Al Baraka Banking Group B.S.C.

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

31 DECEMBER 2020

alBaraka
Banking Group

3 Rajab 1442
15 February 2021

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

Unified Shari'a Supervisory Board Report
AlBaraka Banking Group B.S.C.
For the year ended 31 December 2020

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

To: Al Baraka Banking Group Shareholders

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

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

First:

We have conducted six meetings during 2020 in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2020 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the Unified Shari'a Supervisory Board replied to requests for fatwa from the Group and subsidiaries and studies the contracts entered into by the Group during the year 2020.

Second:

We have reviewed the principles applied by the Group and reviewed the 2020 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 2020 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium1/31 and by the Unified Shari'a Supervisory Board.

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

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

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

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2020 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 23 March 2020 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 1,656,267as Zakah on behalf of the shareholders deducted from the Retained Earnings for the financial year of 2019. The Group has paid and distributed an amount of US$1,420,428 to those who's entitled to receive Zakah as per Shari'a boundaries and as approved by Unified Shari'a Board. The remaining amount of US$ 235,839 has been allocated to be paid maximum by end of first quarter of 2021.

The unified Sharia Board monitored, through the Sharia observer's reports, the distribution of the Zakah amount to ensure how it was distributed and that it was directed to the Sharia Zakah banks mentioned in the verse.

For the year 2020, the Group is not required to pay Zakah on behalf of the shareholders, unless there is a direct empowerment from the general assembly to the Group to pay Zakah on the behalf of the shareholders. Therefore if the shareholders have not empower the Group to pay Zakah, the shareholders have to pay the Zakah related to their shares, which equal to US Cent 8 for each 100 shares. In case of unavailability of such empowerment, then the shareholders should pay their share of Zakah as per the enclosed calculation. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become debt until the liquidity become available.

Praise be to Allah.

Chairman and Members

Shaikh Dr. Abdulla Al Mannea
Chairman

Shaikh Dr. Abdullatif Al Mahmood
Vice Chairman

Shaikh Dr. Saad Al Shithry
Member

Shaikh Dr. Al Ayachi Fiddad
Member

Shaikh Yousif Hassan Khilawy
Member

Zakah Calculation for the year ended 31 December 2020

	US$ '000
Equity Attributable to Shareholders	1,433,184
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(282,863)
Perpetual tier 1 capital	(400,000)
Net Zakatable Equity Attributable to Shareholders	**750,321**
Less:	
Musharaka underlined by unzakatable assets	(65,845)
Investment in Islamic Sukuk underlined by unzakatable assets	(23,469)
Ijarah Muntahia Bittamleek	(244,071)
long-term investment in real estate	(28,340)
Properties and equipment	(278,204)
Intangible assets	(62,342)
Investment in Associates	(4,882)
Prepayments	(7,587)
Deferred tax asset	(33,272)
Add:	
Shareholders share on Zakatable Assets by Associates	4,741
Sale of long-term investment in real estate during the year	55
Deferred tax liability	5,960
Employees' end of services benefit	26,307
Zakatable amount	**39,372**
Zakah Percentage	2.5775%
Total Zakah due	**1,015**
Number of Shares (thousands)	1,210,378
Zakah per share (US$ cents)	**0.08**

Directors' Report

At the outset, and with reverence, we pay homage to the memory of Sh. Saleh Abdullah Kamel, the Founder-Chairman of Al Baraka Banking Group ("ABG" or the "Group") and pioneer of Islamic banking in the world who sadly passed away in May 2020. May Allah bless him, forgive him and grant him paradise. We will strive to uphold his tenets as we take Islamic banking forward into new frontiers.

We would like to thank Mr. Adnan Ahmed Yousif, the President & Chief Executive of the Group for his invaluable contribution to ABG, who retired on December 31, 2020, Mr. Mazin Khairy Manna was appointed as Group Chief Executive Officer of ABG, effective January 1, 2021.

Economic outlook

The year 2020 brought forth in its wake a pandemic of epic proportions that the world has never seen before. The Coronavirus ("Covid-19") has impacted the world both physically in terms of the numerous human casualties and in economic terms a significant contraction of growth. As a consequence, trade equations were redefined across the world, as were political and economic equilibriums. The very fabric of personal and business life came to be re-prioritized, the impact of which will beset the world for several years to come. With the lessons learnt from the 2008 crisis, governments quickly set in place measures to stem the economic downturn, with an expectation that the world economies will recover in 2021, rising gradually at modest rates over the medium term. In addition, the global banking system was already fortified with relatively high capital and liquidity buffers which are expected to adequately weather the shocks. The Middle East and North Africa region has been particularly proactive in taking measures, both fiscal and physical in terms of monetary policy, liquidity and other macro initiatives.

Strategy review

Al Baraka Banking Group and its subsidiaries ("Units") responded swiftly to the economic, fiscal and social fallouts of the pandemic by setting in place a strategy that would serve to protect the interests of customers and their businesses. The axioms of the other initiatives were to ensure a safe environment for customers and employees, preserve adequate capital and liquidity, ensure good asset quality with high credit risk standards and adequate provisions.

The Group and its Units took advantage of the crisis to look inward at strengthening processes and procedures in anticipation of eventual economic recovery and thereby product and revenue growth, whilst rationalizing overheads. Professional skills of staff were also enhanced, an investment that is expected to bear fruit in the periods to come. The Group's digital transformation strategy that has been progressing well over the years experienced a further surge, guided with impetus from the current crisis that brought into play social distancing, and the absence of human contact for non-essential functions.

During the year, a proposal was put forth by the Board of Directors and approved by the shareholders at an extra-ordinary general assembly on November 30, 2020 to convert (subject to required regulatory approvals) the Islamic Wholesale Banking License of ABG in Bahrain to that of a Category 1 Islamic Investment Firm regulated by the Central Bank of Bahrain ("CBB"), and rename it "Al Baraka Group B.S.C". This conversion will enable the Group to streamline operations, enhance efficiencies, make better use of its resources for the benefit of its Units and other Stakeholders and continue to play the role of strategic controller of all its subsidiaries.

Review of 2020

Despite the challenging conditions for the year caused by the pandemic, ABG managed to turn in an encouraging performance in the face of volatile currencies of the constituent unit-countries, reflecting a growth in total assets by 8% to US$ 28.2 billion, up from US$ 26.3 billion in end 2019. The growth came largely from increase in the deposit base of customers and financial institutions by 8% to US$ 24.4 billion, up from US$ 22.5 billion in end 2019, which serves as an endorsement of the confidence in the Group, even under the current conditions, by its faithful depositors.

Operating assets (financing and investments) grew from US$ 19.8 billion in 2019 to US$ 21.6 billion in 2020, representing an increase of 10%. Operating income grew 18% to US$ 1.1 billion, up from US$ 967.4 million in 2019 which is a signal of the intrinsic strength of the Group's business model. The net income for the year was US$ 165.9 million, a decrease of 8% from US$ 180.2 million in 2019. The net income attributable to the equity shareholders of the parent was US$ 66.6 million as against US$ 105.7 million in 2019, a decrease of 37%. Overall therefore, the performance of the Group was creditable under the extreme adverse conditions experienced during the year.

After the transfer of US$ 6.7 million to the legal reserve, the Board of Directors has recommended to transfer the balance net income of US$ 60.0 million to the retained earnings. The Board has further recommended a remuneration of US$ 1.5 million for its directors, subject to the approvals of the Minister of Industry, Commerce and Tourism and the shareholders at the annual general assembly.

In March 2020 the shareholders of ABG elected a new Board of Directors, with some of the members being reelected and new members added. The Board approved the appointment of Shaikh Saleh Abdullah Kamel as Chairman of the Board and Mr. Mohamed Ebrahim Al Shroogi as Vice Chairman effective 25th March 2020. On 4 June 2020, the undersigned was appointed as Chairman of the Board, succeeding the late Chairman Shaikh Saleh Abdullah Kamel.

As of December 31 2020, the ownership of the shares of ABG by the Board is immaterial and no major trading of such shares took place during 2020. Details of the shares held by the directors and executive management are provided in the notes to the consolidated financial statements.

We would like to place on record our condolences on the sad passing away of Dr. Ahmed Mohyeldin earlier this year. Dr. Mohiyeldin was a long-standing member of our Unified Shari'a Supervisory Board and a respected proponent of Islamic banking Fiqh. We would also like to mourn the passing away of Sh. Dr. Abdul Sattar Abu Ghuddah earlier this year. Sh. Abu Ghuddah was Chairman of our Unified Shari'a Supervisory Board until mid-2018 and a luminary of Islamic banking in the world. May Allah bless our scholars who passed away and grant them paradise, and may we all benefit from their scholarship.

We should like to offer of our congratulations to all our subsidiaries for their commitment to the Group's vision and mission and for their performance in the face of the challenges during the year. We should also like to extend our gratitude to our executive management who have continued to diligently and successfully execute the Group's strategic objectives.

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 continued support and wise guidance over the past year.

May Peace, Mercy and Blessings of Allah be upon you!

On behalf of the Board of Directors,

Abdullah Saleh Kamel

Chairman

Building a better working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which compromise the consolidated statement of financial position as at 31 December 2020, 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, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and the consolidated results of the 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 ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] ("FAS issued by AAOIFI as modified by CBB").

In our opinion, the Bank has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Bank during the period under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued ("ASIFI") by AAOIFI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section in our report. We are independent of the Group in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material judgment of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

<table>
<tr><th colspan="2">1. Expected Credit Loss on Financing Facilities and other financial assets subject to credit risk</th></tr>
<tr><th>Description of key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The process for estimating the impairment provision on financing facilities and other financial assets subject to credit risk in accordance with FAS 30 – Impairment, Credit Losses and Onerous Commitment ("FAS 30") is a significant and complex area. FAS 30 requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss. The ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for financing facilities and other financial assets subject to credit risk.

The Covid-19 global pandemic has significantly impacted management's determination of ECL due to the fact that it has required application of significant judgements resulting in higher uncertainty of ECL estimates as well as forward-looking macroeconomic inputs. This may result in material changes to the estimates of ECL for Stage 1 and 2 in future periods.

In order to capture the future uncertainties and related impacts arising due to effects of the payment holidays provided by the Group and the local regulators and other government initiatives which were not captured by the modelled ECL, the management has applied their expert judgement with respect to: a) assigning scenario weightages; b) determination of LGD; and c) determination of significant increase in credit risk and consequent staging of customers with special emphasis on customers severely affected by Covid-19.</td><td>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates.

Our procedures, among others, focused on following:

• Assessment of:

- the Group's FAS 30 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of FAS 30 and regulatory guidelines issued with respect to Covid-19;

- Group's ECL modeling techniques and methodology against the requirements of FAS 30 incorporating consideration of Covid-19 impacts;

- the basis of determination of any management overlays applied by the Group to incorporate the effects of Covid-19 global pandemic on its modelled ECL outcome;

- the theoretical soundness and mathematical integrity of the models.

• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL models, including approvals for any changes to the models, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions.
• We understood and assessed the significant modeling assumptions for exposures as well as overlays incorporating the consideration of Covid-19 impacts with a focus on:</td></tr>
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

<table>
<tr><td colspan="2">1. Expected Credit Loss on Financing Facilities and other financial assets subject to credit risk (continued)</td></tr>
<tr><td>Description of key audit matter</td><td>How our audit addressed the key audit matter</td></tr>
<tr><td>Because of the complexity of the requirements under FAS 30, the significance of the judgements applied and the high degree of estimation uncertainty arising due to Covid-19 and the Group's exposure to financing facilities subject to credit risk forming a major portion of the Group's assets, the audit of ECL is a key area of focus.

As at 31 December 2020, the Group's gross financing facilities amounted to US$ 17,364 million and the related ECL amounted to US$ 816 million, comprising US$ 298 million of ECL against Stage 1 and 2 exposures and US$ 518 million against exposures classified under Stage 3.

Refer to note 2.2 (b) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group; notes 4, 5, 7 and 22 which contain the disclosures of impairment against the financing facilities; and note 28 (b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</td><td>- Key modeling assumptions adopted by the Group; and
- Basis for and data used to determine overlays.

• For a sample of exposures, we performed procedures to evaluate:

- Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;

- Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging keeping in view the long-term effects of Covid-19 on customers severely affected by it; and

- ECL calculation.

• For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL;

• We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of financing facilities and other financial assets subject to credit risk as required under FAS 30.

We also involved our internal specialists in performing the above procedures.

We also assessed the appropriateness of ECL related disclosures included in the consolidated financial statements of the Group.</td></tr>
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2020 Annual Report
Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement, of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Group's Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS issued by AAOIFI as modified by CBB and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ASIFI issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ASIFI issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and 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;

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

c) except for what has been reported in note 2 to the consolidated financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Kazim Merchant.

Ernst + Young

Partner's registration no. 244
25 February 2021
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	***2020*** ***US$ '000***	*2019* *US$ '000*
ASSETS			
Cash and balances with banks	3	**5,361,444**	5,386,926
Receivables	4	**11,945,993**	10,894,937
Mudaraba and Musharaka financing	5	**2,854,658**	3,228,615
Investments	6	**5,097,189**	3,872,538
Ijarah Muntahia Bittamleek	7	**1,747,627**	1,756,756
Property and equipment	8	**478,572**	455,031
Other assets	9	**764,516**	663,728
TOTAL ASSETS		**28,249,999**	26,258,531
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**7,508,344**	6,195,073
Due to banks		**1,628,032**	1,106,923
Long term financing	10	**319,364**	379,269
Other liabilities	11	**1,341,676**	1,098,200
TOTAL LIABILITIES		**10,797,416**	8,779,465
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions		**538,177**	542,078
Non-financial institutions and individuals		**14,692,012**	14,613,798
Total equity of investment accountholders	12	**15,230,189**	15,155,876
OWNERS' EQUITY			
Share capital	13	**1,242,879**	1,242,879
Treasury shares	13	**(17,462)**	(8,308)
Share premium		**18,084**	18,138
Reserves		**183,121**	177,254
Cumulative changes in fair values		**32,940**	29,370
Foreign currency translations	13	**(800,489)**	(752,068)
Retained earnings		**364,496**	335,089
Proposed appropriations		**-**	24,858
Equity attributable to parent's shareholders		**1,023,569**	1,067,212
Perpetual tier 1 capital	14	**400,000**	400,000
Equity attributable to parent's shareholders and Sukuk holders		**1,423,569**	1,467,212
Non-controlling interest		**798,825**	855,978
TOTAL EQUITY		**2,222,394**	2,323,190
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**28,249,999**	26,258,531

Abdullah Saleh Kamel
Chairman

Mohamed Al Shroogi
Vice Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

Al Baraka Banking Group B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	**2020 US$ '000**	*2019 US$ '000*
INCOME			
Net income from jointly financed contracts and investments	15	**1,285,391**	1,391,699
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,066,575)**	(1,244,567)
Group's share as a Mudarib	16	**354,552**	357,774
Return on equity of investment accountholders		**(712,023)**	(886,793)
Group's share of income from equity of accountholders (as a Mudarib and Rabalmal)		**573,368**	504,906
Mudarib share for managing off-balance sheet equity of investment accountholders		**14,654**	14,797
Net income from self financed contracts and investments	15	**265,075**	216,983
Other fees and commission income	17	**187,974**	181,816
Other operating income	18	**133,077**	95,852
		1,174,148	1,014,354
Profit paid on long term financing	19	**(34,399)**	(46,957)
TOTAL OPERATING INCOME		**1,139,749**	967,397
OPERATING EXPENSES			
Staff expenses		**308,623**	325,291
Depreciation and amortisation	20	**39,591**	40,523
Other operating expenses	21	**212,105**	202,344
TOTAL OPERATING EXPENSES		**560,319**	568,158
NET OPERATING INCOME FOR THE YEAR BEFORE NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT AND TAXATION		**579,430**	399,239
Net allowance for credit losses / impairment	22	**(290,121)**	(121,791)
NET INCOME BEFORE TAXATION		**289,309**	277,448
Taxation		**(123,420)**	(97,282)
NET INCOME FOR THE YEAR		**165,889**	180,166
Attributable to:			
Equity holders of the parent		**66,580**	105,672
Non-controlling interest		**99,309**	74,494
		165,889	180,166
Basic and diluted earnings per share - US cents	23	**2.90**	6.01

Abdullah Saleh Kamel
Chairman

Mohamed Al Shroogi
Vice Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020 US$ '000**	2019 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**289,309**	277,448
Adjustments for:			
Depreciation and amortisation	20	**39,591**	40,523
Depreciation on Ijarah Muntahia Bittamleek	15.4	**211,751**	195,294
Unrealised gain on equity and debt-type instruments at fair value through statement of income	15.3	**(24,705)**	(21,952)
Gain on sale of property and equipment	18	**(10,484)**	(7,194)
Gain on sale of investment in real estate	15.3	**(3,303)**	(431)
(Gain) / loss on sale of equity type instruments at fair value through equity	15.3	**(1,076)**	654
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(3,664)**	(3,874)
Income from associates	15.3	**(5,049)**	(5,818)
Net allowance for credit losses / impairment		**290,121**	121,791
Operating profit before changes in operating assets and liabilities		**782,491**	596,441
Net changes in operating assets and liabilities:			
Reserves with central banks		**(122,577)**	(374,147)
Receivables		**(1,260,739)**	(703,307)
Mudaraba and Musharaka financing		**357,075**	(511,448)
Ijarah Muntahia Bittamleek		**(210,724)**	(180,628)
Other assets		**(117,012)**	(123,866)
Customer current and other accounts		**1,313,287**	869,141
Due to banks		**521,108**	(71,835)
Other liabilities		**175,806**	126,613
Equity of investment accountholders		**76,054**	2,037,376
Taxation paid		**(110,458)**	(92,836)
Net cash from operating activities		**1,404,311**	1,571,504
INVESTING ACTIVITIES			
Net purchase of investments		**(1,190,872)**	(792,093)
Net purchase of property and equipment		**(43,872)**	(76,344)
Dividends received from associates		**1,955**	1,053
Disposal of investment in associate		**2,354**	13,032
Net cash used in investing activities		**(1,230,435)**	(854,352)
FINANCING ACTIVITIES			
Long term financing		**(59,905)**	(597,622)
Dividends paid to equity holders of the parent		**(24,858)**	(37,286)
Net movement in treasury shares		**(8,129)**	204
Profit distributed on perpetual tier 1 capital		**(31,500)**	(31,500)
Movement related to subsidiaries' tier 1 capital		**7,695**	2,396
Net changes in non-controlling interest		**(13,392)**	65,186
Net cash used in financing activities		**(130,089)**	(598,622)
Foreign currency translation adjustments		**(191,795)**	(110,139)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(148,008)**	8,391
Cash and cash equivalents at 1 January		**2,926,185**	2,917,794
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,778,177**	2,926,185

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the parent													
				Reserves		*Cumulative changes in fair values*								
	Share capital	*Treasury shares*	*Share premium*	*Statutory reserve*	*Other reserves*	*Investments*	*Property and equipment*	*Foreign currency translations reserve*	*Retained earnings*	*Proposed appropriati-ons*	*Total*	*Perpetual tier 1 capital*	*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 2020	1,242,879	(8,308)	18,138	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,067,212	400,000	855,978	2,323,190
Dividends paid	-	-	-	-	-	-	-	-	-	(24,858)	(24,858)	-	-	(24,858)
Movement in treasury shares	-	(9,154)	(54)	-	-	-	-	-	1,079	-	(8,129)	-	-	(8,129)
Net movement in cumulative change in fair value for investments	-	-	-	-	-	3,570	-	-	-	-	3,570	-	941	4,511
Net movement in other reserves	-	-	-	-	(791)	-	-	-	-	-	(791)	-	(385)	(1,176)
Foreign currency translation	-	-	-	-	-	-	-	(48,421)	-	-	(48,421)	-	(143,390)	(191,811)
Net income for the year	-	-	-	-	-	-	-	-	66,580	-	66,580	-	99,309	165,889
Transfer to statutory reserve (note 13)	-	-	-	6,658	-	-	-	-	(6,658)	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(12,727)	(12,727)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(1,656)	-	(1,656)	-	-	(1,656)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	7,695	-	7,695	-	(12,706)	(5,011)
Modification loss net of government assistance	-	-	-	-	-	-	-	-	(6,370)	-	(6,370)	-	(552)	(6,922)
Effect of change in ownership	-	-	-	-	-	-	-	-	237	-	237	-	(237)	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	12,594	12,594
Balance at 31 December 2020	**1,242,879**	**(17,462)**	**18,084**	**182,776**	**345**	**8,786**	**24,154**	**(800,489)**	**364,496**	**-**	**1,023,569**	**400,000**	**798,825**	**2,222,394**

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the parent													
				Reserves		*Cumulative changes in fair values*								
	Share capital	*Treasury shares*	*Share premium*	*Statutory reserve*	*Other reserves*	*Investments*	*Property and equipment*	*Foreign currency translations reserve*	*Retained earnings*	*Proposed appropriati-ons*	*Total*	*Perpetual tier 1 capital*	*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 2019	1,242,879	(9,203)	18,829	165,551	-	4,739	27,190	(861,313)	519,587	37,286	1,145,545	400,000	710,442	2,255,987
Dividends paid	-	-	-	-	-	-	-	-	-	(37,286)	(37,286)	-	-	(37,286)
Movement in treasury shares	-	895	(691)	-	-	-	-	-	-	-	204		-	204
Net movement in cumulative change in fair value for investments	-	-	-	-	-	477	-	-	-	-	477	-	(2,284)	(1,807)
Net movement in cumulative change in fair value for property and equipment	-	-	-	-	-	-	(3,036)	-	-	-	(3,036)	-	2,322	(714)
Net movement in other reserves	-	-	-	-	1,136	-	-	-	-	-	1,136	-	1,796	2,932
Foreign currency translation	-	-	-	-	-	-	-	(73,421)	-	-	(73,421)	-	(36,718)	(110,139)
Net income for the year	-	-	-	-	-	-	-	-	105,672	-	105,672	-	74,494	180,166
Transfer to statutory reserve (note 13)	-	-	-	10,567	-	-	-	-	(10,567)	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(24,858)	24,858	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(26,755)	(26,755)
Zakah paid on behalf of shareholders (note 13)	-	-	-	-	-	-	-	-	(2,235)	-	(2,235)	-	-	(2,235)
Profit distributed on perpetual tier 1 capital	-	-	-	-	-	-	-	-	(31,500)	-	(31,500)	-	-	(31,500)
Movement related to subsidiaries' tier 1 capital	-	-	-	-	-	-	-	-	2,396	-	2,396	-	(12,706)	(10,310)
Effect of change in ownership	-	-	-	-	-	-	-	182,666	(223,406)	-	(40,740)	-	40,740	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	104,647	104,647
Balance at 31 December 2019	1,242,879	(8,308)	18,138	176,118	1,136	5,216	24,154	(752,068)	335,089	24,858	1,067,212	400,000	855,978	2,323,190

The attached notes 1 to 32 form part of these consolidated financial statements.

