enterprise Risk Management.

Compliance Committee

The role of the Compliance Committee is to ensure that the bank continuously and properly manages its compliance risk in accordance with the tenets of zero tolerance for non-compliance, international best practices and complies with the rules and regulations of the Central Bank of Bahrain and other applicable regulatory requirements. The main responsibilities of this committee are to determine compliance risk appetite and to provide oversight, strategy, policy & guidelines on compliance matters to all members of the ABG Group relating to AML/CFT, International Sanctions, FATCA/CRS and Regulatory Compliance. The Compliance Committee is chaired by the President & Chief Executive with remaining memberships comprising of the Deputy Chief Executive and Heads of: Strategic Planning; Credit and Risk Management; Finance; Group Compliance; and Internal Audit as observer.

IT Steering Committee

The IT Steering Committee's role is to draw up the Group's short and long-term IT strategy, and to oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Deputy Chief Executive with remaining memberships comprising of the Heads of: Operations and Administration; Strategic Planning; Credit and Risk Management; IT; and Finance.

Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. The Committee is chaired by the Head of Operations and Administration and the other members are the Deputy Chief Executive and Heads of Strategic Planning and IT.

CORPORATE GOVERNANCE (Continued)

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB), for the purpose of ensuring the maintenance of a fair, orderly and transparent securities market, and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities, and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities. Furthermore, it is responsible for preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Deputy Chief Executive and Heads of: Operations and Administration; Legal Affairs; Treasury, Investments and Financial Institutions and Internal Audit as an observer.

Other Committees

The Executive Management also forms ad hoc committees, as and when required, to address specific initiatives in which the Group may be engaged from time to time.

EXECUTIVE MANAGEMENTS' PROFILES

Mr. Adnan Ahmed Yousif

Board Member and President & Chief Executive

Mr. Adnan holds over three decades of international banking experience. As President & Chief Executive, Mr. Yousif has led Al Baraka Banking Group (ABG) since its inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world, operating a network of around 700 branches in 16 countries, with its Head Office in the Kingdom of Bahrain. He is the Chairman of Jordan Islamic Bank, Al Baraka Bank Sudan, Al Baraka Turk Participation Bank, Al Baraka Bank Egypt, Al Baraka Bank Ltd. South Africa, Banque Al Baraka D'Algerie S.P.A., Al Baraka Bank Pakistan Ltd., Al Baraka Bank Lebanon S.A.L, Al Baraka Bank Syria S.A., Vice Chairman of Al Baraka Islamic Bank B.S.C.(c), Bahrain and a Board member of Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia.

Mr. Yousif is currently the Chairman of Bahrain Association of Banks. He has been the Chairman of the Union of Arab Banks, headquartered in Lebanon, for two consecutive terms (2007-2013). In 2011, Mr. Yousif received the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain. In 2017, Mr. Yousif received the Honorary Freedom Award, the highest honor from the City of London for his outstanding contributions to international banking services. In recognition of his efforts in evolving a unique business model for Islamic banking, he was awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility in 2015.

Mr. Yousif has been declared as the Islamic Finance Personality of the Year 2017 by the Global Islamic Finance Awards (GIFA). He was also awarded by the LARIBA American Finance House the 2012 LARIBA Award for Excellence in Achievement in recognition of his leadership role in consolidating and operating the largest diversified Islamic banking group in the world. In 2004 and 2009, he received the Islamic Banker of the Year award.

In 2017, Mr. Yousif won the 12th Islamic Business & Finance Awards for his Outstanding Contribution in CSR in Islamic banking. In 2016, the CSR Regional Network named him as the High Commissioner for advocating the United Nations Sustainable Development Goals 2030. The CSR Regional Network, in 2015, named him the CSR International Ambassador (Kingdom of Bahrain). He also received the Gold Award for Sustainable Development for his major role in the social responsibility programs nationally and internationally in 2016, as well as recognition for the leading role of ABG in the field of CSR at Oman International Conference on Social Responsibility.

Mr. Yousif was previously at the Arab Banking Corporation for over 20 years, and last served as a Director on its Board. He holds a Master's in Business Administration degree from University of Hull, U.K. In recognition of Mr. Yousif's outstanding contribution in the field of contemporary Islamic finance and for modernizing its theoretical fundamentals in practice, the Al Jinan University of Lebanon granted him an Honorary Doctorate of Philosophy in Business Administration.

Mr. Hamad Abdulla Al Oqab

Deputy Chief Executive

Mr. Al Oqab has over 25 years' experience in finance and auditing. He is Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Member of the Boards of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algerie, Algeria. In addition, he serves as a member of the audit committees of Jordan Islamic Bank and Banque Al Baraka D'Algerie, a member of the Board of Sustainability & Social Responsibility Committee and Credit Committee of Jordan Islamic Bank, and a Member of the Board Executive Committee and Observing Member of the Board Audit Committee of Al Baraka Turk Participation Bank. Before joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this, he was a member of the audit team at Arthur Andersen. Mr. Al Oqab has been promoted to Deputy Chief Executive effective from 1st April 2018. Before that, he was heading the Finance Department of the Group. Mr. Al Oqab is a Certified Public Accountant and a Chartered Global Management Accountant.

Mr. K. Krishnamoorthy

Executive Vice President - Head of Strategic Planning

Mr. Krishnamoorthy has over 42 years' experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. Before joining ABG in 2004, he headed the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, after two years as a partner in a regional Gulf investment bank. Prior to that, he spent 13 years at Arab Banking Corporation (B.S.C.)

in investment banking and treasury. His early career was spent as finance professional in India and Bahrain. Mr. Krishnamoorthy is an Associate of the Institute of Chartered Accountants of India and holds a B.Com (Hons) degree from Osmania University, India.

Mr. Abdulrahman Shehab

Executive Vice President - Head of Operations and Administration

Mr. Shehab has over 40 years' experience with international financial institutions, both Islamic and conventional. He is a Member of the Boards of Banque Al Baraka D'Algerie and Al Baraka Bank (Pakistan) Ltd. Before joining ABG in May 2006, he was Assistant Chief Executive Officer – Head of Operations & Administration at Bahrain Islamic Bank from 2002-2006, which he joined from Faysal Islamic Bank of Bahrain (now Ithmaar Bank) where he worked from 1985- 2002. Previously, he worked at Bahrain Middle East Bank and the Bahrain branches of American Express Bank, Bank of America and Chase Manhattan Bank. He started his career with Habib Bank Ltd. in 1973. Mr. Shehab holds a Master degree in Business Administration from Hull University, U.K.

Mr. Salah Othman Abuzaid

Senior Vice President - Head of Legal Affairs

Mr. Abuzaid has over 34 years of professional experience as a judge, a practicing advocate and legal consultant for local, regional and international law firms and financial institutions. He also serves as Secretary to the Board of Directors of ABG and some of its Board Committees. He joined ABG as First Vice President - Head of Legal Affairs & Compliance, and was promoted to Senior Vice President. Before joining ABG, he worked at Al Baraka Islamic Bank (Bahrain) as Manager, Legal Affairs, prior to which he was based in the Sultanate of Oman from 2001-2004 working for an international law firm. In Oman, he was admitted to practice before all Omani courts. Before that, he spent 20 years in legal practice in Sudan. Mr. Abuzaid has an LLB degree from the Faculty of Law, University of Khartoum, Sudan.

Mr. Mohammed A. El Qaq

Senior Vice President - Head of Commercial Banking

Mr. El Qaq has over 27 years of experience in commercial banking. Before joining ABG in August 2014, Mr. El Qaq was General Manager, International Banking & Syndications at Commercial Bank of Kuwait, prior to which he was a First Vice President at Arab Banking Corporation (B.S.C.), Bahrain, and Deputy Chief Executive & Head of Corporate Banking Group at Arab Banking Corporation (Jordan). He also served as a Member of the Board of Directors of ABC Islamic Bank from 2009-2012. Having started his career with the Housing Bank for Trade and Finance, Jordan, in 1990, he then worked with Arab Bank in Jordan and Qatar National Bank in Qatar. Mr. El Qaq holds a Master of Business Administration degree from Howard University, U.S.A.

Mr. Ahmed Albalooshi

Senior Vice President - Head of Information Technology

Mr. Ahmed Albalooshi has more than 18 years of experience in IT gained while working in government and private sectors including banking. He started his career with Bahrain Islamic Bank and then moved to other government and private organizations before joining ABG in November 2008. Mr. Ahmed Al Balooshi is also the Chairman of Digital and Cybersecurity Committee of Bahrain Association of Banks and is a member of the Bahrain FinTech Bay advisory board. He holds a Master of Business Administration degree from University of Manchester and a Bachelor degree in Information Technology from the University of Canberra in Australia. He also holds a number of additional professional qualifications in the IT sector such as Certificate of Information Systems Auditing (CISA), Certificate of Information Security Management (CISM) and others.

Mr. Azhar Aziz Dogar

Senior Vice President - Head of Credit and Risk Management

Mr. Azhar Aziz Dogar has over 26 years of international banking experience that includes ME&A/GCC and Asia regions with short assignments in U.K., Netherlands and U.S.A. His banking experience encompasses credit and risk management covering all business segments inclusive of corporate/investment banking, commercial/middle market and retail. Over the years, his work also involved corporate strategy and buy-side due diligence on financial sector acquisitions. He started his career with Citigroup in its investment banking division and later moved to ABN AMRO Bank taking on a variety of leadership roles including Deputy Regional Risk Manager for MENA and Head of Credit Portfolio Management. Within the credit and risk management area, he has held a number of senior positions including Chief Risk Officer for DIB Capital (wholly owned subsidiary/investment banking arm of Dubai Islamic Bank), Chief Risk Officer of SAMBA Capital in Saudi Arabia and Chief Risk Officer of National Bank of Abu Dhabi for its corporate and investment banking business. His last role with National Bank of Abu Dhabi was as the Chief Credit Officer for Wholesale & International Banking. He has also been a board member of Dubai Islamic Bank in Pakistan. Within banking, he has worked across 3 lines of defense - i.e., risk taking, risk oversight and risk assurance. His experience entails both working for conventional and Islamic banks. Mr. Azhar Aziz Dogar is graduate of University of Pennsylvania and Brown University, USA with a Bachelors and Masters in Economics. His Masters thesis was in Islamic Finance.

Mr. Mohammed Al-Alawi

Senior Vice President - Head of Internal Audit

Mr. Mohammed Al-Alawi has over 20 years of external and internal audit experience, mainly auditing Islamic banks. He reports directly to the Audit and Governance Committee of the Board of Directors of ABG, and he also acts as Secretary of this Committee. He also participates as an observer member in Audit Committee meetings of all ABG's subsidiaries. The audit function also includes the review of the control environment of IT systems used, risks, controls and corporate governance and compliance. Previously Mr. Mohammed Al-Alawi worked as an Internal Audit manager in Ithmaar Bank and also worked in leading audit firms such as PricewaterhouseCoopers and Ernst & Young. Mr. Alawi is an FCCA - Fellow of the Association of Chartered Certified Accountants, U.K. and ICAEW - member of the Institute of Chartered Accountants in England & Wales.

CORPORATE GOVERNANCE (Continued)

Mr. Suhail Tohami

Senior Vice President - Head of Treasury, Investments & Financial Institutions

Mr. Suhail Tohami has more than 20 years of experience in both conventional and Islamic banking and other diversified businesses. His most recent position was Head of Treasury & Placement at Seera Investments, Bahrain for more than 11 years having established, developed and managed the Treasury department since inception and also managing Shareholder and Investor relations. Prior to Seera, his banking experience includes more than 7 years at BBK, Bahrain with exposure to various Treasury functions including fixed income portfolio manager, FX trading, money market, liquidity management. Mr. Suhail is a member of the CFA Institute and is a Chartered Financial Analyst (CFA). He also holds a Certified Public Accountant (CPA) designation from University of Illinois and is a member of the American Institute of Certified Public Accountants. Mr. Suhail holds an Executive MBA degree with first-class honours from University of Bahrain.

Mr. Yaser Ismaeel Mudhafar

Senior Vice President - Head of Finance

Mr. Yaser Mudhafar has over 19 years of extensive experience in the Islamic banking industry. His most recent position was Assistant General Manager - Chief Financial Officer at Khaleeji Commercial Bank for more than 12 years where he established, developed and managed the Financial Control Department and Internal Control at the Bank. Prior to Khaleeji Commercial Bank, he worked at Kuwait Finance House- Bahrain in the Financial Control Department. Mr.Mudhafar is a member of American Institute of Certified Public Accountants (AICPA) and he holds the title of Certified Public Accountant(CPA) of the State of Michigan, USA.Mr Yaser is an Executive MBA graduate of the University of Bahrain and he has Certified Islamic Professional Accountant (CIPA) title from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Mr. Qutub Yousafali

Head of Group Compliance

Mr. Qutub Yousafali is a banking professional with more than 39 years' experience who joined ABG in January 2012. Previously, Mr. Yousafali worked with Arab Banking Corporation (B.S.C.) in Bahrain for nearly 18 years, and subsequently as Group Head of Compliance. He was responsible for overseeing and coordinating compliance functions and activities, including regulatory compliance, corporate governance, anti-money laundering and international sanctions across the network of offices worldwide. Prior to this appointment in 2009, Mr. Yousafali had held senior positions in the Arab World Division & Universal Banking in Arab Banking Corporation (B.S.C.). Previously, he worked for an affiliate bank in senior positions, including Head of Internal Audit and Finance. Mr. Yousafali started his professional career with Peat Marwick Mitchell & Co. (now KPMG), London. Mr. Yousafali is a Fellow of The Institute of Chartered Accountants in England & Wales, U.K.

Dr. Ali Adnan Ibrahim

First Vice President - Head of Sustainability and Social Responsibility

Dr. Ibrahim has over 22 years of experience. He is the Head of the Group Sustainability and Social Responsibility Department, and specialises in market-based strategies for economic development, corporate sustainability, impact investing, Islamic micro-and-SME finance, mergers and acquisitions, and Shari'a-structuring. He develops strategies and processes to ensure that Al Baraka's businesses contribute to its communities. Dr. Ibrahim is also Chairman of the Sustainable Development Committee of the Bahrain Association of Banks, and is also a World Economic Forum Young Global Leader. Previously, Dr. Ibrahim was a counsel at Baker & McKenzie. As a Fulbright Scholar, Dr. Ibrahim received his doctorate in financial regulation from the Georgetown University (with distinction). He has attended leadership programs such as "Global Leadership and Public Policy in 21st Century" at Harvard University and "Transformational Leadership" at Oxford University. He has twice served as Co-Chair of the Islamic Finance Committee of the American Bar Association. Dr. Ibrahim has been published internationally on market-based strategies for economic development, financial inclusion, Islamic finance and its regulation, Islamic microfinance, comparative corporate governance and capital markets in developing countries.

Mr. Mohammed Abdullatif Al Mahmood

First Vice President - Head of Internal Shari'a Audit

Mohammed Abdullatif Al Mahmood has more than ten years' experience in Internal Shari'a Audit. He has been in ABG since August 2007 and was responsible for establishing the Internal Shari'a Audit function in ABG and Auditing its subsidiaries. Before that Mohammed Al Mahmood worked as Research and Teaching Assistant In Bahrain University and also worked as lawyer in a local firm where he was admitted to practice before all Bahraini courts for over four years. Mohammed Al Mahmood is a Certified Shari'a Advisor and Auditor (CSAA) and hold Master degree in Islamic Jurisprudence and Its foundations from Jordan University in addition to BSC degree in Shari'a and Law from Azhar University.

Dr. Eltigani El Tayeb Mohammed

Shari'a Officer

Dr. Eltigani El Tayeb Mohammed holds a PhD in Islamic Shari'a from the University of Khartoum in Sudan. He also currently serves as Secretary of the Unified Shari'a Supervisory Board.

COMPLIANCE, POLICIES AND PROCEDURES

Group Compliance

ABG Group is committed to complying with the ever increasing international regulatory requirements. Group Compliance supports the Group units, updating policies and formulating framework when necessary. There is a continual drive to enhance the compliance culture through investment in advanced systems, controls, developing staff skill sets and awareness. The Group has never hesitated to decline business that might risk breaching applicable laws, rules and regulatory standards.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, as mentioned earlier ABG appointed a Compliance Officer, whose role is to assist the management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice.

The Group Compliance Officer (GCO) has formulated a Group compliance strategy and compliance management framework for implementation throughout the ABG Group. They reflect the following core principles and practices which are firmly embedded in ABG and all its subsidiaries:

- comply with both the letter and the spirit of all applicable laws, rules and regulatory standards;
- conduct business strictly in accordance with all regulatory and ethical standards;
- encourage a strong compliance culture, with every individual held personally responsible for compliance; and
- maintain a robust corporate governance environment at all times.

ABG and its subsidiaries continue to enhance the compliance related policies, procedures and framework. Staff skills are upgraded by providing current and targeted training in all areas of financial crime compliance requirements. Systems and automated tools are being introduced, as required, to improve compliance standards throughout the Group.

An Independent Function

Group Compliance in ABG is an independent function responsible for:

- proactively identifying and evaluating compliance risks;
- developing and implementing compliance policies, programmes and plans;
- monitoring, managing, mitigating and reporting compliance risks;
- monitoring, investigating and reporting compliance breaches, incidents and risks; and
- advising management and staff on compliance and regulatory matters.

The GCO reports to the Audit & Governance Committee and provides independent oversight on behalf of the Board of Directors. He has access to the Board of Directors whenever deemed necessary. In addition, the GCO has the right and the authority to contact the Central Bank of Bahrain (CBB), as and when he considers it necessary.

The GCO is supported by dedicated compliance teams in all ABG subsidiaries. At the Group level, the GCO is responsible for coordinating the identification and management of the ABG Group's financial crime compliance risks, in collaboration with local Heads of Compliance in each of the subsidiaries.

Throughout its network of offices, ABG has issued written guidelines for staff, which describe the appropriate implementation of laws, regulations, rules and standards through policies and procedures, including the overarching Group Compliance Policy. This policy requires officers and staff from all subsidiaries to comply with relevant laws, rules, regulations and standards of good market practice.

In the ABG Group, compliance risks fall broadly into the following categories:

- Regulatory Compliance and Corporate Governance;
- Anti-Money Laundering and Countering Financing of Terrorism;
- International Sanctions; and
- Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS).

Regulatory Compliance and Corporate Governance

At the Group level, policies are continuously developed for managing compliance risks in all the above categories. These policies are systematically cascaded down to the subsidiaries, which adapt and implement them in accordance with local regulatory requirements. The ABG Group has a strict Code of Conduct in place that all employees must adhere to at all times. The Code sets out to deter wrongdoing and to promote ethical conduct and fair treatment of customers. It outlines the responsibilities of all members of the ABG Group, its officers and staff, who are expected to read, understand and uphold these standards and principles at all times.

The ABG Group also has a Whistleblowing policy in place, which provides a formal channel for staff to report any unethical conduct, gross mismanagement or corporate wrongdoing. Staff members are encouraged to report their concerns through specified secure communication channels which protect their identities, without fear of reprisal or victimization.

Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT)

Risks relating to financial crime are proactively managed at the Group and subsidiary levels. The ABG Group is committed to complying with AML/CFT laws and regulations, as well as the recommendations of the Basel Committee and Financial Action Task Force. These laws, regulations and recommendations are reflected in the AML/CFT policies of ABG and each of its subsidiaries. The Group has strict Know Your Customer policies, which include detailed requirements for identifying and verifying customers. These policies preclude the operating units from establishing new

CORPORATE GOVERNANCE (Continued)

business relationships until all relevant parties to the relationship have been identified and verified, and the nature of the business they expect to conduct has been clearly established.

In line with the requirements of the CBB and the Group AML Policy, suitably qualified Money Laundering Reporting Officers (MLROs) are appointed in all subsidiaries. The MLROs are responsible for ensuring compliance with all relevant laws, regulations and policies in respect of AML/CFT. They also have the responsibility of reviewing and monitoring customers and transactions, and reporting to their respective host regulators any suspicions concerning them.

At the Group level, ABG has appointed a Group MLRO, who is responsible for formulating and implementing ABG's AML strategies and policies on an ongoing basis. The Group MLRO coordinates the activities of each subsidiary's MLRO, overseeing appropriate AML training for all relevant staff, and reporting to the Board Audit and Governance Committee and the Board of Directors on all critical money laundering issues.

International Sanctions

Owing to the raft of sanctions imposed by local and international regulatory bodies, sanctions compliance is one of the primary challenges faced by banks today, particularly those operating across multiple geographies. Breaches of sanctions expose banks to significant regulatory, reputational and commercial risks, including potential financial losses. As evidenced by the large number of cases reported and the very sizeable fines imposed, sanctions risk has become one of the most serious risks faced by banks worldwide.

Being mindful of such risks, ABG has formulated a strategy and policy for managing sanctions risk at the Group level and implemented across all subsidiaries. The Group is increasing staff awareness of sanctions compliance and investing in appropriate screening systems to manage and minimize sanctions risk. A Group Sanctions Policy is implemented throughout its network in order to ensure uniform standards of adherence to all relevant sanctions orders. This policy sets out various restrictions and prohibitions relating to customers and transactions subject to sanctions. These restrictions sometimes extend beyond the strict requirements of applicable laws in order to safeguard ABG's reputation and standing.

Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS)

In furtherance of increased tax transparency worldwide, far reaching tax compliance and reporting legislation was enacted by the U.S. & the OECD countries, whereby banks & financial institutions have to identify and report relevant information relating to taxable persons to the applicable home tax authorities.

FATCA requirements were introduced a few years back in order to prevent tax evasion by U.S. citizens and residents. In response, ABG developed a Group FATCA Policy for application throughout the Group. ABG subsidiaries have thereafter implemented appropriate procedures, processes and systems to implement FATCA in each location, subject to local regulatory requirements. ABG has made substantial investments in enhancing systems and training employees in order to ensure that the requirements are properly implemented. Thus, FATCA is by now fully implemented throughout the Group, and ABG and all its subsidiaries are reporting required information to the authorities in accordance with applicable deadlines.

Following the successful introduction and implementation of FATCA, the OECD countries announced their own equivalent requirements in the form of Common Reporting Standard (CRS), which were published by the OECD in 2014. This provided for the automatic exchange of tax related information about the financial assets of nationals and tax residents of a country in other jurisdictions participating in the CRS programme. ABG developed a Group CRS Policy for implementation throughout the Group. In view of the framework that had earlier been developed and implemented for FATCA, CRS was relatively easily implemented throughout the Group. As a result, all members of the ABG Group are now ready to exchange information relating to tax residents of all countries, which have joined this standard. Reporting on relevant persons is taking place in accordance with the established deadlines.

Group Disclosure Policy

The Group communication strategy aims to keep the market informed of material information in a timely, accurate and balanced manner. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of ABG, or any of ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the ABG's shares or in the decision of a prudent investor to sell, buy or hold the ABG's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the ABG or its subsidiaries. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and ABG's subsidiaries.

In order for the Group to comply fully with the CBB disclosure requirements as specified in the CBB Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements, and its annual audited financial statements, and any applicable ad hoc information requirement of the CBB from time to time.

Further, as a listed company on the Bahrain Bourse (BB) and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective regulations and directives.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information, or when a decision to implement a material change is made by the Board of Directors or the Executive Management.

As a listed company, ABG adheres to a strict policy, which delegates to certain specific individuals the authority to issue press releases or make announcements to the public, financial or non-financial, about the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice Chairman of the Board of Directors
- President & Chief Executive

In the event that any of the above mentioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Finance with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group distributes its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis. Then the Group makes this information available on its website.

Press releases are posted on ABG's website and published in either Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's website or in local newspapers as appropriate.

ABG has in place an effective framework for dealing with complaints received from its shareholders and other stakeholders. Different channels have been established to enable communication with investors, including through the offices of the Registrar, an online enquiry centre on ABG website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, the Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least the previous three years' financial performance information on its website.

Regulations

ABG complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing ABG's capital adequacy, asset quality and risk management, liquidity and fund management and corporate governance.

The CBB, as the home supervisor, sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum capital adequacy ratio of 8% on a solo basis and 12.5% (including capital conservation buffer (CCB) of 2.5%) on a consolidated basis.

By the end of 2014, the CBB had issued the final regulation to give effect to the Basel III framework, which came into effect on 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by introducing a minimum common equity tier 1 (CET1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET1 capital, the regulatory adjustments including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1st January 2019. The current capital position is sufficient to meet the new regulatory capital requirements.

Financial performance monitoring

The Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively. All subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with International Financial Reporting Standards (IFRS). These are consolidated quarterly, and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to the Group headquarters providing details of their financial performance, measured against approved budgets.

Related party transactions

Dealings with persons or entities connected with the Group (including directors and shareholders) are called "related party transactions". The Group treats all such transactions at arm's length and requires that they have the specific approval of the Board. If a director is an interested party, he is required to abstain from voting on the respective matter. The Related Party Transactions pertaining to 2018 are reflected in Note 25 to the Consolidated Financial Statements.

Code Of Business Conduct And Ethics

ABG maintains a board-approved policy on the employment of immediate family members or other relatives of employees. The policy prohibits the employment and internal transfers where applicable, of first and second-degree relatives. However, the policy permits third and fourth degree relatives to be employed in positions other than where there is an actual, potential or perceived conflict of interest, or an opportunity for collusion. The Human Resources and Internal Audit departments are responsible for examining potential applications for employment to check whether there is likely to be an actual or potential conflict of interest as defined by the Group's policies, with particular reference to the code of conduct and conflict of interest policies.