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

For the year ended 31 December 2020

	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*	*Total* *US$ '000*
Balance at 1 January 2020	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941
Deposits	170,514	352,327	339,485	1,953	34,392	120,784	1,019,455
Withdrawals	(153,999)	(272,262)	(258,722)	(1,093)	(22,968)	(185,492)	(894,536)
Income net of expenses	-	20,603	2,641	519	6,065	7,351	37,179
Mudarib's share	-	(12,269)	(2,069)	-	(139)	(177)	(14,654)
Foreign exchange translations	-	16,812	-	-	-	(1,287)	15,525
Balance at 31 December 2020	**72,556**	**569,572**	**503,823**	**48,099**	**160,352**	**227,508**	**1,581,910**
Balance at 1 January 2019	30,447	295,001	335,288	48,468	159,134	125,700	994,038
Deposits	214,769	797,383	292,869	1,774	37,684	162,503	1,506,982
Withdrawals	(189,175)	(665,883)	(207,389)	(4,110)	(61,157)	(8,260)	(1,135,974)
Income net of expenses	-	35,776	4,867	588	7,457	6,913	55,601
Mudarib's share	-	(10,665)	(3,147)	-	(116)	(869)	(14,797)
Foreign exchange translations	-	12,749	-	-	-	342	13,091
Balance at 31 December 2019	56,041	464,361	422,488	46,720	143,002	286,329	1,418,941

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.

On 30 November 2020, the shareholders of the Bank resolved in an extra-ordinary meeting to change the license of the Bank from Wholesale Banking to “Investment Business Firm - Category 1” subject to approval by the CBB. Furthermore, the shareholders also resolved to change the name of the Bank from Al Baraka Banking Group B.S.C. to Al Baraka Group B.S.C. subject to the approval of Ministry of Industry, Commerce and Tourism (“MOICT”). The change in the name and the activities are still in process and the Bank’s CR is not updated to reflect these changes.

The consolidated financial statements were approved by the Board of Directors on 25 February 2021.

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$') being the reporting currency of the Group. All values are rounded to the nearest US$ 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') as modified by Central Bank of Bahrain ("CBB"), 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.

The two exceptions mentioned above are as follows:

(a) to recognise modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profit, in statement of changes in equity instead of the statement of income as required by FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of FAS 30. Please refer below for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in statement of changes in owner's equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

2 ACCOUNTING POLICIES (continued)

Statement of compliance (continued)

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'FAS issued by AAOIFI as modified by CBB', which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with FAS issued by AAOIFI. However, except for the above-mentioned modifications to accounting policies that have been applied retrospectively, all other accounting policies remain the same and have been consistently applied in these consolidated financial statements. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

COVID-19

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. Global equity and commodity markets, in particulars the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, Expected Credit Losses (ECL), onerous contract etc. In this respect, the key initiatives and their corresponding impacts, in lieu of COVID-19, are given as follows:

Modification loss

During the current year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to US$ 8.8 million arising from the 6 month payment holidays provided to financing customers without charging additional profits has been recognized directly in statement of changes in equity. The modification loss has been calculated as the loss of income on the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays to financing exposures amounting to US$ 301.1 million as part of its support to impacted customers.

Government assistance and subsidies

As per the regulatory directive, financial assistance amounting to US$ 1.9 million (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government, in response to its COVID-19 support measures, have been recognized directly in statement of changes in equity instead of being recognized through profit or loss account.

Liquidity support

During the period, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, CBB has reduced the regulatory reserve requirements from 5% to 3% and offered free of cost REPO facility. In this regards, the Group raised US$ 79.6 million against REPO of investments in Government of Bahrain Sukuk which were matured during the period.

Regulatory compliance

As required by CBB rulebook, the bank is required to compute Group capital adequacy ratio and Head Office solo capital adequacy ratio. The Group capital adequacy ratio, which is of primary importance is above the minimum regulatory threshold of 12.5%. However, at solo level, the Bank breached rule CA 2.2.1A as the solo core equity tier 1 (CET1) ratio has declined below 4.5% which is the minimum regulatory threshold for solo CET 1 as prescribed by the CBB rule book volume 2 - capital adequacy module. Management believes that there will be no impact of this breach on the business of the Group or any of its operations.

2 ACCOUNTING POLICIES (continued)

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. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Bank and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

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

	Ownership for 2020	*Ownership for 2019*	*Year of incorporation*	*Country of incorporation*	***No. of branches/ offices at 31 December 2020***
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.67%**	55.67%	1991	Algeria	**31**
Al Baraka Islamic Bank - Bahrain (AIB)	**92.03%**	92.03%	1984	Bahrain	**195**
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia	**37**
Al Baraka Bank Egypt (ABE)	**73.47%**	73.47%	1980	Egypt	**32**
Al Baraka Bank Lebanon (ABBL)	**98.98%**	98.98%	1991	Lebanon	**6**
Jordan Islamic Bank (JIB)	**65.82%**	65.82%	1978	Jordan	**108**
Al Baraka Turk Participation Bank (ATPB)**	**38.02%**	38.02%	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	**29**
Al Baraka Bank Syria (ABBS) *	**23.00%**	23.00%	2009	Syria	**13**
BTI Bank *	**49.00%**	49.00%	2017	Morocco	**5**

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

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

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

	Subsidiary held through	***Effective Ownership for 2020***	*Effective Ownership for 2019*	*Year of incorporation*	*Country of incorporation*
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	**54.42%**	54.42%	2010	Pakistan
Itqan Capital	AIB	**76.45%**	76.45%	2007	Saudi Arabia
Al-Omariya School Company	JIB	**65.69%**	62.11%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**65.82%**	62.77%	1998	Jordan
Future Applied Computer Technology Company	JIB	**65.82%**	65.80%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**65.82%**	65.80%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**64.51%**	64.51%	1991	South Africa
Insha GMBH	ATPB	**38.02%**	38.02%	2018	Germany

Significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 January 2020:

2.1 Adoption of new and amended standards and interpretations

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019. All the mandatory applications of new standards and interpretation effective from 1 January 2020 has been deferred to 1 January 2021 by the Accounting Board (AAB) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) through its 18th meeting held on 22-23 June 2020. The new standards, interpretations and amendments issued but not effective are as follows:

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

This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2021, with early adoption permitted. The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

In case of a pass-through investment approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS. The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions described below:

- The instrument is transferable; or
- The investment is made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or
- The role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them.

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

2 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)
From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet. An agent may maintain multi-level investment arrangements. Under such arrangement, the Group is reinvesting Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The Board of Directors decided not to early adopt the standard with effect from the current year.

FAS 32 Ijarah
This standard supersedes FAS 8 “Ijarah and Ijarah Muntahia Bittamleek”. The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

FAS 33 Investment in Sukuk, shares and similar instruments (FAS 33)
FAS 33 aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari’ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held. This standard supersedes FAS 25 “Investment in Sukuk” and is effective beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorised as one of the below investment categories depending on its nature:

- *Monetary Debt-type instrument;*
- *Non-monetary Debt-type instrument;*
- *Equity-type instrument; and*
- *Other investment instruments.*

Classification
Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group’s business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Group’s business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Group make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

2 ACCOUNTING POLICIES (continued)

2.1 Adoption of new and amended standards and interpretations (continued)

FAS 33 Investment in Sukuk, shares and similar instruments (FAS 33) (continued)

Recognition and initial measurement
All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the consolidated statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

Subsequent measurement

a) Investments at amortised cost
Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement
Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the consolidated statement of income.

c) Investments at fair value through equity
Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

FAS 34 Financial Reporting for Sukuk-holders
This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2021, with early adoption permitted.

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

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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Impairment assessment

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

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months) of the lifetime ECL associated with the probability of default events occurring within next twelve months after the reporting date is recognised.

Stage 2: lifetime ECL – not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

In cases where there are 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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days or any material credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group operates.

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

Types of PDs used for ECL computation

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

Incorporation of forward - looking information

The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy, the methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default

LGD is a percentage 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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Loss Given Default (continued)
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 are estimated. For Letters of Credit (LCs) and Letters 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.

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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Impairment assessment (continued)

Significant Increase in Credit Risk (continued)

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets

The 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 consolidated statement of financial position

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other 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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

c. Cash and cash equivalents

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

d. Receivables

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

Sales (Murabaha) receivables

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

Ijarah receivables

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

Salam receivables

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

Istisna'a receivables

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

e. Mudaraba and Musharaka financing

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

f. Investments

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

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

f. Investments (continued)

Investment in associates

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

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

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

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

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

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at amortised cost

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

g. Ijarah Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

h. Property and equipment (continued)

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 are 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.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

v. Revenue recognition (continued)

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

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

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

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

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

Mudarib's share of off-balance sheet equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

aa. Zakah

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

ab. Earnings prohibited by Shari'a

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

ac. Impairment of financial assets

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

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

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

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

ae. Foreign currencies

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

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

af. Judgments

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

Classification of investments

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

Going concern

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

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

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

ah. Derecognition

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

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

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

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

3 CASH AND BALANCES WITH BANKS

	2020	*2019*
	US$ '000	*US$ '000*
Balances with central banks*	**4,027,943**	3,956,830
Balances with other banks	**497,408**	707,214
Cash and cash in transit	**839,830**	726,567
Allowance for credit losses	**(3,737)**	(3,685)
	5,361,444	5,386,926

* Balances with central banks include mandatory reserves amounting to US$ 2,587,004 thousand (2019: US$ 2,464,426 thousand). These amounts are not available for use in the Group's day-to-day operations.