The Group has a special policy regarding the appointment of accredited employees who are related to the members of the Shari'a Supervisory Board. The policy states that the appointment of any individual who is related to an accredited employee or to a member of the Shari'a Supervisory Board must take place after it is declared to the Board of Directors or to the Shari'a Supervisory Board, depending on the circumstances. The Shari'a Board member must refrain from participating or voting on any decision related to the accountability, judgement of behavior, appointment, or specification of the dues of an accredited employee if he is related to one of them in the first or second degree.

CORPORATE GOVERNANCE (Continued)

REMUNERATION POLICY AND RELATED DISCLOSURES

The Group's total compensation approach, which includes the variable remuneration policy, sets out the Group's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

Through the remuneration framework summarised below, the Group aims to comply with the CBB's regulations concerning Sound Remuneration Practices.

Remuneration Strategy

It is the Group's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Group's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group's objectives, through balancing rewards for both short-term results and long-term sustainable performance. The Group's strategy is designed to share its success, and to align employees' incentives with its risk framework and risk outcomes.

The quality and long-term commitment of all of the Group's employees is fundamental to its success. The Group therefore aims to attract, retain and motivate the very best people, who are committed to maintaining a career with the Group, and who will perform their role in the long-term interests of its shareholders. The Group's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The Long-Term Performance Incentive Plan.

A robust and effective governance framework ensures that the Group operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Affairs & Remuneration Committee (BARC) and approved by the Board of Directors thereafter.

The Group's remuneration policy, in particular, considers the role of each employee and sets guidance on whether an employee is a "Material Risk Taker" and/or an "Approved Person" in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Group, while an employee is considered a Material Risk Taker if either he/she is the head of a significant business line, or any individuals within their control have a material impact on the Group's risk profile.

In order to ensure alignment between what the Group pays its people and its business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives, summarised in its performance management system. This assessment also takes into account adherence to the Group's values, risks and compliance measures and, above all, acting with integrity. Altogether, performance is, therefore, judged not only on what is achieved over the short and the long-term but also importantly on how it is achieved, as the BARC believes the latter contributes to the long-term sustainability of the business.

BARC Role and Focus

The BARC has oversight of all reward policies for the Group's employees. The BARC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for setting the principles and governance framework for all compensation decisions. The BARC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Group.

The responsibilities of the BARC with regard to the Group's variable remuneration policy, as stated in its mandate, include, but are not limited to:

- Approving, monitoring and reviewing the remuneration system to ensure the system operates as intended;
- Approving the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensuring remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees who earn the same short-run profit but take different amounts of risk on behalf of the Group;
- Ensuring that, for Material Risk Takers variable remuneration forms a substantial part of their total remuneration;
- Reviewing the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluating practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain; the BARC will question pay-outs for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment;
- Ensuring that, for approved persons in risk management, internal audit, operations, finance and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration;
- Recommending Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensuring appropriate compliance mechanisms are in place to make sure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The aggregate remuneration paid to BARC members during the year in the form of sitting fees amounted to US$ 51 thousand (2017: US$ 48 thousand); other details concerning BARC membership are disclosed elsewhere in this report.

External Consultants

The Bank used external consultants for some small updates to its remuneration process during the year and for generation of suitable reports for the BARC.

Scope of Application of the Remuneration Policy

The remuneration policy has been adopted on a Group-wide basis.

Board Remuneration

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

Variable Remuneration for Staff

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

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

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

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

The BARC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BARC demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The Group uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base may be adjusted at the discretion of the BARC.

Funding for distribution of a bonus pool is dependent on threshold financial targets being achieved by the Group. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of Control Functions

The remuneration level of staff in the control and support functions is maintained at a level, which enables the Group to attract and thus employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

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

Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Group. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Group are treated differently by the remuneration system.

Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Group. In its endeavour to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. The risk assessment process encompasses the need to ensure that the remuneration policy, by design reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

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

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

The bonus pool takes into account the performance of the Group, which is considered within the context of the Group's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Group-wide notable events.

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

a) The cost and quantity of capital required to support the risks taken;

b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The BARC keeps itself abreast of the Group's performance against the risk management framework. The BARC will use this information when considering remuneration to ensure that returns, risks and remuneration are aligned.

Risk Adjustments

The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions. In any year where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

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

The BARC, with the Board's approval, can rationalise and make the following discretionary decisions:

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

Malus and Clawback Framework

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

Any decision to take back an individual's award can only be made by the Board of Directors.

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

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Group/employee's business unit to suffer material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the relevant performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the relevant performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable Remuneration

Variable remuneration has the following main components:

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

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Group's share price as per the rules of the Group's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred Compensation

All employees earning over BHD100 thousand or equivalent, in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Deferral	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 months	Yes	Yes
Deferred cash	0%	Over 3 years	-	Yes	Yes
Deferred share awards	60%	After 3 years	6 months	Yes	Yes

The BARC, based on its assessment of role profile and risk taken by an employee, may increase the coverage of employees that are subject to deferral arrangements.

Details of remuneration paid

a) Board of Directors

	US$ '000	
	2018	**2017**
Sitting Fees	389	246
Remuneration	1,500	1,500
Other	167	100

The category 'Other' includes the reimbursement of air fares and payment of per diem allowances for attending Board of Directors and Board Committees' meetings.

*To be approved by AGM in March 2019.

b) Unified Shari'a Supervisory Board

	US$ '000	
	2018	**2017**
Sitting Fees	85	85
Remuneration	125	115
Other	38	49

The category 'Other' includes the reimbursement of air fares and payment of per diem allowances for attending Unified Shari'a Supervisory Board's meetings.

c) Employee Remuneration

Total fixed remuneration for Approved Persons and Material Risk Takers affected by the policy amounted to US$8,197 thousand (2017: US$6,551 thousand) and the number of persons affected: 20 (2017:13).

The total variable remuneration for 2018 was US$7,258 thousand (2017: US$6,485 thousand).

d) Deferred Awards

Selected members of management in ABG's subsidiaries are entitled to deferred variable remuneration under a Management Incentive Programme based on pre-defined objectives and thresholds of performance. Annual amounts of such variable remuneration, in accordance with the said programme, are used to purchase shares in ABG, which purchases are deferred over a three year period, with annual vesting. Total amounts of deferred variable remuneration amounted to US$4,356 thousand (2017: US$3,891 thousand).

e) Severance Pay – Nil (2018-2017)

CORPORATE GOVERNANCE (Continued)

(1) Employee Remuneration

Details of Remuneration Paid For the Financial Year Ended 2018

Categories of Employees	No.	Fixed Remuneration (US$ '000)			Variable Remuneration (US$ '000)						Total (US$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others	Total	
Employees engaged in risk taking activities (business areas)	4	2,218	1,727	3,945	2,347	3,523	0	0	0	5,870	9,815
Approved persons in risk management, internal audit, operations, finance, AML and compliance functions.	9	1,629	769	2,398	332	499	0	0	0	831	3,229
Employees, other than approved persons, engaged in functions under 2.	7	1,377	477	1,854	223	334	0	0	0	557	2,411
Total	20	5,224	2,973	8,197	2,902	4,356	0	0	0	7,258	15,455

Details of Remuneration Paid For the Financial Year Ended 2017

Categories of Employees	No.	Fixed Remuneration (US$ '000)			Variable Remuneration (US$ '000)						Total (US$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others	Total	
Employees engaged in risk taking activities (business areas)	2	1,830	769	2,599	2,082	3,125	0	0	0	5,207	7,806
Approved persons in risk management, internal audit, operations, finance, AML and compliance functions.	7	2,107	732	2,839	393	589	0	0	0	982	3,821
Employees, other than approved persons, engaged in functions under 2.	4	917	196	1,113	119	177	0	0	0	296	1,409
Total	13	4,854	1,697	6,551	2,594	3,891	0	0	0	6,485	13,036

(2) Deferred Awards

	2018				
		Shares			
	Cash (US$ '000)	Number ('000)	(US$ '000)	Others (US$ '000)	Total (US$ '000)
Opening balance	0	25,831	11,762	0	11,762
Awarded during the period	0	14,520	4,356	0	4,356
Lapse	0	(3,566)	(2,906)	0	(2,906)
Service in value unvested opening awards	0	0	0	0	0
Closing balance	0	36,785	13,212	0	13,212

	2017				
		Shares			
	Cash (US$ '000)	Number ('000)	(US$ '000)	Others (US$ '000)	Total (US$ '000)
Opening balance	0	15,556	7,871	0	7,871
Awarded during the period	0	10,275	3,891	0	3,891
Paid / released during the period	0	0	0	0	0
Service in value unvested opening awards	0	0	0	0	0
Closing balance	0	25,831	11,762	0	11,762

RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular, the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process.

Risk management is an integral part of the Group's decision making process. The Board of Directors, acting on recommendations made by the Board Risk Committee defines and sets the Group's overall risk strategy, risk appetite, risk diversification and asset allocation strategies. This includes the policies regarding credit, market, liquidity and operational risks amongst others. It also decides on any related party transactions, their reporting and approval. The Management Risk Committee, Asset Liability Committee, Credit Committee and other executive committees guide and assist with management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors or under delegated authorities by committees of the management. Risk policies and processes to mitigate the risks are regularly reviewed on an ongoing basis.

ABG's Group Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the requirements of Basel III and, where and when still applicable, Basel II, under the Central Bank of Bahrain (CBB) rules and guidelines. Group Risk Management is also responsible for introducing and implementing risk measurement software and systems, monitoring the Group's compliance with risk measurement standards and providing the Risk Committee of the Board of Directors and Group management with reports on the various risks.

The Group's risk management has the following objectives:

a. unified Group-wide risk management with the ultimate aim of enabling the Group to calculate risk-adjusted return on capital;

b. inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Group-wide policies, processes and limits;

c. professionally qualified staff and ongoing credit training;

d. investing in technology and systems enabling best practice risk management;

e. segregation of duties and reporting lines between personnel transacting business and personal processing that business throughout the Group;

f. strict compliance with all Shari'a and legal requirements and regulatory directives; and maintaining clear, well documented policies via a "Group Credit and Risk Policies and Guidelines Manual" and credit and risk management manuals in each of the subsidiaries, which incorporate the policies and guidelines of the Group in addition to the local requirements and regulations.

Each of ABG's subsidiaries is governed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which, as stated above, reflect Group-wide policies and so ensure that sound risk management is in place in all ABG's subsidiaries.

A consolidation process for the calculation of capital adequacy, taking into account credit, market and operational risk, all in accordance with Basel III requirements and Central Bank of Bahrain, is in operation. Furthermore, operational risk systems in each Subsidiary ensure a consistent approach to operational risk.

The Group has continued to maintain momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

- Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about resilient asset quality in the face of increased challenges in some of the Group's markets.
- All subsidiaries ensure that their NPA provisioning policies are in line with both Group policies and local regulatory requirements.
- Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments. Hiring and training of credit and risk management staff is an ongoing priority in each unit.
- Each subsidiary has an approved Credit and Risk Management Manual, covering all relevant risks, which accords with Group policies and procedures.
- All subsidiaries submit timely quarterly risk management reports to the Head Office, which fully meet regulatory requirements. The contents of these reports are continuously expanded in order to provide the Head Office with increasingly comprehensive data.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to the Group policy regarding all the major categories of risk that the Group faces when carrying out its business. These are: Credit, Liquidity, Market (including Equity Price, Profit Rate and Foreign Exchange risk), Operational (including Fraud Risk and Information Security Risk) and Shari'a Compliance risks. Each of these major risks are discussed below.

Credit Risk

Credit risk is the risk that one party to a financial contract fails to discharge an obligation and cause the other party to incur a financial loss. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital and other financing transactions (Salam, Istisna'a, Musharaka or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active portfolio management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

Mitigation of credit risk is primarily achieved through (a) customer's financial and credit due diligence including willingness and ability/capacity to repay, (b) appropriate structuring of credit facilities and its pricing and (c) obtaining various forms of collateral as necessary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties, and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures covering "single obligor large exposures" and case-by-case approvals of "related party transactions".

During the year 2017 ABG and its Subsidiaries made all necessary preparations including acquiring credit rating and other systems and revising credit policies and procedures for introduction of the new FAS 30 Accounting Standard of AAOIFI on January 1, 2018.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions, and its restricted and unrestricted investment accounts. This ensures that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that ABG does not rely excessively on one customer or small group of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective central bank equal to a percentage of its deposits as directed by that central bank - in most cases 20%. ABG additionally holds liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes with respect to the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on the Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders, although it does apply appropriate income smoothing techniques to ensure that profits are fairly distributed to the investment account holders.

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of currency exchange rates over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2018 are detailed in Note 28 to the Financial Statements.