4 RECEIVABLES

	2020	*2019*
	US$ '000	*US$ '000*
Sales (Murabaha) receivables (note 4.1)	**12,126,087**	10,944,436
Ijarah receivables (note 4.2)	**150,787**	97,919
Salam receivables (note 4.3)	**225,550**	265,926
Istisna'a receivables (note 4.4)	**198,804**	157,738
Allowance for credit losses	**(755,235)**	(571,082)
	11,945,993	10,894,937

4.1 Sales (Murabaha) receivables

	2020			*2019*		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Commodity murabaha	**58,485**	**569,723**	**628,208**	33,967	600,802	634,769
Other murabaha	**2,466,023**	**10,332,891**	**12,798,914**	1,659,381	10,214,951	11,874,332
Gross sales (murabaha) receivables	**2,524,508**	**10,902,614**	**13,427,122**	1,693,348	10,815,753	12,509,101
Deferred profits (note 4.1(a))	**(296,564)**	**(1,004,471)**	**(1,301,035)**	(272,405)	(1,292,260)	(1,564,665)
	2,227,944	**9,898,143**	**12,126,087**	1,420,943	9,523,493	10,944,436
Allowance for credit losses (note 22)	**(221,835)**	**(455,075)**	**(676,910)**	(157,268)	(361,961)	(519,229)
Net sales (murabaha) receivables	**2,006,109**	**9,443,068**	**11,449,177**	1,263,675	9,161,532	10,425,207

	2020	*2019*
	US$ '000	*US$ '000*
Non-performing	**769,795**	684,126

4 RECEIVABLES (continued)

4.1 Sales (Murabaha) receivables (continued)

4.1(a) Murabaha deferred profit movement

	2020 US$ '000	*2019 US$ '000*
Deferred profit at the beginning of the year	**1,564,665**	1,393,888
Murabaha Sales during the year	**3,960,783**	5,246,048
Murabaha Cost of Sales	**(3,493,121)**	(3,903,575)
	2,032,327	2,736,361
Deferred profit collected during the year	**(498,002)**	(720,167)
Deferred profit settled during the year	**(31,019)**	(345,204)
Deferred profit waived during the period	**(3,172)**	(6,794)
FX translation	**(199,099)**	(99,531)
Deferred profit at the end of the year	**1,301,035**	1,564,665

4.2 Ijarah receivables

	2020			*2019*		
	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	**12,272**	**138,515**	**150,787**	10,027	87,892	97,919
Allowance for credit losses (note 22)	**(382)**	**(51,593)**	**(51,975)**	(119)	(34,333)	(34,452)
Net ijarah receivables	**11,890**	**86,922**	**98,812**	9,908	53,559	63,467

	2020 US$ '000	*2019 US$ '000*
Non-performing	**127,733**	85,851

4.3 Salam receivables

	2020			*2019*		
	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	**-**	**225,550**	**225,550**	-	265,926	265,926
Allowance for credit losses (note 22)	**-**	**(15,186)**	**(15,186)**	-	(12,441)	(12,441)
Net salam receivables	**-**	**210,364**	**210,364**	-	253,485	253,485

	2020 US$ '000	*2019 US$ '000*
Non-performing	**22,619**	24,264

4 RECEIVABLES (continued)

4.4 Istisna'a receivables

	2020			*2019*		
	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	**-**	**198,804**	**198,804**	-	157,738	157,738
Allowance for credit losses (note 22)	**-**	**(11,164)**	**(11,164)**	-	(4,960)	(4,960)
Net istisna'a receivables	**-**	**187,640**	**187,640**	-	152,778	152,778

	2020 US$ '000	*2019 US$ '000*
Non-performing	**14,682**	8,063

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 2020			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**2,816,741**	**228,144**	**-**	**3,044,885**
Satisfactory (5-7)	**7,018,497**	**1,703,017**	**-**	**8,721,514**
Default (8-10)	**-**	**-**	**934,829**	**934,829**
Allowance for credit losses	**(73,192)**	**(179,520)**	**(502,523)**	**(755,235)**
	9,762,046	**1,751,641**	**432,306**	**11,945,993**

	31 December 2019			
	Stage 1 US$ '000	*Stage 2 US$ '000*	*Stage 3 US$ '000*	*Total US$ '000*
Good (1-4)	2,637,228	161,309	-	2,798,537
Satisfactory (5-7)	6,265,444	1,599,734	-	7,865,178
Default (8-10)	-	-	802,304	802,304
Allowance for credit losses	(54,358)	(115,719)	(401,005)	(571,082)
	8,848,314	1,645,324	401,299	10,894,937

4 RECEIVABLES (continued)

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

	31 December 2020			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January	**54,358**	**115,719**	**401,005**	**571,082**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	**12,761**	**(3,304)**	**(9,457)**	**-**
- transferred to Stage 2	**(1,223)**	**(37,684)**	**38,907**	**-**
- transferred to Stage 3	**(65)**	**(1,800)**	**1,865**	**-**
Net remeasurement of loss allowance	**11,701**	**95,572**	**153,572**	**260,845**
Recoveries / write-backs	**-**	**-**	**(57,534)**	**(57,534)**
Allocation from investment risk reserve	**(6,439)**	**12,794**	**13,325**	**19,680**
Amounts written off	**-**	**-**	**(13,185)**	**(13,185)**
FX translation / others	**2,099**	**(1,777)**	**(25,975)**	**(25,653)**
	73,192	**179,520**	**502,523**	**755,235**

	31 December 2019			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January	29,750	124,404	412,349	566,503
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1	4,073	(4,020)	(53)	-
- transferred to Stage 2	(3,378)	11,315	(7,937)	-
- transferred to Stage 3	(13,779)	(48,112)	61,891	-
Net remeasurement of loss allowance	12,896	(3,150)	148,541	158,287
Recoveries / write-backs	-	-	(46,050)	(46,050)
Allocation from investment risk reserve	20,741	34,604	(49,628)	5,717
Amounts written off	-	-	(113,220)	(113,220)
FX translation / others	4,055	678	(4,888)	(155)
	54,358	115,719	401,005	571,082

5 MUDARABA AND MUSHARAKA FINANCING

	2020 US$ '000	*2019 US$ '000*
Mudaraba financing (note 5.1)	**1,784,183**	2,207,515
Musharaka financing (note 5.2)	**1,106,881**	1,040,725
Allowance for credit losses	**(36,406)**	(19,625)
	2,854,658	3,228,615

5 MUDARABA AND MUSHARAKA FINANCING (continued)

5.1 Mudaraba financing

	2020			*2019*		
	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	**427,218**	**1,356,965**	**1,784,183**	393,725	1,813,790	2,207,515
Allowance for credit losses (note 22)	**(420)**	**(14,198)**	**(14,618)**	(420)	(6,411)	(6,831)
Net mudaraba financing	**426,798**	**1,342,767**	**1,769,565**	393,305	1,807,379	2,200,684

	2020 US$ '000	*2019 US$ '000*
Non-performing	**15,994**	16,311

5.2 Musharaka financing

	2020			*2019*		
	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	**451,433**	**655,448**	**1,106,881**	493,070	547,655	1,040,725
Allowance for credit losses (note 22)	**(8,436)**	**(13,352)**	**(21,788)**	(582)	(12,212)	(12,794)
Net musharaka financing	**442,997**	**642,096**	**1,085,093**	492,488	535,443	1,027,931

	2020 US$ '000	*2019 US$ '000*
Non-performing	**26,167**	21,415

5 MUDARABA AND MUSHARAKA FINANCING (continued)

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

	31 December 2020			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**1,219,723**	**139,196**	**-**	**1,358,919**
Satisfactory (5-7)	**1,170,475**	**319,509**	**-**	**1,489,984**
Default (8-10)	**-**	**-**	**42,161**	**42,161**
Allowance for credit losses	**(12,269)**	**(9,381)**	**(14,756)**	**(36,406)**
	2,377,929	**449,324**	**27,405**	**2,854,658**

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

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

	31 December 2020			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January	**2,496**	**2,406**	**14,723**	**19,625**
Changes due to financing recognised in opening balance that have:				
- transferred to Stage 1	**(252)**	**262**	**(10)**	**-**
- transferred to Stage 2	**(2,581)**	**2,583**	**(2)**	**-**
- transferred to Stage 3	**(4)**	**(4)**	**8**	**-**
Net remeasurement of loss allowance	**12,860**	**4,235**	**266**	**17,361**
Recoveries / write-backs	**-**	**-**	**(482)**	**(482)**
Allocation from (to) investment risk reserve	**346**	**(2)**	**(3)**	**341**
Amounts written off	**-**	**-**	**-**	**-**
FX translation / others	**(596)**	**(99)**	**256**	**(439)**
	12,269	**9,381**	**14,756**	**36,406**

5 MUDARABA AND MUSHARAKA FINANCING (continued)

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

6 INVESTMENTS

	2020 US$ '000	*2019 US$ '000*
Equity and debt-type instruments at fair value through statement of income (note 6.1)	**234,405**	291,611
Equity-type instruments at fair value through equity (note 6.2)	**107,971**	94,446
Debt-type instruments at amortised cost (note 6.3)	**4,533,589**	3,235,903
	4,875,965	3,621,960
Investment in real estate (note 6.4)	**176,136**	206,108
Investment in associates (note 6.5)	**45,088**	44,470
	5,097,189	3,872,538

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

	2020			*2019*		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Debt instruments	**3,308**	**3,389**	**6,697**	2,939	-	2,939
Equity securities	**221,493**	**686**	**222,179**	283,976	879	284,855
	224,801	**4,075**	**228,876**	286,915	879	287,794
Unquoted investments						
Equity securities	**1,885**	**3,644**	**5,529**	1,079	2,738	3,817
	1,885	**3,644**	**5,529**	1,079	2,738	3,817
	226,686	**7,719**	**234,405**	287,994	3,617	291,611

6 INVESTMENTS (continued)

6.2 Equity-type instruments at fair value through equity

	2020			*2019*		
	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	**20,292**	**30,044**	**50,336**	10,981	28,158	39,139
Managed funds	**3,515**	**4,342**	**7,857**	3,627	4,655	8,282
	23,807	**34,386**	**58,193**	14,608	32,813	47,421
Unquoted investments						
Equity securities	**7,216**	**14,039**	**21,255**	15,749	21,872	37,621
Managed funds	**993**	**34,949**	**35,942**	828	15,386	16,214
	8,209	**48,988**	**57,197**	16,577	37,258	53,835
Provisions for impairment	**(6,952)**	**(467)**	**(7,419)**	(5,082)	(1,728)	(6,810)
	25,064	**82,907**	**107,971**	26,103	68,343	94,446

6.3 Debt-type instruments at amortised cost

	2020			*2019*		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Quoted investments						
Sukuk and similar items	**1,673,465**	**1,556,333**	**3,229,798**	1,196,959	1,155,569	2,352,528
Unquoted investments						
Sukuk and similar items	**119,526**	**1,192,521**	**1,312,047**	114,511	776,664	891,175
Allowance for credit losses	**(772)**	**(7,484)**	**(8,256)**	(785)	(7,015)	(7,800)
	1,792,219	**2,741,370**	**4,533,589**	1,310,685	1,925,218	3,235,903

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 2020			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**3,959,071**	**-**	**-**	**3,959,071**
Satisfactory (5-7)	**517,658**	**62,551**	**-**	**580,209**
Default (8-10)	**-**	**-**	**2,565**	**2,565**
Allowance for credit losses	**(4,490)**	**(1,201)**	**(2,565)**	**(8,256)**
	4,472,239	**61,350**	**-**	**4,533,589**

6 INVESTMENTS (continued)

6.3 Debt-type instruments at amortised cost (continued)

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

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

	31 December 2020			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January	**4,651**	**584**	**2,565**	**7,800**
Changes due to instruments recognised in opening balance that have:				
- transferred to Stage 1	**-**	**-**	**-**	**-**
- transferred to Stage 2	**-**	**-**	**-**	**-**
- transferred to Stage 3	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**(272)**	**480**	**-**	**208**
Allocation to investment risk reserve	**54**	**126**	**-**	**180**
Recoveries / write-backs	**-**	**-**	**-**	**-**
Amounts written off during the year	**-**	**-**	**-**	**-**
FX translation / others	**57**	**11**	**-**	**68**
	4,490	**1,201**	**2,565**	**8,256**