Operational Risk

Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk associated with carrying out the Group's operations is through internal procedures and monitoring and control mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people - and appropriate infrastructure, processes, controls and systems - are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with an ABG subsidiary's own funds, the respective subsidiary ensures that the basis for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate and independent Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions.

Information Security (Cyber Security) Risk

The Group continued with enhancing management of information security (cyber security) risk in 2017. It has assessed the risks, identified controls and is implementing solutions. The Group already has comprehensive IT security policy and procedures, which are in line with leading industry practices. The Information Security Risk Management Committee at the Head Office meets regularly and has implemented a new Information Risk Management Framework and Group Policy and Guidance.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, codes of conduct and standards. The landscape for compliance has changed substantially in recent years. As a result, ABG and its subsidiaries are continuously enhancing their compliance risk management framework. Please refer to separate section on Group Compliance function.

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and, in this respect, is akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with laws and regulations. As mentioned above, the Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Unified Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

CAPITAL MANAGEMENT/CAPITAL ADEQUACY

Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile, and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management, therefore, addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets and regulatory imperatives; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2018 was 16.95%, comfortably above the CBB's minimum regulatory requirement of 12.5% (including CCB of 2.5%).

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio for that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

CORPORATE GOVERNANCE (Continued)

INFORMATION TECHNOLOGY

The IT Steering Committee governs and supports IT strategies, policies, projects and initiatives across all ABG subsidiaries, and ensures that they are consistent with the Group's strategic aims as well as each subsidiary's local strategy. The Group's short, medium and long-term IT strategies are now well established, standardised around a few carefully chosen core banking solutions that have been successfully implemented across all ABG subsidiaries. The IT Steering Committee monitors the Group's IT strategy, updating it periodically to make sure it can enable ABG's strategic objectives.

ABG's web-based financial consolidation and reporting solution measures corporate performance against key performance indicators based on the Group's strategic objectives. It is used to set benchmarks for each subsidiary and to monitor their performances continuously. This tool captures data from each subsidiary in its local currency and performs monthly, quarterly and annual consolidations in US dollars. In this way, it enables the collection, processing, reporting and analysing of data from across the various subsidiaries.

All of the Group subsidiaries have implemented core banking systems selected from a list approved by Head Office, thereby meeting central bank requirements for greater automation. The subsidiaries are now introducing new solutions in areas such as digital banking, compliance, risk management, and cyber security as well as exploring new technologies related to Artificial Intelligence and Robotic Process Automation. Digital Banking, Digital Transformation and FinTech are major areas where the Group is actively setting strategies to ensure that it leverages opportunities and overcomes challenges associated with disruption.

Each subsidiary has a disaster recovery centre, which is tested and audited at least once a year. The Group has completed Business Continuity Planning guideline to ensure all subsidiaries to adopt best practices.

A Group-level Cybersecurity committee has been established and all subsidiaries have been instructed to ensure the Cybersecurity is a board-level agenda.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

As an Islamic bank, Al Baraka Banking Group B.S.C. (ABG) conducts all its business in a sustainable and socially responsible manner. Making a positive, sustainable impact is part of the Group's philosophy and a strategic business goal.

The concept of sustainability and social responsibility (SSR) fits naturally with the business ethics of Islam and, therefore, with ABG's foundation philosophy and vision.

Islam and SSR

Our philosophy is that Allah grants mankind the capacity to inherit the land on this earth and, therefore, mankind is not the owner of wealth but is entrusted with it. As the purpose of mankind is to construct, embellish and build on this earth, we are therefore ordained to create opportunities for others. Thus, the wealth bestowed upon us must be invested in creating the wealth and opportunities in society.

As members of a banking group founded on Islamic principles and values, we believe that we have an obligation to society, through patronage and sponsorship of a wide range of social projects, to enhance the living conditions and quality of life of needful individuals in the local communities where we operate. In making this commitment to society we strive to apply one of the important philosophical pillars of Islamic banking: the concept of E'mar Al Ardh– construction, or development, of land – which means adding tangible value to assets (whether natural or human).

This concept has a direct relevance to the development of society and its social and economic progress. The Group seeks to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large.

SSR is fundamental to the Group's business model in all the countries where it operates. All the subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services.

Three guiding principles

These principles may be summarised as:

1. Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must only invest in the production of, and trade in, useful and beneficial goods. They, therefore, forbid investment activities such as the production of alcoholic beverages, tobacco or weapons; or those associated in any way with gambling, pornography or the abuse of children, women and minorities; or any other morally questionable practices.
2. All Islamic banks and financial institutions eschew the payment of interest to depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead ABG's subsidiaries, like all Islamic banks, accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realisation of their investments. Financing is provided to businesses in turn mainly based on instalment sale, leasing or equity participation. In this way, ABG's subsidiaries and their depositors share financial risk with entrepreneurs and, together, they reap the benefits of the investments. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs. Both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.
3. All contracts entered into by ABG's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

The Al Baraka Sustainability and Social Responsibility Programme

In 2012, ABG established the "Al Baraka Social Responsibility Programme", the first such programme to be introduced by any Islamic banking and financial services institution. In 2017, the program has been renamed as "Al Baraka Sustainability and Social Responsibility Programme".

The programme includes the following activities:

1. Assessing the social impact of ABG's business at the local and transactional levels.
2. Investing in and supporting socially responsible and sustainable businesses.
3. Supervising and monitoring the development of the Al Baraka Microfinance Programme.
4. Supporting local economies.
5. Supporting healthcare projects and education.
6. Promoting Islamic classical arts and literature.
7. Promoting scholarly works of Islamic banking and finance.
8. Investing in people.
9. Nurturing and encouraging local talent.
10. Promoting programmes that protect the environment by adopting various conservation strategies, such as carbon mitigation, reduction of paper usage, energy and water conservation.

Governance

A Board Committee for Sustainability and Social Responsibility oversees the Al Baraka Sustainability and Social Responsibility Programme and the Department of Sustainability and Social Responsibility, which is also overseen directly by the President and CE. The Department's role is to:

1. Maintain the continuity of the Al Baraka Sustainability and Social Responsibility Programme, and update it with the most recent international research and popular strategies to enhance Shari'a objectives.
2. Manage and supervise the Group's implementation of the programme.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY (Continued)

3. Ensure that the programme continues to set best practices within the Islamic banking and finance industry, by conducting Shari'a and economic analysis on the subject.
4. Provide appropriate guidance for the programme's implementation.
5. Compile, consolidate and publish annual and periodic social responsibility reports.
6. Develop and update procedures that may result in enhancing the adequacy and effectiveness of the programme at the Group level.
7. Exercise all powers needed to achieve the programme's objectives and to remain consistent with the Committee's rationale.
8. Coordinate with other local and international sustainability and social responsibility programmes.

A detailed report of the Group's activities and progress in the area of Sustainability and Social Responsibility is posted on the ABG website. Furthermore, a report covering progress over the past year is available annually on that website. Each of ABG's subsidiaries will also produce an annual report of its activities in this area, which will similarly be available on their individual websites.

Activities

The Al Baraka Sustainability and Social Responsibility Programme is based on the following four pillars:

1. Al Baraka Philanthropic Programme: covering the promotion and funding of a broad spectrum of activities including the arts, literature and culture, scholarly and literary works, and activities aimed at aiding people with special needs and facilitating them in their own efforts through vocational training.
2. Al Baraka Economic Opportunities & Social Investments Programme: covering community development including financing and investments in projects supporting affordable housing and a spectrum of healthcare and related activities, micro, small and medium-sized enterprises, local and other industries.
3. Al Baraka Qard-Hassan Programme: covering benevolent loans extended on a charitable or goodwill basis.
4. Al Baraka Time Commitment Programme: ABG subsidiaries commit a certain number of hours of their officers' time to social and educational contributions to the local community.

The Group's target is to make all its businesses sustainable and socially responsible. As far as possible, we measure our progress. However, in some areas we are still developing the right tools to do so. Based on the existing measurement tools, the Group's overall Sustainability and Social Responsibility Programme contributed US$4,775 million in 2017 to communities in financing and donation.

Al Baraka Goals 2016-2020

The Group decided in 2016 to take our Sustainability and Social Responsibility Programme to yet another level. The Group integrated specific targets and priorities for the next five years. Accordingly, by 2020 we would like to impact the communities we operate in by:

- Creating 51,000 jobs across the countries where the Group operates as a result of financing new and existing customers' operations.
- Financing and supporting over US$191 million in educational projects.
- Financing and supporting over US$434 million of healthcare projects.

The Al Baraka Goals are directly linked with the UN Global Goals for Sustainable Development (SDGs). In particular, our targets are focused on the following SDGs: no poverty (SDG 1), good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry innovation and infrastructure (SDG 9).

In total, the Group pledged to contribute over US$635 million over the five years towards the Al Baraka Goals (2016-2020). It plans to do so through job creation, healthcare financing and donation, education financing and donation.

During 2018, the Group carried out a full impact assessment of the progress in 2017 against the 2016-2020 goals. The Group has exceeded most of the 2017 targets of Al Baraka Goals (reporting lags by a year due to the time taken to collect qualitative data). In 2017, the Group achieved the following:

- Helped to create 7,446 jobs, 73% of the 2017 target.
- Helped to achieve US$100,449,000 of education funding / financing, 264% of the 2017 target.
- Helped to achieve US$146,719,000 of healthcare funding/ financing, 169% of the 2017 target.

Credit approval process and Sustainability and Social Responsibility

We have developed an internal mechanism to ensure that our entire business model remains sustainable and socially responsible. We have added new procedures to our credit approval process as a result of which we will not only encourage our existing customers to adopt the Al Baraka Sustainability and Social Responsibility Priorities, but we will also aim to give preference to working with such new customers who are equally committed to consistently adding more value to their respective communities.

The future

When ABG signed up to the UN Global Compact in 2016, it set out a path for the future in line with the Al Baraka Goals 2016-2020. Given that our business model is uniquely tailored around adding economic value to the communities that we serve, our contribution (and as a result our economic value-added contribution to society) will increase in line with our growth. We hope that our example will kick-start a trend in the Islamic banking industry.

UNIFIED SHARI'A SUPERVISORY BOARD REPORT

For the year ended 31 December 2018

3 Jumada Al-Akhirah 1440

8 February 2019

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

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 in 2018, during which we studied the Shari'a Audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2018 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between the 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 studied the contracts entered into by the Group during the year 2018.

Second:
We have reviewed the principles applied by the Group and reviewed the 2018 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2018 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium 1/31 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 2018 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board.

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

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

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

Praise be to Allah.

Chairman and Members

Shaikh Abdulla Al Mannea
Chairman

Shaikh Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Ahmed Mohiyeldin Ahmed
Member

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

UNIFIED SHARI'A SUPERVISORY BOARD REPORT

For the year ended 31 December 2018 (Continued)

Zakah Calculation for the year ended 31 December 2018	US$ '000
Equity Attributable to Shareholders	1,545,545
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(176,867)
Perpetual tier 1 capital	(400,000)
Net Zakatable Equity Attributable to Shareholders	**968,678**
Less:	
Musharaka underlined by unzakatable assets	(252,851)
Investment in Islamic Sukuk underlined by unzakatable assets	(8,748)
Ijarah Muntahia Bittamleek	(283,284)
Long-term investment in real estate	(19,773)
Properties and equipment	(225,372)
Intangible assets	(50,365)
Investment in Associates	(21,239)
Prepayments	(11,208)
Deferred tax asset	(18,990)
Add:	
Shareholders share on Zakatable Assets by Associates	10,075
Sale of long-term investment in real estate during the year	246
Deferred tax liability	3,462
Employees' end of services benefit	33,386
Zakatable amount	**124,017**
Zakah Percentage	2.5770%
Total Zakah due	**3,196**
Number of Shares (thousands)	1,233,676
Zakah per share (US$ cents)	**0.26**

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

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") as of 31 December 2018, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst + Young

Partner's registration no. 115

20 February 2019

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 US$ '000	2017 US$ '000
ASSETS			
Cash and balances with banks	3	5,008,009	5,430,085
Receivables	4	10,303,868	12,001,050
Mudaraba and Musharaka financing	5	2,718,906	2,377,654
Investments	6	3,067,008	2,888,334
Ijarah Muntahia Bittamleek	7	1,770,833	1,856,018
Property and equipment	8	406,564	430,192
Other assets	9	556,050	469,878
TOTAL ASSETS		23,831,238	25,453,211
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		5,325,924	5,465,433
Due to banks		1,178,758	1,322,470
Long term financing	10	976,891	1,236,555
Other liabilities	11	971,310	1,035,983
Total liabilities		8,452,883	9,060,441
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	13,122,368	13,882,109
OWNERS' EQUITY			
Share capital	13	1,242,879	1,206,679
Treasury shares	13	(9,203)	(9,550)
Share premium		18,829	18,644
Perpetual tier 1 capital	14	400,000	400,000
Reserves		165,551	199,282
Cumulative changes in fair values		31,929	40,443
Foreign currency translations	13	(861,313)	(706,242)
Retained earnings		519,587	530,615
Proposed appropriations		37,286	60,334
Equity attributable to parent's shareholders and Sukuk holders		1,545,545	1,740,205
Non-controlling interest		710,442	770,456
Total owners' equity		2,255,987	2,510,661
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		23,831,238	25,453,211

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018

	Notes	2018 US$ '000	2017 US$ '000
INCOME			
Net income from jointly financed contracts and investments	15	1,327,244	1,258,663
Return on equity of investment accountholders before Group's share as a Mudarib		(1,159,241)	(1,084,420)
Group's share as a Mudarib	16	372,914	377,735
Return on equity of investment accountholders		(786,327)	(706,685)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		540,917	551,978
Mudarib share for managing off-balance sheet equity of investment accountholders		8,366	8,157
Net income from self financed contracts and investments	15	242,967	330,278
Other fees and commission income	17	158,578	157,894
Other operating income	18	120,098	35,383
		1,070,926	1,083,690
Profit paid on long term financing	19	(83,107)	(85,000)
TOTAL OPERATING INCOME		987,819	998,690
OPERATING EXPENSES			
Staff expenses		306,350	315,047
Depreciation and amortisation	20	42,064	47,398
Other operating expenses	21	192,043	205,872
TOTAL OPERATING EXPENSES		540,457	568,317
NET OPERATING INCOME FOR THE YEAR BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		447,362	430,373
Net allowance for credit losses / impairment	22	(159,774)	(131,807)
NET INCOME BEFORE TAXATION		287,588	298,566
Taxation		(70,860)	(91,647)
NET INCOME FOR THE YEAR		216,728	206,919
Attributable to:			
Equity holders of the parent		129,084	129,029
Non-controlling interest		87,644	77,890
		216,728	206,919
Basic and diluted earnings per share - US cents	23	7.93	9.19

Saleh Abdullah Kamel
Chairman

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY For the year ended 31 December 2018

	Attributable to equity holders of the parent and Sukuk holders													
					Reserves		Cumulative changes in fair values							
	Share capital	Treasury shares	Share premium	Perpetual tier 1 capital	Statutory reserve	Other reserves	Investments	Property and equipment	Foreign currency translations reserve	Retained earnings	Proposed appro-priations	Total	Non-controlling interest	Total owners' equity
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	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	770,446	2,510,661
Transition adjustment on adoption of FAS 30 as of 1 January 2018 (Note 2.1)	-	-	-	-	-	(46,639)	-	-	-	(56,021)	-	(102,660)	(49,177)	(151,837)
Restated balance as of 1 January 2018	1,206,679	(9,550)	18,644	400,000	152,643	-	4,143	36,300	(706,242)	474,594	60,334	1,637,545	721,279	2,358,824
Dividends paid	-	-	-	-	-	-	-	-	-	-	(24,134)	(24,134)	-	(24,134)
Bonus shares issued (note 13)	36,200	-	-	-	-	-	-	-	-	-	(36,200)	-	-	-
Movement in treasury shares	-	347	185	-	-	-	-	-	-	-	-	532	-	532
Net movement in cumulative change in fair value for investments	-	-	-	-	-	-	596	-	-	-	-	596	260	856
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	-	(9,110)	-	-	-	(9,110)	(5,541)	(14,651)
Foreign currency translation	-	-	-	-	-	-	-	-	(155,071)	-	-	(155,071)	(98,137)	(253,208)
Net income for the year	-	-	-	-	-	-	-	-	-	129,084	-	129,084	87,644	216,728
Transfer to statutory reserve (note 13)	-	-	-	-	12,908	-	-	-	-	(12,908)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	(37,286)	37,286	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(30,862)	(30,862)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	-	(3,961)	-	(3,961)	-	(3,961)
Expenses related to perpetual tier 1 capital issued by subsidiaries	-	-	-	-	-	-	-	-	-	(426)	-	(426)	(326)	(752)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	-	1,990	-	1,990	(4,740)	(2,750)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	40,865	40,865
Balance at 31 December 2018	1,242,879	(9,203)	18,829	400,000	165,551	-	4,739	27,190	(861,313)	519,587	37,286	1,545,545	710,442	2,255,987

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY For the year ended 31 December 2018

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

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

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

For the year ended 31 December 2018

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

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

1. CORPORATE INFORMATION AND ACTIVITIES

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

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

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

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

2. ACCOUNTING POLICIES

Basis of preparation

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') as issued by the International Accounting Standards Board (the 'IASB'), given it does not contradict with Shari'a Rules and Principles and the conceptual framework of AAOIFI.

Basis of consolidation

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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.

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

* During December 2017, BTI Bank was established in Morocco. The Group consolidate BTI Bank (49% ownership), Al Baraka Bank Syria (23% ownership) and Al Baraka Sukuk Limited SPV (0% ownership) due to the Group's control through the power to govern their financial and operating policies.

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

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

Significant accounting policies

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

2.1 New standards issued but not yet effective

FAS 28 Murabaha and other deferred payment sales

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale".

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

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

2. ACCOUNTING POLICIES (Continued)

2.1 New standards issued but not yet effective (Continued)

FAS 30 Impairment, Credit Losses and Onerous Commitments

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

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in owners' equity. The standard eliminates the use of the existing FAS 11.

Transition

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

Impact of adopting FAS 30

Following is the impact of early adoption of FAS 30:

	Balance 31 December 2017 US$ '000	Transition adjustment US$ '000	Restated balance 1 January 2018 US$ '000
Retained earnings	530,615	(56,021)	474,594
Non-controlling interest	770,456	(49,177)	721,279
Other reserves	46,639	(46,639)	-
Equity of investment accountholders	13,882,109	(56,174)	13,825,935
Cash and balances with banks	5,430,085	(109)	5,429,976
Receivables	12,001,050	(187,037)	11,814,013
Mudaraba and Musharaka financing	2,377,654	(4,957)	2,372,697
Investments - Debt-type instruments at amortised cost	2,250,552	(4,706)	2,245,846
Ijarah Muntahia Bittamleek	1,856,018	(19,119)	1,836,899
Other assets	469,878	18,997	488,875
Other liabilities	1,035,983	11,080	1,047,063

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

2.2 Summary of significant accounting policies

a. Financial contracts

Financial contracts consist of cash and balances with banks, receivables, Mudaraba (net of deferred profit) and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek (where the estimates of future cash flows dependent on a single customer) and certain other assets. In addition it consist of off-balance sheets exposures such as letter of credit, letter of guaranties and undrawn commitments. Balances relating to these contracts are stated net of allowance for credit losses.

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

Impairment of financial assets

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

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

Stage 1: twelve months ECL

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

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.

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

f. Investments

Debt-type instruments at amortised cost

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

g. Ijarah Muntahia Bittamleek

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

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

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

v. Revenue recognition (Continued)

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.

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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.

af. Judgments

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

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

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

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

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

ah. Derecognition

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

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

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

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

3. CASH AND BALANCES WITH BANKS

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

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

4. RECEIVABLES

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

4.1 Sales (Murabaha) receivables

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Commodity murabaha	56,072	567,237	623,309	85,430	395,079	480,509
Other murabaha	1,896,579	9,315,374	11,211,953	2,385,059	10,853,317	13,238,376
Gross sales (murabaha) receivables	1,952,651	9,882,611	11,835,262	2,470,489	11,248,396	13,718,885
Deferred profits	(299,791)	(1,094,097)	(1,393,888)	(392,657)	(1,329,298)	(1,721,955)
	1,652,860	8,788,514	10,441,374	2,077,832	9,919,098	11,996,930
Less: allowance for credit losses (note 22)	(159,738)	(361,881)	(521,619)	(100,883)	(268,378)	(369,261)
Net sales (murabaha) receivables	1,493,122	8,426,633	9,919,755	1,976,949	9,650,720	11,627,669

	2018 US$'000	*2017* US$'000
Non-performing	654,917	5,87,323

4.2 Ijarah receivables

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross ijarah receivables	5,877	81,207	87,084	-	81,970	81,970
Less: allowance for credit losses (note 22)	(116)	(33,101)	(33,217)	-	(13,350)	(13,350)
Net ijarah receivables	5,761	48,106	53,867	-	68,620	68,620

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

4.3 Salam receivables

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross salam receivables	-	215,681	215,681	-	193,910	193,910
Less: allowance for credit losses (note 22)	-	(7,724)	(7,724)	-	(5,875)	(5,875)
Net salam receivables	-	207,957	207,957	-	188,035	188,035

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

4. RECEIVABLES (Continued)

4.4 Istisna'a receivables

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross istisna'a receivables	1,580	124,652	126,232	-	118,116	118,116
Less: allowance for credit losses (note 22)	-	(3,943)	(3,943)	-	(1,390)	(1,390)
Net istisna'a receivables	1,580	120,709	122,289	-	116,726	116,726

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

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

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

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

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

5. MUDARABA AND MUSHARAKA FINANCING

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

5.1 Mudaraba financing

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

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

5.2 Musharaka financing

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

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

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

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

5. MUDARABA AND MUSHARAKA FINANCING (Continued)

5.2 Musharaka financing (Continued)

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

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

6. INVESTMENTS

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

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

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

6. INVESTMENTS (Continued)

6.2 Equity-type instruments at fair value through equity

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equity Securities	14,085	31,301	45,386	13,129	32,932	46,061
Managed funds	9,554	4,660	14,214	7,274	4,636	11,910
	23,639	35,961	59,600	20,403	37,568	57,971
Unquoted investments						
Equity Securities	24,449	17,816	42,265	28,743	8,389	37,132
Managed funds	-	5,194	5,194	932	12,492	13,424
	24,449	23,010	47,459	29,675	20,881	50,556
Provisions (note 22)	(4,628)	(1,780)	(6,408)	(2,461)	(2,248)	(4,709)
	43,460	57,191	100,651	47,617	56,201	103,818

6.3 Debt-type instruments at amortised cost

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

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

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

6. INVESTMENTS (Continued)

6.3 Debt-type instruments at amortised cost (Continued)

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

	31 December 2018				31 December 2017
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Stage 3: Lifetime ECL credit-impaired US$ '000	Total US$ '000	Total US$ '000
Balance at 1 January on adoption of FAS 30	4,706	-	6,987	11,693	4,262
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	-	-	-	-	-
- transferred to Stage 2	(93)	93	-	-	-
- transferred to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(2,172)	134	-	(2,038)	418
Allocation to (from) investment risk reserve	(79)	2,019	2,564	4,504	2,565
Allocation to (from) profit equalisation reserve	-	-	-	-	-
Recoveries / write-backs	-	-	-	-	(278)
Amounts written off during the year	-	-	(2,500)	(2,500)	-
FX translation / others	(28)	-	(29)	(57)	20
	2,334	2,246	7,022	11,602	6,987

6.4 Investment in real estate

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	3,258	127,288	130,546	1,311	128,936	130,247
Buildings	7,760	77,224	84,984	7,376	73,534	80,910
	11,018	204,512	215,530	8,687	202,470	211,157

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

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

6. INVESTMENTS (Continued)

6.5 Investment in associates

Investment in associates comprise the following:

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

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

7. IJARAH MUNTAHIA BITTAMLEEK

	2018			2017		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	37,525	1,878,304	1,915,829	142,061	1,786,674	1,928,735
Accumulated depreciation	(12,761)	(390,922)	(403,683)	(26,822)	(365,554)	(392,376)
Less: allowance for credit losses	(179)	(11,879)	(12,058)	-	-	-
Net book value	24,585	1,475,503	1,500,088	115,239	1,421,120	1,536,359
Equipment						
Cost	99,758	274,422	374,180	134,129	296,447	430,576
Accumulated depreciation	(29,245)	(80,134)	(109,379)	(38,696)	(93,756)	(132,452)
Less: allowance for credit losses	(230)	(6,186)	(6,416)	-	-	-
Net book value	70,283	188,102	258,385	95,433	202,691	298,124
Others						
Cost	-	20,946	20,946	-	34,677	34,677
Accumulated depreciation	-	(8,474)	(8,474)	-	(13,142)	(13,142)
Less: allowance for credit losses	-	(112)	(112)	-	-	-
Net book value	-	12,360	12,360	-	21,535	21,535
TOTAL						
Cost	137,283	2,173,672	2,310,955	276,190	2,117,798	2,393,988
Accumulated depreciation	(42,006)	(479,530)	(521,536)	(65,518)	(472,452)	(537,970)
Less: allowance for credit losses	(409)	(18,177)	(18,586)	-	-	-
Net book value	94,868	1,675,965	1,770,833	210,672	1,645,346	1,856,018