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

6 INVESTMENTS (continued)

6.4 Investment in real estate

	2020			*2019*		
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	*Self financed US$ '000*	*Jointly financed US$ '000*	*Total US$ '000*
Land	**3,951**	**114,316**	**118,267**	4,698	120,754	125,452
Buildings	**11,573**	**46,296**	**57,869**	17,165	63,491	80,656
	15,524	**160,612**	**176,136**	21,863	184,245	206,108

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

	2020 US$ '000	*2019 US$ '000*
Beginning balance of the year	**206,108**	215,530
Acquisitions	**3,729**	15,584
Net (loss) gain from fair value adjustments	**(4,063)**	6,075
Disposals	**(26,531)**	(82)
Transfer	**-**	(27,178)
Foreign exchange translation / others - net	**(3,107)**	(3,821)
	(29,972)	(9,422)
Ending balance of the year	**176,136**	206,108

6.5 Investment in associates

Investment in associates comprise the following:

	2020			
	Self financed US$ '000	***Jointly financed US$ '000***	***Total US$ '000***	***Market value US$ '000***
Quoted associates	**-**	**11,729**	**11,729**	**9,742**
Unquoted associates	**33,359**	**-**	**33,359**	
	33,359	**11,729**	**45,088**	

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

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	2020			*2019*		
	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	**16,679**	**1,942,652**	**1,959,331**	23,261	1,914,053	1,937,314
Accumulated depreciation	**(114)**	**(395,219)**	**(395,333)**	(5,205)	(401,518)	(406,723)
Allowance for credit losses	**(170)**	**(15,506)**	**(15,676)**	(226)	(11,556)	(11,782)
Net book value	**16,395**	**1,531,927**	**1,548,322**	17,830	1,500,979	1,518,809
Equipment						
Cost	**72,853**	**224,737**	**297,590**	88,154	262,302	350,456
Accumulated depreciation	**(24,673)**	**(70,157)**	**(94,830)**	(40,023)	(74,287)	(114,310)
Allowance for credit losses	**(431)**	**(7,712)**	**(8,143)**	(132)	(5,771)	(5,903)
Net book value	**47,749**	**146,868**	**194,617**	47,999	182,244	230,243
Others						
Cost	**-**	**12,780**	**12,780**	-	13,735	13,735
Accumulated depreciation	**-**	**(8,061)**	**(8,061)**	-	(5,929)	(5,929)
Allowance for credit losses	**-**	**(31)**	**(31)**	-	(102)	(102)
Net book value	**-**	**4,688**	**4,688**	-	7,704	7,704
TOTAL						
Cost	**89,532**	**2,180,169**	**2,269,701**	111,415	2,190,090	2,301,505
Accumulated depreciation	**(24,787)**	**(473,437)**	**(498,224)**	(45,228)	(481,734)	(526,962)
Less: allowance for credit losses	**(601)**	**(23,249)**	**(23,850)**	(358)	(17,429)	(17,787)
Net book value	**64,144**	**1,683,483**	**1,747,627**	65,829	1,690,927	1,756,756

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

	31 December 2020			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
Good (1-4)	**447,363**	**6,548**	**-**	**453,911**
Satisfactory (5-7)	**1,051,050**	**266,465**	**-**	**1,317,515**
Default (8-10)	**-**	**-**	**51**	**51**
Allowance for credit losses	**(2,408)**	**(21,434)**	**(8)**	**(23,850)**
	1,496,005	**251,579**	**43**	**1,747,627**

7 IJARAH MUNTAHIA BITTAMLEEK (continued)

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

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

	31 December 2020			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January	**4,627**	**13,160**	**-**	**17,787**
Changes due to ijarah muntahia bittamleek recognised in opening balance that have:				
- transferred to Stage 1	**(8)**	**-**	**8**	**-**
- transferred to Stage 2	**-**	**-**	**-**	**-**
- transferred to Stage 3	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**(1,820)**	**9,918**	**-**	**8,098**
FX translation / others	**(391)**	**(1,644)**	**-**	**(2,035)**
	2,408	**21,434**	**8**	**23,850**

	31 December 2019			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January	3,999	14,587	-	18,586
Changes due to ijarah muntahia bittamleek recognised in opening balance that have:				
- transferred to Stage 1	(11)	11	-	-
- transferred to Stage 2	-	-	-	-
- transferred to Stage 3	-	-	-	-
Net remeasurement of loss allowance	705	(1,293)	-	(588)
FX translation / others	(66)	(145)	-	(211)
	4,627	13,160	-	17,787

8 PROPERTY AND EQUIPMENT

	Buildings	*Lands*	*Office furniture and equipment*	*Vehicles*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2019	225,233	147,018	218,198	10,307	50,229	650,985
Additions	22,492	13,715	17,453	2,350	38,493	94,503
Disposals	(11,398)	-	(5,730)	(994)	(13,068)	(31,190)
Foreign exchange translations	(268)	361	(1,489)	240	(1,104)	(2,260)
At 31 December 2019	236,059	161,094	228,432	11,903	74,550	712,038
Additions	22,480	19,968	22,004	1,496	30,631	96,579
Disposals	(7,781)	-	(3,087)	(961)	(5,154)	(16,983)
Foreign exchange translations	(8,298)	(11,119)	(7,999)	(1,181)	(14,123)	(42,720)
At 31 December 2020	**242,460**	**169,943**	**239,350**	**11,257**	**85,904**	**748,914**
Depreciation:						
At 1 January 2019	61,517	-	160,926	4,640	17,338	244,421
Charged during the year (note 20)	8,513	-	19,123	1,130	3,271	32,037
Relating to disposals	(10,632)	-	(2,424)	(427)	(4,664)	(18,147)
Foreign exchange translations	(380)	-	(544)	16	(396)	(1,304)
At 31 December 2019	59,018	-	177,081	5,359	15,549	257,007
Charged during the year (note 20)	7,835	-	18,376	888	3,716	30,815
Relating to disposals	(74)	-	(2,760)	(86)	(461)	(3,381)
Foreign exchange translations	(5,048)	-	(5,999)	(382)	(2,670)	(14,099)
At 31 December 2020	**61,731**	**-**	**186,698**	**5,779**	**16,134**	**270,342**
Net book values:						
At 31 December 2020	**180,729**	**169,943**	**52,652**	**5,478**	**69,770**	**478,572**
At 31 December 2019	177,041	161,094	51,351	6,544	59,001	455,031

9 OTHER ASSETS

	2020	*2019*
	US$ '000	*US$ '000*
Bills receivables	**297,067**	199,615
Goodwill and intangible assets (note 9 (a))	**75,788**	75,082
Collateral pending sale	**176,126**	220,610
Good faith qard	**115,012**	30,177
Deferred taxation	**60,284**	62,850
Prepayments	**25,606**	68,622
Others	**39,684**	29,953
	789,567	686,909
Impairment / allowance for credit losses	**(25,051)**	(23,181)
	764,516	663,728

9 OTHER ASSETS (continued)

9 (a) Goodwill and intangible assets

	2020			*2019*		
	Goodwill US$ '000	***Intangible assets US$ '000***	***Total US$ '000***	*Goodwill US$ '000*	*Intangible assets US$ '000*	*Total US$ '000*
At 1 January	**51,360**	**23,722**	**75,082**	53,325	22,598	75,923
Additions	**117**	**14,603**	**14,720**	705	9,963	10,668
Amortisation charge for the year (note 20)	**-**	**(8,776)**	**(8,776)**	-	(8,486)	(8,486)
Impairment loss for the year	**(2,500)**	**-**	**(2,500)**	-	-	-
Foreign exchange translations	**(2,173)**	**(565)**	**(2,738)**	(2,670)	(353)	(3,023)
At 31 December	**46,804**	**28,984**	**75,788**	51,360	23,722	75,082

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:

	2020 US$ '000	*2019 US$ '000*
Al Baraka Turk Participation Bank	**5,107**	9,298
Al Barak Bank Egypt	**1,001**	914
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**14,050**	14,502
	46,804	51,360

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

	2020 US$ '000	*2019 US$ '000*
Murabaha financing	**35,787**	99,841
Subordinated financing obtained by a subsidiary	**283,577**	279,428
	319,364	379,269

11 OTHER LIABILITIES

	2020	2019
	US$ '000	US$ '000
Payables	**614,611**	517,130
Cash margins	**236,028**	224,177
Managers' cheques	**102,106**	94,500
Current taxation *	**80,612**	74,885
Deferred taxation *	**11,368**	6,698
Accrued expenses	**99,712**	97,931
Charity fund	**30,077**	36,645
Others	**80,646**	23,097
Allowance for credit losses	**86,516**	23,137
	1,341,676	1,098,200

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

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2020	2019
	US$ '000	US$ '000
Equity of investment accountholders *	**15,152,840**	15,063,854
Profit equalisation reserve (note 12.1)	**6,345**	7,400
Investment risk reserve (note 12.2)	**65,202**	77,199
Cumulative changes in fair value attributable to equity of investment accountholders - net (note 12.3)	**5,802**	7,423
	15,230,189	15,155,876

** Medium term Sukuk*

This includes unsecured, sub-ordinated and privately placed unrestricted mudaraba sukuk amounting to US$ 12,883 thousand (2019: US$ 14,667 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:

	2020	2019
	US$ '000	US$ '000
Balance at 1 January	**7,400**	5,320
Amount apportioned from income allocable to equity of investment accountholders	**2,423**	(962)
Amount used during the year	**(2,582)**	(21)
Foreign exchange translations	**(896)**	3,063
Balance at 31 December	**6,345**	7,400

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

12.2 Investment risk reserve

The following shows the movement in investment risk reserve:

	2020	2019
	US$ '000	US$ '000
Balance at 1 January	**77,199**	104,005
Amount appropriated to provision (note 22)	**(20,201)**	(1,771)
Amount apportioned from income allocable to equity of investment accountholders	**8,469**	(24,616)
Foreign exchange translations	**(265)**	(419)
Balance at 31 December	**65,202**	77,199

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

	2020	2019
	US$ '000	US$ '000
Balance at 1 January	**7,423**	8,229
Change in fair values during the year	**(1,215)**	(274)
Realised gain transferred to consolidated statement of income	**(157)**	(160)
Deferred taxation effect	**521**	165
Transfer to shareholders equity	**(770)**	(537)
Balance at 31 December	**5,802**	7,423
Attributable to investment in real estate	**8,591**	11,137
Attributable to equity-type instruments at fair value through equity	**(2,789)**	(3,714)
	5,802	7,423

13 OWNERS' EQUITY

	2020	2019
	US$ '000	US$ '000
Share capital		
Authorised: 2,500,000,000 (2019: 2,500,000,000) ordinary shares of US$ 1 each	**2,500,000**	2,500,000
Issued and fully paid up:		
At beginning of the year		
1,242,879,755 (2019: 1,242,879,755) shares of US$1 each	**1,242,879**	1,242,879
At end of the year		
1,242,879,755 (2019: 1,242,879,755) shares of US$1 each	**1,242,879**	1,242,879

13 OWNERS' EQUITY (continued)

Treasury shares

	Number of shares ('000)	***2020 US$ '000***	*2019 US$ '000*
At 1 January	**8,308**	**8,308**	9,203
Purchase of treasury shares	**24,676**	**9,636**	230
Sale of treasury shares	**(482)**	**(482)**	(1,125)
At 31 December	**32,502**	**17,462**	8,308

The market value of the treasury shares is US$ 8,386 thousand (2019: US$ 2,575 thousand) and it represents 0.7% (2019: 0.7%) of the outstanding shares.

Additional information on shareholding pattern

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

At 31 December 2020

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

At 31 December 2019

Names	*Nationality/ Incorporation*	*Number of shares*	*% holding*
Late 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%

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 2020

	Number of shares	***Number of shareholders***	***% of total outstanding shares***
Less than 1%	**104,768,232**	**1,101**	**8.43%**
1% up to less than 5%	**130,193,605**	**5**	**10.47%**
5% up to less than 10%	**87,313,197**	**1**	**7.03%**
10% up to less than 20%	**240,173,054**	**1**	**19.32%**
20% up to less than 50%	**680,431,667**	**2**	**54.75%**
	1,242,879,755	**1,110**	**100.00%**

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2019

Categories:	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	104,768,232	1,097	8.43%
1% up to less than 5%	130,193,605	5	10.47%
5% up to less than 10%	87,313,197	1	7.03%
10% up to less than 20%	240,173,054	1	19.32%
20% up to less than 50%	680,431,667	2	54.75%
	1,242,879,755	1,106	100.00%

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$ 6,658 thousand (2019: US$ 10,567 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:

Subsidiary	***Currency***	***2020 US$ '000***	*2019 US$ '000*
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**68,594**	57,159
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**31,499**	30,006
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**117,960**	121,363
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**392,992**	373,936
Al Baraka Bank Limited (ABL)	South African Rand	**19,637**	18,593
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**91,312**	85,822
Al Baraka Bank Tunis (ABT)	Tunisian Dinar	**28,677**	31,437
Al Baraka Bank Syria (ABBS)	Syrian Pound	**50,480**	33,534
BTI Bank	Moroccan Dirham	**(662)**	218
		800,489	752,068

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

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

f. Zakah paid on behalf of shareholders
The General Assembly in its annual meeting conducted on 20 March 2020 empowered the Executive Management of Al Baraka Banking Group to pay an amount of US$ 1,656 thousand as Zakah on behalf of the shareholders deducted from the retained earnings for the financial year of 2019. The Group has paid and distributed an amount of US$ 1,421 thousand to those who are entitled to receive Zakah as per Shari'a boundaries and as approved by the Unified Shari'a Board. The remaining amount of US$ 235 thousands has been allocated to be paid maximum by end of first quarter of 2021.

	2020 US$ '000	*2019 US$ '000*
Zakah to be paid on behalf of shareholders for the year	**1,656**	2,235
Uses of Zakah:		
Zakah for the poor and needy	**751**	1,007
Zakah for new converts to islam	**20**	58
Scholarships	**650**	800
Total uses	**1,421**	1,865
Remaining Zakah to be paid	**235**	370

g. Proposed Appropriations

	2020 US$ '000	*2019 US$ '000*
Cash dividend 0% (2019: 2%)	**-**	24,858
	-	24,858

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$ nil per issued share (2019: cash dividend of US$ 0.02 per issued share and no bonus shares). This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2019 was approved at the Annual General Meeting on 21 March 2020 and was effected in 2020 following the approval.

h. Net movement in non-controlling interest
This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

14 PERPETUAL TIER 1 CAPITAL

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

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2020 ***US$ '000***	*2019* *US$ '000*
Receivables (note 15.1)	**924,381**	998,512
Mudaraba and Musharaka financing (note 15.2)	**180,308**	304,126
Investments (note 15.3)	**435,390**	319,227
Ijarah Muntahia Bittamleek (note 15.4)	**104,300**	109,305
Others	**2,226**	914
	1,646,605	1,732,084
Net income from jointly financed contracts and investments	**1,285,391**	1,391,699
Gross income from self financed contracts and investments	**361,214**	340,385
	1,646,605	1,732,084
Gross income from self financed contracts and investments	**361,214**	340,385
Profit paid on short term financing	**(96,139)**	(123,402)
Net income from self financed contracts and investments	**265,075**	216,983

15.1 Receivables

	2020 ***US$ '000***	*2019* *US$ '000*
Sales (Murabaha) receivables	**889,571**	968,863
Salam receivables	**16,727**	17,215
Istisna'a receivables	**18,083**	12,434
	924,381	998,512

15.2 Mudaraba and Musharaka financing

	2020 ***US$ '000***	*2019* *US$ '000*
Mudaraba financing	**121,292**	233,524
Musharaka financing	**59,016**	70,602
	180,308	304,126

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

15.3 Investments

	2020 **US$ '000**	2019 US$ '000
Equity-type instruments at fair value through equity	**3,560**	4,513
Debt-type instruments at amortised cost	**394,642**	282,737
Unrealised gain on equity and debt-type instruments at fair value through statement of income	**24,705**	21,952
Gain (loss) on sale of equity-type instruments at fair value through equity	**1,076**	(654)
Gain on sale of equity and debt-type instruments at fair value through statement of income	**3,664**	3,874
(Loss) income from investment in real estate	**(609)**	556
Income from associates	**5,049**	5,818
Gain on sale of investment in real estate	**3,303**	431
	435,390	319,227

15.4 Ijarah Muntahia Bittamleek

	2020 **US$ '000**	2019 US$ '000
Income from Ijarah Muntahia Bittamleek	**316,051**	304,599
Depreciation on Ijarah Muntahia Bittamleek	**(211,751)**	(195,294)
	104,300	109,305

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

	2020 **US$ '000**	2019 US$ '000
Banking fees and commissions	**126,555**	131,469
Letters of credit	**31,181**	15,748
Guarantees	**24,793**	27,869
Acceptances	**5,445**	6,730
	187,974	181,816

18 OTHER OPERATING INCOME

	2020 **US$ '000**	2019 US$ '000
Foreign exchange gain*	**122,593**	88,658
Gain on sale of property and equipment	**10,484**	7,194
	133,077	95,852

*An amount of US$ 37 million is related to foreign currency revaluation gain from subsidiaries.

19 PROFIT PAID ON LONG TERM FINANCING

	2020	2019
	US$ '000	*US$ '000*
Murabaha financing	**4,255**	5,540
Subordinated financing obtained by a subsidiary	**28,353**	28,427
Wakala	**1,791**	12,990
	34,399	46,957

20 DEPRECIATION AND AMORTISATION

	2020	2019
	US$ '000	*US$ '000*
Property and equipment depreciation (note 8)	**30,815**	32,037
Intangible assets amortisation (note 9 (a))	**8,776**	8,486
	39,591	40,523

21 OTHER OPERATING EXPENSES

	2020	2019
	US$ '000	*US$ '000*
General and administration expenses	**133,458**	114,877
Professional and business expenses	**29,145**	32,510
Premises related expenses	**49,502**	54,957
	212,105	202,344

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

2020	***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***
Allowance at 31 December	**3,685**	**519,229**	**34,452**	**12,441**	**4,960**	**6,831**	**12,794**	**14,610**	**17,787**	**23,181**	**23,137**	**673,107**
Charged during the year	**52**	**228,572**	**22,939**	**4,547**	**4,787**	**7,015**	**10,346**	**1,569**	**8,098**	**2,399**	**57,126**	**347,450**
Written back / recovered during the year	**-**	**(52,658)**	**(3,886)**	**(985)**	**(5)**	**-**	**(482)**	**(701)**	**-**	**(12)**	**(2,706)**	**(61,435)**
	52	**175,914**	**19,053**	**3,562**	**4,782**	**7,015**	**9,864**	**868**	**8,098**	**2,387**	**54,420**	**286,015**
	3,737	**695,143**	**53,505**	**16,003**	**9,742**	**13,846**	**22,658**	**15,478**	**25,885**	**25,568**	**77,557**	**959,122**
Written off during the year	**-**	**(13,185)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,185)**
Amount appropriated from investment risk reserve (note 12.2)	**-**	**17,400**	**645**	**-**	**1,635**	**-**	**341**	**180**	**-**	**-**	**-**	**20,201**
Foreign exchange translations/others - net	**-**	**(22,448)**	**(2,175)**	**(817)**	**(213)**	**772**	**(1,211)**	**17**	**(2,035)**	**(517)**	**8,959**	**(19,668)**
Allowance at 31 December	**3,737**	**676,910**	**51,975**	**15,186**	**11,164**	**14,618**	**21,788**	**15,675**	**23,850**	**25,051**	**86,516**	**946,470**

During the year, an impairment loss of US$ 4,106 thousand (2019: US$ 155 thousand) was charged against investments and goodwill.

An amount of US$ 7,419 thousand (2019: US$ 6,810 thousand) is related to provision of equity type instruments at fair value through equity.

2019	*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*
Allowance at 31 December	65	521,619	33,217	7,724	3,943	7,204	12,704	18,010	18,586	58,516	22,395	703,983
Charged during the year	990	137,660	12,311	6,586	1,730	431	1,627	3,026	(588)	5,856	1,638	171,267
Written back/recovered during the year	-	(41,431)	(3,012)	(1,464)	(143)	-	(319)	-	-	(1,554)	(1,708)	(49,631)
	990	96,229	9,299	5,122	1,587	431	1,308	3,026	(588)	4,302	(70)	121,636
	1,055	617,848	42,516	12,846	5,530	7,635	14,012	21,036	17,998	62,818	22,325	825,619
Written off during the year	-	(104,833)	(8,387)	-	-	-	(565)	(2,302)	-	(18)	-	(116,105)
Amount appropriated from investment risk reserve (note Attributable to investment in real estate)	-	5,152	843	-	(278)	-	101	(4,047)	-	-	-	1,771
Foreign exchange translations/others - net	2,630	1,062	(520)	(405)	(292)	(804)	(754)	(77)	(211)	(39,619)	812	(38,178)
Allowance at 31 December	3,685	519,229	34,452	12,441	4,960	6,831	12,794	14,610	17,787	23,181	23,137	673,107

22 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

The provisions relate to the following geographical areas:

2020	*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	**3,677**	**340,437**	**11,738**	**-**	**2,007**	**14,618**	**1,439**	**10,872**	**-**	**21,365**	**78,393**	**484,546**
North Africa	**60**	**30,708**	**37,555**	**6,710**	**977**	**-**	**1,210**	**1,510**	**23,112**	**1,847**	**3,215**	**106,904**
Europe	**-**	**280,487**	**-**	**-**	**-**	**-**	**8,431**	**8**	**711**	**756**	**4,725**	**295,118**
Others	**-**	**25,278**	**2,682**	**8,476**	**8,180**	**-**	**10,708**	**3,285**	**27**	**1,083**	**183**	**59,902**
Total	**3,737**	**676,910**	**51,975**	**15,186**	**11,164**	**14,618**	**21,788**	**15,675**	**23,850**	**25,051**	**86,516**	**946,470**
2019												
Middle East	3,664	259,583	8,834	-	371	6,831	3,852	9,716	-	18,895	16,881	328,627
North Africa	21	27,506	22,829	5,295	793	-	715	1,006	17,374	1,835	2,958	80,332
Europe	-	209,099	-	-	-	-	-	222	369	1,324	3,140	214,154
Others	-	23,041	2,789	7,146	3,796	-	8,227	3,666	44	1,127	158	49,994
Total	3,685	519,229	34,452	12,441	4,960	6,831	12,794	14,610	17,787	23,181	23,137	673,107