7. IJARAH MUNTAHIA BITTAMLEEK (Continued)

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

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

	31 December 2018				31 December 2017
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January on adoption of FAS 30	8,470	10,649	-	19,119	-
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1	-	-	-	-	
- transferred to Stage 2	-	-	-	-	
- transferred to Stage 3	-	-	-	-	
Net remeasurement of loss allowance	(3,420)	3,678	-	258	-
FX translation / others	(1,051)	260	-	(791)	-
	3,999	14,587	-	18,586	-

8. PROPERTY AND EQUIPMENT

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

9. OTHER ASSETS

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

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

9. OTHER ASSETS (Continued)

9 (a) Goodwill and intangible assets

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

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

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

The recoverable amounts of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

10. LONG TERM FINANCING

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

11. OTHER LIABILITIES

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

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

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

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

** Medium term Sukuk*

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

12.1 Profit equalisation reserve

The following shows the movement in profit equalisation reserve:

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

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

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

12. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (Continued)

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

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

13. OWNERS' EQUITY

	2018 US$ '000	2017 US$ '000
Share capital		
Authorised: 2,500,000,000 (2017: 1,500,000,000) ordinary shares of US$ 1 each	2,500,000	1,500,000

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

Treasury shares

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

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

13. OWNERS' EQUITY (Continued)

Additional information on shareholding pattern

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

At 31 December 2018

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

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

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

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

At 31 December 2018

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	10.48%
5% up to less than 10%	87,313,197	1	7.03%
10% up to less than 20%	240,173,054	1	19.32%
20% up to less than 50%	680,431,667	2	54.75%
	1,242,879,755	1,087	100.00%

At 31 December 2017

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

13. OWNERS' EQUITY (Continued)

a. Share premium/Equity transaction cost

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

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

b. Statutory reserve

In accordance with the BCCL and the Bank's articles of association, 10% of the parent's share of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law. During the year US$ 12,908 thousand (2017: US$ 12,903 thousand) was transferred to statutory reserve.

c. Cumulative changes in fair values

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

d. Foreign currency translations

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

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

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

e. Other reserves

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

f. Zakah paid on behalf of shareholders

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

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

13. OWNERS' EQUITY (Continued)

g. Proposed Appropriations

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

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

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

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

h. Net movement in non-controlling interest

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

14. PERPETUAL TIER 1 CAPITAL

On 31 May 2017, the Bank completed an issuance of US$ 400 million Additional Tier 1 Mudaraba Sukuk in compliance with CBB regulations; listed on Irish Stock Exchange. Profit shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Sukuk at an expected profit of 7.875% per annum, payable on semi-annual basis. These Sukuks are recognised under equity in the consolidated statement of financial position and the corresponding Profit payable on those Sukuk are accounted as appropriation of profits. Expenses relating to the issuance have been included in the retained earnings. As per the terms and conditions, the Sukuk holders will not have a right to claim the profit and such event of non-payment of profit will not be considered as event of default.

15. NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

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

15.1 Receivables

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

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

15.2 Mudaraba and Musharaka financing

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

15.3 Investments

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

15.4 Ijarah Muntahia Bittamleek

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

16. GROUP'S SHARE AS A MUDARIB

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

17. OTHER FEES AND COMMISSION INCOME

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

18. OTHER OPERATING INCOME

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

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

19. PROFIT PAID ON LONG TERM FINANCING

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

20. DEPRECIATION AND AMORTISATION

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

21. OTHER OPERATING EXPENSES

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

22. NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

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

During the year, an impairment loss of US$ 507 thousand (2017: US$ 159 thousand) was charged against investments and goodwill.

An amount of US$ 6,408 thousand (2017: US$ 4,709 thousand) is related to provision of equity type instrumnets at fair value through equity.

22. NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (Continued)

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

The provisions relate to the following geographical areas:

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

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

23. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

24. CASH AND CASH EQUIVALENTS

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

25. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

25. RELATED PARTY TRANSACTIONS (Continued)

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

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

* Includes the effect of the Bank's issuance of bonus shares at 3 bonus shares for each 100 shares held as per the approval of the shareholders at the Annual General Meeting on 20 March 2018.

26. COMMITMENTS AND CONTINGENCIES

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

27. SEGMENTAL ANALYSIS

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by the Group's management and the Board of Directors.

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

- Middle East
- North Africa
- Europe
- Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

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

27. SEGMENTAL ANALYSIS (Continued)

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

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

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

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

28. RISK MANAGEMENT

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

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

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

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

28. RISK MANAGEMENT (Continued)

a) Liquidity risk (Continued)

The maturity profile at 31 December 2018 was as follows:

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

28. RISK MANAGEMENT (Continued)

a) Liquidity risk (Continued)

The maturity profile at 31 December 2017 was as follows:

	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
Assets											
Cash and balances with banks	4,526,154	11,283	26,786	1,500	260,469	9,199	-	-	-	594,694	5,430,085
Receivables	1,760,393	1,028,586	1,094,874	1,832,313	3,408,176	1,959,133	644,964	271,318	1,293	-	12,001,050
Mudaraba and Musharaka financing	1,293,318	17,945	9,318	44,780	369,236	399,121	211,589	32,347	-	-	2,377,654
Investments	780,464	258,370	84,935	301,480	337,693	363,669	304,625	143,385	-	313,713	2,888,334
Ijarah Muntahia Bittamleek	24,629	30,722	63,549	113,525	471,467	359,037	399,815	307,508	85,766	-	1,856,018
Property and equipment	-	-	-	-	-	-	-	-	-	430,192	430,192
Other assets	220,021	43,457	28,289	37,710	23,965	61,127	4,339	1,877	-	49,093	469,878
Total assets	8,604,979	1,390,363	1,307,751	2,331,308	4,871,006	3,151,286	1,565,332	756,435	87,059	1,387,692	25,453,211
Liabilities											
Customer current and other accounts	5,465,433	-	-	-	-	-	-	-	-	-	5,465,433
Due to banks	544,658	422,803	183,128	127,097	22,000	-	-	22,784	-	-	1,322,470
Long term financing	-	4,564	98	390,926	46,956	381,200	412,811	-	-	-	1,236,555
Other liabilities	771,932	106,551	82,139	36,533	15,321	11,941	206	11,360	-	-	1,035,983
Total liabilities	6,782,023	533,918	265,365	554,556	84,277	393,141	413,017	34,144	-	-	9,060,441
Equity of investment accountholders	6,071,194	1,342,695	1,019,310	1,475,506	1,351,345	2,383,841	95,329	142,889	-	-	13,882,109
Total liabilities and equity of investment accountholders	12,853,217	1,876,613	1,284,675	2,030,062	1,435,622	2,776,982	508,346	177,033	-	-	22,942,550
Net liquidity gap	(4,248,238)	(486,250)	23,076	301,246	3,435,384	374,304	1,056,986	579,402	87,059	1,387,692	2,510,661
Cumulative net liquidity gap	(4,248,238)	(4,734,488)	(4,711,412)	(4,410,166)	(974,782)	(600,478)	456,508	1,035,910	1,122,969	2,510,661	
Off-balance sheet equity of investment accountholders	172,138	113,533	85,724	372,931	74,077	58,345	26,154	478	-	-	903,380

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.

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

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

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

Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of islamic financing contracts, based on the Group's credit rating system as of:

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

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Credit quality by type of Islamic financing contracts (Continued)

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

Aging analysis of past due but performing Islamic financing contracts

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

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

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

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.

28. RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Credit Risk Mitigation (Continued)

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.

Credit Quality

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

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

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating.

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

28. RISK MANAGEMENT (Continued)

c) Concentration risk

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

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

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

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

d) Market risk

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

Profit rate risk

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

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

Equity price risk

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

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

28. RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Foreign exchange risk

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

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

	2018		
Currency	Operational equivalent Long (Short) US$ '000	Strategic equivalent Long (Short) US$ '000	Total equivalent Long (Short) US$ '000
Turkish Lira	(76,748)	255,772	179,024
Jordanian Dinar	4,846	388,012	392,858
Egyptian Pound	106	139,307	139,413
Sudanese Pound	1,494	21,578	23,072
Algerian Dinar	-	109,654	109,654
Lebanese Pound	1,242	17,567	18,809
Pound Sterling	(3,718)	-	(3,718)
Tunisian Dinar	7,674	41,891	49,565
Euro	71,575	-	71,575
South African Rand	(484)	32,025	31,541
Pakistani Rupees	(701)	94,475	93,774
Syrian Pound	3,512	17,299	20,811
Moroccan Dirham	15	10,806	10,821
Others	8,462	-	8,462

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

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

28. RISK MANAGEMENT (Continued)

d) Market risk (Continued)

Foreign currency risk sensitivity analysis

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

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2018

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

d) Market risk (Continued)

Foreign currency risk sensitivity analysis (continued)

At 31 December 2017

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

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.

28. RISK MANAGEMENT (Continued)

e) Operational Risk (Continued)

Business risk

This risk may take on the following forms:

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

Capital adequacy

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

f) Corporate governance

Board of Directors

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

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

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

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

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

30. EARNINGS PROHIBITED BY SHARI'A

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

31. COMPARATIVE FIGURES

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

PUBLIC DISCLOSURES

(UNAUDITED)

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

Table – 1. Capital Structure (PD-1.3.12 & 1.3.14)

The following table summarises the eligible capital as of:

	31 December 2018		
	CET 1	AT1	T2
	US$ '000	US$ '000	US$ '000
Tier 1 Capital			
Common Equity Tier 1 (CET1)			
Issued and fully paid up ordinary shares	1,242,879	-	-
Less: Treasury Shares	9,203	-	-
Legal / statutory reserves	165,551	-	-
Share premium	18,829	-	-
Retained earnings	427,789	-	-
Current net income	123,465	-	-
Unrealized gains and losses on available for sale financial instruments	271	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(861,313)	-	-
All other reserves	-	-	-
Unrealized gains and losses from fair valuing equities	5,619	-	-
Total CET1 capital before minority interest	1,113,887	-	-
Total minority interest in banking subsidiaries given recognition in CET1 capital	421,260	-	-
Total CET1 capital prior to regulatory adjustments	1,535,147	-	-
Less:			
Goodwill	53,325	-	-
Intangibles other than mortgage servicing rights	18,078	-	-
Deferred tax assets	20,038	-	-
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	1,443,706	-	-
Other Capital (AT1 & T 2)			
Instruments issued by parent company		400,000	
Instruments issued by banking subsidiaries to third parties		32,398	66,362
Assets revaluation reserve - property, plant, and equipment			31,657
General financing loss provision			116,232
Total Available AT1 & T2 Capital		432,398	214,251
Net Available Capital after regulatory adjustments before Applying Haircut		432,398	214,251
Net Available Capital after Applying Haircut	1,443,706	432,398	214,251
Total Tier 1		1,876,104	
Total Capital			2,090,355

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2018	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	9,298,528	1,162,316
Market Risk	1,151,875	143,984
Operational Risk	1,912,917	239,115
Total risk weighted exposures	12,363,320	1,545,415
Investment risk reserve (30% only)	(31,202)	(3,900)
Profit equalization reserve (30% only)	(1,596)	(200)
	12,330,522	1,541,315

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

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

	31 December 2018	
Islamic financing contracts	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Receivables	4,450,381	556,298
Mudaraba and Musharaka financing	1,101,324	137,665
Ijarah Muntahia Bittamleek	878,981	109,873
	6,430,686	803,836

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))

The following are capital adequacy ratios for Total capital and Tier 1 capital as of:

	31 December 2018
Total capital ratio	16.95%
Tier 1 capital ratio	15.22%

1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY (Continued)

Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))

The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of the CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

	31 December 2018	
	Tier 1 capital ratio	Total capital ratio
Banque Al Baraka D'Algerie	18.67%	20.46%
Al Baraka Islamic Bank*	5.62%	7.62%
Al Baraka Bank Tunis	16.78%	17.15%
Al Baraka Bank Egypt	20.18%	21.16%
Al Baraka Bank Lebanon	11.67%	12.52%
Jordan Islamic Bank	26.88%	27.89%
Al Baraka Turk Participation Bank	9.62%	11.62%
Al Baraka Bank Limited	22.99%	23.33%
Al Baraka Bank Sudan	9.18%	11.18%
Al Baraka Bank Syria	19.97%	20.88%
BTI Bank	100.19%	100.26%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 14.39% and total capital ratio of 20.98%.