The fair value of collateral the Group holds relating to non-performing facilities as at 31 December 2020 amounts to US$ 588.7 million (2019: US$ 684.5 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:

	2020	*2019*
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**66,580**	105,672
Profit distributed on perpetual tier 1 capital	**(31,500)**	(31,500)
	35,080	74,172
Number of shares outstanding at the beginning of the year (in thousands)	**1,242,879**	1,242,879
Treasury shares effect (in thousands)	**(32,502)**	(8,754)
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,210,377**	1,234,125
Earnings per share - US cents	**2.90**	6.01

24 CASH AND CASH EQUIVALENTS

	2020 ***US$ '000***	*2019* *US$ '000*
Balances with central banks excluding mandatory reserve	**1,440,939**	1,492,404
Balances with other banks	**497,408**	707,214
Cash and cash in transit	**839,830**	726,567
	2,778,177	2,926,185

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***	***Total 2020 US$ '000***	*Total 2019 US$ '000*
Net income from jointly financed contracts and investments	**2,921**	**-**	**20**	**-**	**2,941**	2,868
Return on equity of investment accountholders	**221**	**2,874**	**615**	**-**	**3,710**	1,735
Other fees and commission income	**444**	**-**	**-**	**-**	**444**	2,319

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

	2020 US$ '000	*2019 US$ '000*
Short term benefits	**7,415**	8,851
Long term benefits	**927**	1,559

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 2020 amounted to US$ 1.5 million (2019: US$ 1.5 million).

25 RELATED PARTY TRANSACTIONS (continued)

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

	Associated companies US$ '000	***Major shareholders US$ '000***	***Directors and key management personnel US$ '000***	***Other related parties US$ '000***	***Total 2020 US$ '000***	*Total 2019 US$ '000*
Assets:						
Receivables	**5,779**	**-**	**261**	**-**	**6,040**	2,441
Mudaraba and Musharaka financing	**-**	**-**	**1,717**	**-**	**1,717**	1,656
Investments	**16,808**	**-**	**-**	**-**	**16,808**	15,783
Ijarah Muntahia Bittamleek	**-**	**-**	**-**	**-**	**-**	62
Other assets	**156**	**-**	**417**	**-**	**573**	2,154
Liabilities:						
Customer current and other accounts	**2,335**	**8,342**	**2,371**	**4**	**13,052**	34,534
Due to banks	**-**	**579**	**-**	**-**	**579**	7
Other liabilities	**-**	**-**	**-**	**49**	**49**	8
Equity of investment accountholders	**8,927**	**1,777**	**18,250**	**-**	**28,954**	24,347
Off-balance sheet equity of investment accountholders	**12,371**	**11,280**	**1,128**	**-**	**24,779**	47,366

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

25 RELATED PARTY TRANSACTIONS (continued)

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

			2020	***Transaction***
Name of directors	***Position***	***Nationality***	***Number of shares***	***Number of shares***
Abdulla Saleh Kamel	**Chairman - elected on June 2020**	**Saudi**	**338,598**	**-**
Abdul Elah Sabbahi	**Board Member**	**Saudi**	**225,899**	**-**
Fahad AlRajhi	**Board Member**	**Saudi**	**10,815**	**-**

			2019	*Transaction*
Name of directors	*Position*	*Nationality*	*Number of shares*	*Number of shares*
Late Saleh Abdulla Kamel	Chairman	Saudi	680,431,667	-
Abdulla Saleh Kamel	Chairman - elected on June 2020	Saudi	338,598	-
Abdulla Ammar Saudi	Vice Chairman	Bahraini	666,350	-
Mohydin Saleh Kamel	Board Member	Saudi	707,976	-
AbdulElah Sabbahi	Board Member	Saudi	225,899	-
Adnan Ahmed Yousif	Board Member (President & Chief Executive)*	Bahraini	362	-
Abdulrahman Shehab	Executive Vice President, Head of Operations and Administration*	Bahraini	339,231	-

* Retired on 31 December 2020

26 COMMITMENTS AND CONTINGENCIES

	2020 **US$ '000**	*2019* *US$ '000*
Letters of credit	**645,083**	635,669
Guarantees	**1,832,887**	2,027,755
Acceptances	**104,947**	111,075
Undrawn commitments	**890,708**	874,750
Sharia'a compliant promise contracts	**869,261**	84,641
	4,342,886	3,733,890

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 is presented as that is not applicable to the Group.

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

	2020			*2019*		
	Assets US$ '000	***Liabilities US$ '000***	***IAH US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*IAH US$ '000*
Segment						
Middle East	**13,891,840**	**3,430,814**	**9,130,834**	13,147,200	3,183,416	8,602,235
North Africa	**2,631,510**	**1,446,142**	**899,172**	2,711,726	1,412,977	992,650
Europe	**9,256,366**	**4,965,210**	**3,870,198**	8,509,482	3,654,755	4,361,686
Others	**2,470,283**	**955,250**	**1,329,985**	1,890,123	528,317	1,199,305
	28,249,999	**10,797,416**	**15,230,189**	26,258,531	8,779,465	15,155,876

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

	2020			*2019*		
	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*
Segment						
Middle East	**557,179**	**304,659**	**77,812**	491,027	245,515	118,293
North Africa	**126,688**	**62,264**	**18,339**	145,346	77,421	46,888
Europe	**325,800**	**152,825**	**36,990**	242,382	52,028	2,469
Others	**130,082**	**59,682**	**32,748**	88,642	24,275	12,516
	1,139,749	**579,430**	**165,889**	967,397	399,239	180,166

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 2020 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	4,002,827	11,625	8,709	-	451,964	8,770	-	-	-	877,549	5,361,444
Receivables	1,739,016	1,458,536	1,467,365	1,743,098	2,514,567	2,282,171	650,300	83,788	7,152	-	11,945,993
Mudaraba and Musharaka financing	1,596,182	8,173	81,358	20,771	577,180	373,274	68,310	128,220	1,190	-	2,854,658
Investments	369,294	491,021	615,995	582,046	1,394,276	878,468	538,437	930	2,166	224,556	5,097,189
Ijarah Muntahia Bittamleek	35,586	39,018	79,764	116,590	313,724	288,946	440,493	405,320	28,186	-	1,747,627
Property and equipment	-	-	-	-	-	-	-	-	-	478,572	478,572
Other assets	125,737	30,988	101,532	52,423	196,464	39,907	8,841	1,686	-	206,938	764,516
Total assets	7,868,642	2,039,361	2,354,723	2,514,928	5,448,175	3,871,536	1,706,381	619,944	38,694	1,787,615	28,249,999
Liabilities											
Customer current and other accounts	6,204,996	278,473	224,936	171,399	211,197	159,661	257,682	-	-	-	7,508,344
Due to banks	884,190	391,828	105,265	109,799	136,950	-	-	-	-	-	1,628,032
Long term financing	21,165	15,260	7,081	1,726	10,161	17,977	245,994	-	-	-	319,364
Other liabilities	687,828	95,083	131,838	65,096	22,311	90,328	208	-	-	248,984	1,341,676
Total liabilities	7,798,179	780,644	469,120	348,020	380,619	267,966	503,884	-	-	248,984	10,797,416
Equity of investment accountholders	5,709,229	1,799,658	825,006	1,582,718	2,856,958	860,371	1,504,637	91,612	-	-	15,230,189
Total liabilities and equity of investment accountholders	13,507,408	2,580,302	1,294,126	1,930,738	3,237,577	1,128,337	2,008,521	91,612	-	248,984	26,027,605
Net liquidity gap	(5,638,766)	(540,941)	1,060,597	584,190	2,210,598	2,743,199	(302,140)	528,332	38,694	1,538,631	2,222,394
Cumulative net liquidity gap	(5,638,766)	(6,179,707)	(5,119,110)	(4,534,920)	(2,324,322)	418,877	116,737	645,069	683,763	2,222,394	
Off-balance sheet equity of investment accountholders	79,005	258,075	149,759	681,955	97,501	152,295	116,390	7,695	39,235	-	1,581,910

28 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The maturity profile at 31 December 2019 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	4,183,191	7,835	10,597	20,000	391,168	9,807	-	-	-	764,328	5,386,926
Receivables	1,803,083	864,854	1,246,223	1,498,193	2,524,020	1,943,389	744,506	266,606	4,063	-	10,894,937
Mudaraba and Musharaka financing	1,933,154	9,792	16,211	26,693	667,145	430,979	121,026	23,463	-	152	3,228,615
Investments	224,330	169,914	390,586	339,534	1,170,147	621,021	406,004	(61,696)	-	612,698	3,872,538
Ijarah Muntahia Bittamleek	44,643	34,523	86,317	120,988	433,509	285,874	421,193	309,765	19,944	-	1,756,756
Property and equipment	-	-	-	-	-	-	-	-	-	455,031	455,031
Other assets	147,697	21,990	43,897	91,556	27,306	63,087	4,650	1,539	-	262,006	663,728
Total assets	8,336,098	1,108,908	1,793,831	2,096,964	5,213,295	3,354,157	1,697,379	539,677	24,007	2,094,215	26,258,531
Liabilities											
Customer current and other accounts	6,195,073	-	-	-	-	-	-	-	-	-	6,195,073
Due to banks	552,272	256,845	105,053	23,310	38,000	-	-	131,443	-	-	1,106,923
Long term financing	1,993	62	-	44,212	83,158	17,440	232,404	-	-	-	379,269
Other liabilities	536,937	115,338	74,178	70,266	20,896	23,283	241	249,535	-	7,526	1,098,200
Total liabilities	7,286,275	372,245	179,231	137,788	142,054	40,723	232,645	380,978	-	7,526	8,779,465
Equity of investment accountholders	6,288,760	1,603,538	767,885	1,535,142	2,602,576	881,752	1,377,304	98,919	-	-	15,155,876
Total liabilities and equity of investment accountholders	13,575,035	1,975,783	947,116	1,672,930	2,744,630	922,475	1,609,949	479,897	-	7,526	23,935,341
Net liquidity gap	(5,238,937)	(866,875)	846,715	424,034	2,468,665	2,431,682	87,430	59,780	24,007	2,086,689	2,323,190
Cumulative net liquidity gap	(5,238,937)	(6,105,812)	(5,259,097)	(4,835,063)	(2,366,398)	65,284	152,714	212,494	236,501	2,323,190	
Off-balance sheet equity of investment accountholders	35,499	174,234	219,965	680,233	20,274	121,520	134,259	317	20,868	11,772	1,418,941

28 RISK MANAGEMENT (continued)

b) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

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

Sales (Murabaha) receivables

The Group finances these transactions through buying a commodity which represents the object of the Murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing all the facilities given to the client.