Legal restrictions on capital and income mobility (PD-1.3.6 (c))

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

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

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

	31 December 2018
Nationality/ Incorporation	% holding
Bahraini	28.42
Saudi	41.53
Cayman Islands	19.32
Emirati	6.12
Others	4.61

2. RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2016 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

The Group's risk management has the following objectives:

a. Unified Group-wide risk management to enable the Group to produce risk adjusted return on capital.
b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Group-wide policies, processes and limits.
c. Professionally qualified staff and ongoing credit training.
d. Investing in technology and systems for best practice risk management.
e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.
f. Strict compliance with all Shari'a and legal requirements and regulatory directives.
g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

2. RISK MANAGEMENT (Continued)

a) Liquidity risk

The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

   i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to mitigate the risk; and

   ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 December 2018
Short term assets to short term liabilities	78%
Liquid assets to total assets	27%

b) Credit risk

General credit policies and guiding principles

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

a) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.

b) Financing should be extended where there are at least two clear sources of repayments.

c) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.

d) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.

e) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.

f) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.

g) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.

h) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.

i) Propriety and ethical standards should be taken into account in all financing decisions.

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations. However, at the Group level the percentage of funding of self financed represent 45% and of IAH represent 55%.

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

	31 December 2018				
	Self financed		Financed by IAH		Total
	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total gross credit exposure US$ '000	*Average gross credit exposure over the year US$ '000	Total self financed and financed by IAH US$ '000
Funded Exposure					
Receivables	2,324,186	2,661,201	7,979,682	8,298,973	10,303,868
Mudaraba and Musharaka financing	1,435,343	1,376,380	1,283,563	1,289,923	2,718,906
Investments	1,582,425	1,561,338	1,484,583	1,342,188	3,067,008
Ijarah Muntahia Bittamleek	690,819	671,654	1,080,014	1,130,122	1,770,833
Other assets	59,785	105,161	88,648	107,430	148,433
Unfunded Exposure					
Commitments and contingencies	3,990,736	4,423,572	-	-	3,990,736
	10,083,294		11,916,490		21,999,784

*Average Balances are computed based on quarter-end balances.

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2018, broken down into significant areas by major types of credit exposure:

	Self financed					Financed by IAH					IAH & Self financed
	Middle East	North Africa	Europe	Others	Total	Middle East	North Africa	Europe	Others	Total	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Receivables	591,808	570,021	1,006,921	155,436	2,324,186	3,833,034	373,133	3,459,635	313,880	7,979,682	10,303,868
Mudaraba and Musharaka financing	789,987	52,072	415,457	177,827	1,435,343	888,295	35,704	-	359,564	1,283,563	2,718,906
Investments	786,364	71,839	579,385	144,837	1,582,425	1,416,547	37,124	-	30,912	1,484,583	3,067,008
Ijarah Muntahia Bittamleek	266,998	352,353	66,556	4,912	690,819	845,665	221,268	4,866	8,215	1,080,014	1,770,833
Other Assets	43,823	7,984	-	7,978	59,785	66,472	3,002	-	19,174	88,648	148,433
	2,478,980	1,054,269	2,068,319	490,990	6,092,558	7,050,013	670,231	3,464,501	731,745	11,916,490	18,009,048

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2018:

	Funded Exposures										Unfunded Exposures		Funded and Unfunded Exposures	
	Receivables		Mudaraba and Musharaka financing		Investments		Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH	Self	IAH
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Claims on sovereigns	185,660	835,049	198,593	577,168	904,662	1,169,186	28,200	-	-	-	6,366	-	1,323,481	2,581,403
Claims on International Organizations	-	-	-	-	1,125	5,345	-	-	-	-	-	-	1,125	5,345
Claims on PSEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on MDBs	1,565	8,392	-	-	-	-	421	637	-	-	-	-	1,986	9,029
Claims on banks	109,798	411,270	513,545	285,704	178,195	78,649	9,350	6,147	-	-	206,761	-	1,017,649	781,770
Claims on corporates	1,101,007	3,849,630	456,922	262,339	154,312	6,606	295,017	345,306	-	-	2,806,748	-	4,814,006	4,463,881
Claims on investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on retail	601,492	2,172,107	-	83,106	-	-	19,506	9,110	-	-	781,052	-	1,402,050	2,264,323
Mortgage	201,414	490,069	-	-	-	-	338,325	699,002	-	-	126,387	-	666,126	1,189,071
Past due receivables	123,250	213,165	753	6,908	408	-	-	19,812	-	-	8,694	-	133,105	239,885
Equity investment	-	-	-	-	70,807	56,493	-	-	-	-	-	-	70,807	56,493
Investment in funds	-	-	-	-	216,102	1,870	-	-	-	-	-	-	216,102	1,870
Specialized lending	-	-	265,530	68,338	-	-	-	-	-	-	54,728	-	320,258	68,338
Other assets	-	-	-	-	56,814	166,434	-	-	59,785	88,648	-	-	116,599	255,082
Total	2,324,186	7,979,682	1,435,343	1,283,563	1,582,425	1,484,583	690,819	1,080,014	59,785	88,648	3,990,736	-	10,083,294	11,916,490

Large Credit Exposure (PD - 1.3.23 (f))

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

There are no large exposures to individual counterparties where the exposure is in excess of the 15% individual obligor limit that qualifies for extra risk weight as per CBB's guidelines.

Past due, non-performing Islamic financing contracts and provisions (PD-1.3.22 (a))

Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing Islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2018:

					Aging of non performing Islamic financing contracts		
	Total US$ '000	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing Islamic financing contracts US$ '000	90 days to 1 year US$ '000	1 year to 3 years US$ '000	Over 3 years US$ '000
Sovereign	906,616	905,558	1,058	-	-	-	-
Bank	1,691,291	1,691,171	-	120	106	-	14
Investment Firms	16,425	1,007	-	15,418	-	12,269	3,149
Corporates	7,907,941	6,245,836	1,083,995	578,110	237,857	224,124	116,129
Retail	3,293,861	3,037,909	77,817	178,135	41,110	68,896	68,129
	13,816,134	11,881,481	1,162,870	771,783	279,073	305,289	187,421

Table -12. Expected Credit Loss (ECL) on stage 3 by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total expected credit loss (ECL) on stage 3 disclosed by counterparty type as of 31 December 2018:

	Stage 3 ECL					
	Opening balance US$ '000	Charged during the year US$ '000	Write-back during the year US$ '000	Write-offs during the year US$ '000	Foreign exchange translations/ others - net US$ '000	Balance at the end of the year US$ '000
Bank	5,548	-	-	-	(169)	5,379
Investment Firms	8,191	8,300	(2,960)	-	(697)	12,834
Corporates	372,357	113,365	(55,333)	(79,832)	(49,754)	300,803
Retail	114,710	7,316	(3,258)	(811)	6,195	124,152
	500,806	128,981	(61,551)	(80,643)	(44,425)	443,168

Table -13. Expected credit losses stage 1 and 2 (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of stage 1 and 2 during the year ended:

	31 December 2018 US$ '000
Opening balance	145,056
Charged during the year	92,345
Foreign exchange translations/ others	5,334
Balance at the end of the year	242,735

2. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

Table - 14. Past due and non-performing Islamic financing contracts and ECL by geographic areas (PD-1.3.23(i), PD-1.3.24(c))

The following table summarises the total past due and non performing Islamic financing contracts and ECL disclosed by geographical area as of:

	31 December 2018		
	Past due and non performing Islamic financing contracts US$ '000	Stage 3 ECL US$ '000	Stage 1 and 2 ECL US$ '000
Middle East	296,157	189,400	93,956
North Africa	114,629	41,408	28,837
Europe	1,417,123	173,170	114,158
Others	106,744	39,190	5,784
	1,934,653	443,168	242,735

Table - 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))

	31 December 2018 US$ '000
Renegotiated Islamic financing contracts	393,499

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial. These facilities has been renegotiated mainly to enter into new contracts with different tenor, profit or enhance the collaterals.

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))

The Group has no significant obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

Table - 16. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of:

	31 December 2018 US$ '000
Gross positive fair value of contracts	17,860,615
Netting Benefits	-
Netted Current Credit Exposure	17,860,615
Collateral held:	
Cash	1,087,917
Others	2,784,415
Real Estate	4,781,161
	8,653,493

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

2. RISK MANAGEMENT (Continued)

c) Market risk

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

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

	31 December 2018	
	Equity position risk US$ '000	Foreign exchange risk US$ '000
Risk weighted exposure (RWE)	-	1,151,875
Capital requirements (12.5%)	-	143,984
Maximum value of RWE	-	1,440,575
Minimum value of RWE	-	1,151,875

Profit rate risk

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

Displaced Commercial Risk

The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the individual subsidiary level.

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 Group's investment portfolio.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

Table – 18. Investments in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2018:

	Total gross exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukuk and similar items	2,482,498	2,332,827	1,447,117	1,035,381	46,488
Equity Investment	350,867	343,795	271,948	78,919	43,858
Managed funds	18,113	17,626	14,214	3,899	2,264
	2,851,478	2,694,248	1,733,279	1,118,199	92,610

2. RISK MANAGEMENT (Continued)

c) Market risk (continued)

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

The following table summarises the cumulative realised and unrealised gains or losses during the year ended:

	31 December 2018 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	3,924
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	271

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.

d) 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.

Table - 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

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

	Gross income		
	2018 US$ '000	2017 US$ '000	2016 US$ '000
Total Gross Income	**987,819**	998,690	1,074,158

	2018
Indicators of operational risk	
Average Gross income (US$ '000)	**1,020,222**
Multiplier	**12.5**
	12,752,779
Eligible Portion for the purpose of the calculation	**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,912,917**

The Group has no material legal contingencies including pending legal action.

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 (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 Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

- Risk Management Committee
- Head of Credit and Risk Management
- Head of Operational, Liquidity and Market Risk
- Various departments

The Risk Control Self Assessment exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews.

2. RISK MANAGEMENT (Continued)

The Key processes identified in a Risk Control Self Assessment are:

- Risk and Control Identification Process
- Measurement of Operational Risk Exposures
- Identifying Unacceptable Risk Exposures
- Risk Action Plans.

The Operational Risk framework will be subject to periodic internal audit.

3. CORPORATE GOVERNANCE

Code of business conduct and ethics for members of the board of directors

Purpose:
The primary objectives of the following Code of Business Conduct and Ethics (the "Code") is to enable each Director to focus on areas of ethical risks, to help them recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within the Group.

Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between their interests and those of the Group. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director's personal interest is adverse to, or appears to be, adverse to the interests of the Group. Conflicts of interest also arise when a Director, or a member of their immediate family, receives an improper personal benefit as a result of their position as a Director of the Group. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:

1 Engagement in any conduct or activity which may conflict with the best interests of the Group, or which may disrupt or impair Group's standing with any person or entity with whom or which the Group has to proposes to enter into a business or contractual relationship.

2 Acceptance of compensation (in any form) for services performed in relation to the Group from any source other than from the Group.

3 Acceptance by them or any member of their family of gifts from persons or entities who or which deal with the Group where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.

4 Utilization of the Group's assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

Confidentiality:
Confidential information includes all non-public information relating to the Group, whether in written or in oral form. Directors are under continuous obligation to maintain the confidentiality of information entrusted directly to them by the Group and any other confidential information about the Group which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures are mandated by the law.

Compliance with Rules, Laws and Regulation:
Directors shall, at all times, comply with all laws, rules and regulations applicable to the Group, including insider trading laws.

ADDITIONAL PUBLIC DISCLOSURES
At 31 December 2018

3. CORPORATE GOVERNANCE (Continued)

Remuneration

The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

The following table summarises remuneration of the Group's Directors, Shari'a Committee members, President & Chief Executive, Deputy Chief Executive and the Department Heads at Group Headquarters during the year ended:

	31 December 2018
	US$ '000
Directors remuneration	1,500
Executive Management	
Salary and other remuneration, including meeting allowance	6,638
Fees	326
Bonuses	1,244
Benefits-in-kind	1,745
	9,953
Shari'a Committee Members fee and remuneration	258
	11,711

Complaints

The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's executive management.

Financial Penalty

During the year a financial penalty of US$ 2,122 (BD 800) was paid to the CBB on account of late submition by one working day of Corporate Governance Report (Appendix BR-6 - Board and Committee Meetings) pertaining to the year 2017.

Related party transactions

Related party transactions are governed by the Group corporate governance policy and individual subsidiaries' local rules and regulations. All related party transactions were conducted at arm's length.

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2018 financial year. The AGM has approved the reappointment of the external auditor for the year 2018 on 20 March 2018 and the related regulatory approval were taken.

For the year 2018, annual audit and quarterly review services amounted to US$ 418,101, other attestation services amounted to US$ 94,297 and other non-audit services amounted to US$ 29,576.

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijarah transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Those investment accounts are available for different type of customers and investors ranging from retail to corporate.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Targeted returns;
b) Compliance with credit and Investment policy and overall business plan; and
c) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijarah. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib share". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity are not entitled to any income and might be subject to charges. The practice varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

The basis applied by the Group in arriving at the investment account holders share of income varies for each subsidiary based on the business model, local market practices and prudential requirements for each subsidiary.

Table – 21. Equity of IAH (PD-1.3.33 (a), (b) & (c))

The following table summarises the breakdown of IAH and return on IAH as of:

	31 December 2018 US$ '000
IAH - Banks	363,938
IAH - Non-banks	12,640,876
Profit equalisation reserve (PER) - Banks	150
Profit equalisation reserve (PER) - Non-banks	5,170
Investment risk reserve (IRR) - Banks	2,945
Investment risk reserve (IRR) - Non-banks	101,060
Cumulative changes in fair value attributable to IAH	8,229
	13,122,368

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 22. Return on average IAH (PD-1.3.33 (d))

	2018
	%
Return on average IAH Equity	8.6
Return on average IAH Assets	5.8

Table – 23. Ratio by type of IAH (PD-1.3.33 (g))

	31 December 2018
	%
IAH - Banks	3
IAH - Non-banks	97

The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))

The following table summarises the percentage of IAH financing for each type of Shari'a-compliant contract to total IAH financing as of:

	31 December 2018
	%
Receivables	77
Mudaraba and Musharaka financing	12
Ijarah Muntahia Bittamleek	10

Table – 25. IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2018
	%
Sovereign	10
Bank	10
Corporates	50
Retail	30

IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 26. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2018		
	Opening actual allocation US$ '000	Movement US$ '000	Closing actual allocation US$ '000
Cash and balances with banks	1,226,310	(57,495)	1,168,815
Receivables	8,548,670	(568,988)	7,979,682
Mudaraba and Musharaka financing	1,323,884	(40,321)	1,283,563
Investments	1,290,557	194,026	1,484,583
Ijarah Muntahia Bittamleek	1,146,148	(66,134)	1,080,014
Other assets	124,914	797	125,711
	13,660,483	(538,115)	13,122,368

Table – 27. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

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

	31 December 2018		
Type of Claims	RWA US$ '000	RWA for capital adequacy purposes US$ '000	Capital charges US$ '000
Claims on Sovereign	570,069	171,021	21,378
Claims on PSEs	6,085	1,826	228
Claims on MDBs	4,515	1,355	169
Claims on Banks	439,738	131,921	16,490
Claims on Corporates	4,096,493	1,228,948	153,619
Regulatory Retail Portfolio	1,622,273	486,682	60,835
Mortgage	1,115,067	334,520	41,815
Past due facilities	266,035	79.811	9,976
Investment in securities	57,676	17,303	2,163
Holding of Real Estates	359,020	107,706	13,463
Other Assets	370,593	111,178	13,897
	8,907,564	2,672,271	334,033

4. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 28. Historical data over past five years related to IAH (PD-1.3.41 (b),(c),(d),(e),(f) & (g))

	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000
The profit available for shareholders before smoothing	168,003	174,243	222,550	196,848	147,945
The profit available for IAH before smoothing	1,159,241	1,084,420	1,114,019	1,026,367	1,018,827
The profit available for sharing between IAH and shareholders before smoothing	1,327,244	1,258,663	1,223,215	1,166,772	1,031,031
The percentage of profit available for shareholders	1%	1%	1%	1%	1%
The percentage of profit available for IAH	8%	7%	6%	7%	6%
The profit available for shareholders after smoothing	168,003	222,550	196,848	147,945	118,939
The profit available for IAH after smoothing	1,242,385	1,117,965	1,029,375	1,017,908	909,410
The profit available for sharing between IAH and shareholders after smoothing	1,410,388	1,340,515	1,226,223	1,165,853	1,028,349
The percentage of profit available for shareholders	1%	1%	1%	1%	1%
The percentage of profit available for IAH	8%	7%	7%	6%	7%
Profit equalisation reserve					
Balance at 1 January	6,006	6,091	10,037	13,045	12,126
Amount apportioned from income allocable to equity of IAH	4,240	910	297	49	2,377
Amount used during the year	(4,792)	(976)	(3,580)	(1,229)	-
Foreign exchange translations	(134)	(19)	(663)	(1,828)	(1,458)
Balance at 31 December	5,320	6,006	6,091	10,037	13,045
Investment risk reserve					
Balance at 1 January	187,149	176,583	179,238	198,559	110,424
Amount appropriated to provision	(26,423)	(8,069)	7,324	(9,549)	(5,288)
Amount apportioned from income allocable to equity of IAH	(47,755)	21,895	1,057	10,711	102,728
Foreign exchange translations	(8,966)	(3,260)	(11,036)	(20,483)	(9,305)
Balance at 31 December	104,005	187,149	176,583	179,238	198,559

The market benchmark rates for Equity of IAH for the Group differ at the subsidiaries' level based on local market environments.

5. OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

Off-balance sheet equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

The range and measures of risks facing off balance sheet IAH are similar to those risks and measures for the relevant type of investment as disclosed by the Group.

5. OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

Table – 29. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))

The following table summarises the percentage of financing for each type of Shari'a-compliant contract to total financing as of:

	31 December 2018
	%
Receivables	37
Mudaraba and Musharaka financing	43
Ijarah Muntahia Bittamleek	20

Table – 30. Off-balance sheet equity of IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2018
	%
Sovereign	19
Investment Firms	5
Bank	29
Corporates	18
Retail	29

Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's share of income is based on the terms and conditions of the related mudaraba agreements. These mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on off-balance sheet equity of investment accountholders' returns and local market benchmark return are analysed at the local level.

Table – 31. Historical return on off-balance sheet equity of IAH over the past five years (PD-1.3.35 (b))

	2018	2017	2016	2015	2014
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Return on off-balance sheet equity of IAH net of expenses	54,097	42,467	43,826	30,426	28,201

REGULATORY CAPITAL DISCLOSURES
At 31 December 2018

Composition of Capital Disclosure Requirements

	Statement of Financial Position as in published financial statements 31 December 2018 US$ '000	Consolidated PIRI data 31 December 2018 US$ '000	Reference
Assets			
Cash and balances at central banks	5,008,009	5,008,074	
Trading portfolio assets	215,160	215,160	
Murabaha	9,919,755	10,069,559	
Ijarah assets	1,770,831	1,789,416	
Ijarah installment receivables	53,867	54,632	
Mudarabah	1,704,623	1,711,827	
Musharakah	1,014,283	1,018,176	
Salam	207,957	210,206	
Istisna'a	122,289	123,627	
Held to maturity	2,482,498	2,487,077	
Available for sale financial investments	100,651	100,651	
Investment in real estate	215,530	215,530	
Prepayments, accrued income and other assets	480,129	469,074	
Current and deferred tax assets	-	20,038	H
Investments in associates and joint ventures	53,169	53,169	
Goodwill	53,325	53,325	F
Other intangible assets	22,598	22,598	G
Property, Plant and Equipment	406,564	406,564	
Total Assets	**23,831,238**	**24,028,703**	
Liabilities			
Deposits or placement from banks	1,178,758	1,178,758	
Customer accounts	5,325,924	5,325,924	
Accruals, deferred income and other liabilities	891,991	882,024	
Current and deferred tax liabilities	79,319	79,319	
Long term financing	976,891	976,891	
Total liabilities	**8,452,883**	**8,442,916**	
Equity of Investment Account Holders	**13,122,368**	**13,122,368**	
Shareholders' Equity			
Paid-in share capital	1,233,675	1,233,675	A
Share premium	18,829	18,829	C1
Retained earnings	556,873	556,873	B
Reserves	(663,832)	(695,489)	C2
Tier 1 Sukuk	400,000	399,993	L
Assets revaluation reserve - property, plant, and equipment	-	31,657	K2
Expected credit losses (Stages 1 & 2)	-	116,232	K1
Expected credit losses (Stages 1 & 2)	-	207,439	K1a
Non controlling interest	710,442	710,442	
NCI - CET1	-	421,259	D
NCI -AT1	-	32,398	I
NCI-T2	-	66,362	J
		190,423	
Total Shareholders' Equity	**2,255,987**	**2,463,419**	
Total Liabilities, URIA and shareholders' equity	**23,831,238**	**24,028,703**	

REGULATORY CAPITAL DISCLOSURES
At 31 December 2018

Composition of Capital Disclosure Requirements

		31 December 2018 US$ '000	Amounts Subject to Pre-2015 Treatment	Reference
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1,233,675		A
2	Retained earnings	556,873		B
3	Accumulated other comprehensive income (and other reserves)	(676,660)		C1 + C2
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	421,259	710,442	D
6	**Common Equity Tier 1 capital before regulatory adjustments**	**1,535,147**		
Common Equity Tier 1 capital: regulatory adjustments				
8	Goodwill (net of related tax liability)	53,325		F
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	18,078	22,598	G
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	20,038		H
28	**Total regulatory adjustments to Common equity Tier 1**	**91,441**		
29	**Common Equity Tier 1 capital (CET1)**	**1,443,706**		
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	399,993		L
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	32,398		I
36	**Additional Tier 1 capital before regulatory adjustments**	**432,391**		
Additional Tier 1 capital: regulatory adjustments				
44	**Additional Tier 1 capital (AT1)**	**432,391**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,876,097**		
Tier 2 capital: instruments and provisions				
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34 issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	66,362		J
50	Provisions & Assets revaluation reserve - property, plant, and equipment	147,889		K1 + K2
51	**Tier 2 capital before regulatory adjustments**	**214,251**		
Tier 2 capital: regulatory adjustments				
58	**Tier 2 capital (T2)**	**214,251**		
59	**Total capital (TC = T1 + T2)**	**2,090,348**		
60	**Total risk weighted assets**	**12,330,523**		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.71%		
62	Tier 1 (as a percentage of risk weighted assets)	15.22%		
63	Total capital (as a percentage of risk weighted assets)	16.95%		
National minima including CCB (if different from Basel 3)				
69	CBB Common Equity Tier 1 minimum ratio	9.0%		
70	CBB Tier 1 minimum ratio	10.5%		
71	CBB total capital minimum ratio	12.5%		
Amounts below the thresholds for deduction (before risk weighting)				
73	Significant investments in the common stock of financials	10,188		
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	207,439		K1a
77	Cap on inclusion of provisions in Tier 2 under standardized approach	116,232		K1

REGULATORY CAPITAL DISCLOSURES
At 31 December 2018

Composition of Capital Disclosure Requirements

Main features of regulatory capital instruments

1	Issuer	Al Baraka Banking Group	ABG Sukuk Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	BARKA - Bahrain Bourse & Nasdaq Dubai	Irish stock exchange	NA
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain	English law	All applicable laws and regulations of the Islamic Republic of Pakistan
	Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo/group/group&solo	GROUP & SOLO	GROUP & SOLO	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares	Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognized in regulatory capital (US$ in mil, as of most recent reporting date)	1,234	400	17
9	Par value of instrument	US$ 1	US$ 1,000	NA
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability - amortized cost
11	Original date of issuance	Various dates	31-May-17	2014
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	2021
14	Issuer call subject to prior supervisory approval	NA	Yes	No
15	Optional call date, contingent call dates and redemption amount	NA	31-May-22	NA
16	Subsequent call dates, if applicable	NA	Each periodic distribution date thereafter	NA
	Coupons / dividends			
17	Fixed or floating dividend/coupon	NA	Floating	Floating
18	Coupon rate and any related index	NA	7.875%, 5Y U.S.$ mid-swap rate	KIBOR
19	Existence of a dividend stopper	NA	Yes	NA
20	Fully discretionary, partially discretionary or mandatory	NA	Fully discretionary	NA
21	Existence of step up or other incentive to redeem	NA	No	NA
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	NA	Non convertible	NA
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	No	Yes	No
31	If write-down, write-down trigger(s)	NA	A write-down of the Certificates (in whole or in part, as applicable) will take place if (i) the Obligor is instructed by the financial regulator to write-off or cancel such instruments on the grounds of non-viability or (ii) an immediate injection of capital is required, by way of an emergency intervention, without which the Obligor would become non-viable, as detailed in the Preliminary Prospectus.	NA
32	If write-down, full or partial	NA	Full	NA
33	If write-down, permanent or temporary	NA	Permanent	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors & creditors of the bank	Senior to only common equity shareholders	Subordinate to all liabilities
36	Non-compliant transitioned features	NA	NA	NA
37	If yes, specify non-compliant features	NA	NA	NA

ABG HEAD OFFICE MANAGEMENT

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Mr. Adnan Ahmed Yousif
President and Chief Executive

DEPUTY CHIEF EXECUTIVE
Mr. Hamad A. Al Oqab
Deputy Chief Executive
Mr. Mohsin Dashti
First Vice President

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Executive Vice President - Head of Strategic Planning
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First Vice President - Strategic Planning

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Mr. Ahmed Albalooshi
Senior Vice President - Head of Information Technology
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First Vice President - Investors Relations
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Dr. Adel Basha
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Mr. Mohammed El Qaq
Senior Vice President - Head of Commercial Banking

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First Vice President
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Shari'a Officer and Secretary of the Unified Shari'a Board

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