Salam receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka financing

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

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

	Maximum exposure	
	2020	*2019*
	US$ '000	*US$ '000*
Balances with central banks	**4,027,943**	3,956,830
Balances with other banks	**497,408**	707,214
Receivables	**11,945,993**	10,894,937
Mudaraba and Musharaka financing	**2,854,658**	3,228,615
Investments	**5,097,189**	3,872,538
Other assets	**426,712**	236,564
Total	**24,849,903**	22,896,698
Commitments and contingencies	**4,342,886**	3,733,890
	29,192,789	26,630,588

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality by type of islamic financing contracts

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

	31 December 2020			
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	**11,109,733**	**656,666**	**934,829**	**12,701,228**
Mudaraba and Musharaka financing	**2,845,225**	**3,678**	**42,161**	**2,891,064**
Other assets	**444,301**	**1,123**	**6,339**	**451,763**
	14,399,259	**661,467**	**983,329**	**16,044,055**

	31 December 2019			
Type of Islamic Financing Contracts	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing islamic financing contracts US$ '000*	*Total US$ '000*
Receivables	9,878,412	785,303	802,304	11,466,019
Mudaraba and Musharaka financing	3,205,304	5,210	37,726	3,248,240
Other assets	250,190	1,668	7,887	259,745
	13,333,906	792,181	847,917	14,974,004

Ageing analysis of past due but performing Islamic financing contracts

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

	31 December 2020			
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	**149,787**	**158,996**	**347,883**	**656,666**
Mudaraba and Musharaka financing	**2,570**	**421**	**687**	**3,678**
Other assets	**391**	**411**	**321**	**1,123**
	152,748	**159,828**	**348,891**	**661,467**

	31 December 2019			
Type of Islamic Financing Contracts	*Less than 30 days US$ '000*	*31 to 60 days US$ '000*	*61 to 90 days US$ '000*	*Total US$ '000*
Receivables	119,090	505,294	160,919	785,303
Mudaraba and Musharaka financing	1,678	429	3,103	5,210
Other assets	398	576	694	1,668
	121,166	506,299	164,716	792,181

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk mitigation

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

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

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

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

2) Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer’s default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, of investment grade rating.

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

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

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

5) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

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

28 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality

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

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

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

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

28 RISK MANAGEMENT (continued)

c) Concentration risk

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

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

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

	2020			*2019*		
	Assets US$ '000	***Liabilities US$ '000***	***IAH US$ '000***	*Assets US$ '000*	*Liabilities US$ '000*	*IAH US$ '000*
Manufacturing	**4,529,603**	**166,488**	**403,783**	3,973,201	207,022	249,199
Mining and quarrying	**178,966**	**3,630**	**29,542**	87,175	5,623	38,993
Agriculture	**176,243**	**34,575**	**15,851**	159,492	29,803	11,967
Construction and real estate	**2,704,963**	**23,255**	**20,379**	2,834,481	28,612	20,410
Financial	**4,304,550**	**2,065,887**	**1,735,509**	5,246,635	1,524,956	1,933,975
Trade	**1,716,019**	**294,681**	**214,500**	1,752,862	267,965	282,359
Personal and consumer finance	**3,069,122**	**5,620,301**	**10,143,401**	2,641,012	4,657,786	10,540,573
Government	**8,634,720**	**74,731**	**161,054**	6,949,245	85,353	105,790
Other Sectors	**2,935,813**	**2,513,868**	**2,506,170**	2,614,428	1,972,345	1,972,610
	28,249,999	**10,797,416**	**15,230,189**	26,258,531	8,779,465	15,155,876

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$ 335,679 thousand (2019: US$ 383,115 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 107,971 thousand (2019: US$ 94,446 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 227,708 thousand (2019: US$ 288,672 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:

	2020		
	Operational equivalent Long (Short) US$ '000	***Strategic equivalent Long (Short) US$ '000***	***Total equivalent Long (Short) US$ '000***
Currency			
Turkish Lira	**309,231**	**146,342**	**455,573**
Jordanian Dinar	**14,280**	**458,019**	**472,299**
Egyptian Pound	**(1,440)**	**236,477**	**235,037**
Sudanese Pound	**1,254**	**42,679**	**43,933**
Algerian Dinar	**5,387**	**103,600**	**108,987**
Lebanese Pound	**1,292**	**16,923**	**18,215**
Pound Sterling	**(3,859)**	**-**	**(3,859)**
Tunisian Dinar	**(16,853)**	**55,946**	**39,093**
Euro	**(22,812)**	**-**	**(22,812)**
South African Rand	**(717)**	**35,530**	**34,813**
Pakistani Rupees	**(25,462)**	**94,475**	**69,013**
Syrian Pound	**3,423**	**12,379**	**15,802**
Moroccan Dirham	**-**	**11,606**	**11,606**
Others	**70,736**	**-**	**70,736**

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

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

Foreign currency risk sensitivity analysis

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

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

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

At 31 December 2020

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	**15,197**	**-15%**	**(1,982)**	**5%**	**800**
	Total owners' equity	**191,150**	**-15%**	**(24,933)**	**5%**	**10,061**
Egyptian Pound	Net income	**74,062**	**-20%**	**(12,344)**	**5%**	**3,898**
	Total owners' equity	**326,924**	**-20%**	**(54,487)**	**5%**	**17,207**
Turkish Lira	Net income	**36,990**	**-20%**	**(6,165)**	**5%**	**1,947**
	Total owners' equity	**384,930**	**-20%**	**(64,155)**	**5%**	**20,259**
Sudanese Pound	Net income	**26,630**	**-100%**	**(13,315)**	**5%**	**1,402**
	Total owners' equity	**56,354**	**-100%**	**(28,177)**	**5%**	**2,966**
S.African Rand	Net income	**2,334**	**-15%**	**(304)**	**5%**	**123**
	Total owners' equity	**55,075**	**-15%**	**(7,184)**	**5%**	**2,899**
Syrian Pound	Net income	**22,753**	**-100%**	**(11,377)**	**5%**	**1,198**
	Total owners' equity	**53,824**	**-100%**	**(26,912)**	**5%**	**2,833**
Pakistani Rupees	Net income	**3,783**	**-10%**	**(344)**	**5%**	**199**
	Total owners' equity	**73,614**	**-10%**	**(6,692)**	**5%**	**3,874**
Tunisian Dinar	Net income	**7,758**	**-10%**	**(705)**	**5%**	**408**
	Total owners' equity	**71,360**	**-10%**	**(6,487)**	**5%**	**3,756**
Moroccan Dirham	Net loss	**(4,616)**	**-20%**	**769**	**5%**	**(243)**
	Total owners' equity	**23,686**	**-20%**	**(3,948)**	**5%**	**1,247**

At 31 December 2019

Currency	*Particular*	*Exposures in US$ '000*	*Maximum expected decrease %*	*Change in net income and owners' equity US$ '000*	*Maximum expected increase %*	*Change in net income and owners' equity US$ '000*
Algerian Dinar	Net income	50,621	-15%	(6,603)	5%	2,664
	Total owners' equity	221,481	-15%	(28,889)	5%	11,657
Egyptian Pound	Net income	55,857	-20%	(9,309)	5%	2,940
	Total owners' equity	260,269	-20%	(43,378)	5%	13,698
Turkish Lira	Net income	3,961	-20%	(660)	5%	208
	Total owners' equity	462,542	-20%	(77,090)	5%	24,344
Sudanese Pound	Net income	8,191	-130%	(4,630)	5%	431
	Total owners' equity	36,973	-130%	(20,898)	5%	1,946
S.African Rand	Net income	4,764	-15%	(621)	5%	251
	Total owners' equity	54,371	-15%	(7,092)	5%	2,862
Syrian Pound	Net income	14,845	-20%	(2,474)	5%	781
	Total owners' equity	89,506	-20%	(14,918)	5%	4,711
Pakistani Rupees	Net loss	(436)	-10%	40	5%	(23)
	Total owners' equity	71,161	-10%	(6,469)	5%	3,745
Tunisian Dinar	Net income	4,072	-10%	(370)	5%	214
	Total owners' equity	60,113	-10%	(5,465)	5%	3,164
Moroccan Dirham	Net loss	(5,807)	-20%	968	5%	(306)
	Total owners' equity	26,505	-20%	(4,418)	5%	1,395

28 RISK MANAGEMENT (continued)

e) Operational risk

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

Operational Risk Management Framework

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

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

The Operational Risk framework is subject to periodic Internal Audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access by third parties or employees, etc.

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

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

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

The regulatory capital, risk-weighted assets and NSFR have been calculated in accordance with Basel III as adopted by the CBB. The Group capital adequacy ratio as of 31 December 2020 is 15.97% (2019: 16.71%) and the minimum requirement as per Central Bank of Bahrain is 12.5%. The Group NSFR as of 31 December 2020 is 242% and the minimum requirement as per Central Bank of Bahrain is 100%.

28 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

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

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

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$ 4,671 million (2019: US$ 3,519 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 57,197 thousand (2019: US$ 53,835 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 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2020 is 242%.

The NSFR (as a percentage) must be calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity US$ '000*	*Less than 6 months US$ '000*	*More than 6 months and less than one year US$ '000*	*Over one year US$ '000*	*Total weighted value US$ '000*
Available Stable Funding (ASF):					
Capital:					
Regulatory capital	1,689,009	-	-	235,815	1,924,824
Other capital instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:					
Stable deposits	-	3,503,212	240,280	71,549	3,627,867
Less: stable deposits	-	6,489,787	1,647,943	745,226	8,069,183
Wholesale funding:					
Operational deposits	-	8,459	-	-	4,230
Other wholesale funding	-	3,622,711	430,177	274,188	1,722,990
Other liabilities:					
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	1,056,288	138,355	131,711	131,711
Total ASF	1,689,009	14,680,457	2,456,755	1,458,489	15,480,805
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	4,056,321	1,484,825	-	-	41,382
Deposits held at other financial institutions for operational purposes	-	59,295	-	-	29,647
Performing financing and Sukuk/securities:					
Performing financing to financial institutions secured by Level 1 HQLA	-	26,450	-	70,582	73,227
Performing financing to financial institutions secured by non-level 1 and unsecured performing financing to financial institutions	-	671,037	136,590	137,322	306,272

30 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

	Unweighted Values (i.e. before applying relevant factors)				
Item	*No specified maturity US$ '000*	*Less than 6 months US$ '000*	*More than 6 months and less than one year US$ '000*	*Over one year US$ '000*	*Total weighted value US$ '000*
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:					
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	3,219,953	2,180,085	-	2,700,019
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	1,449,466	942,153
Securities/Sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,249	6,023	30,987	35,475
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	-	-	-	-	-
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	1,968,209	2,518	28,236	112,683	2,089,169
OBS items	3,622,724	-	-	-	181,136
Total RSF	9,647,254	5,476,327	2,350,934	1,801,040	6,398,480
NSFR (%)	18%	268%	105%	81%	242%

31 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 10 million (2019: US$ 12 million). This amount has been taken to charity.

32 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.

(The attached financial information do not form part of the consolidated financial statements)

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. Global equity and commodity markets, in particulars the hydrocarbon sector, experienced significant volatility. The estimation uncertainty is associated with extent and duration of the economic downturn. This includes the volatility in capital market, deterioration of credit quality of financial assets and escalating the liquidity management challenges. In this regards, the Group has undertaken various initiatives to ensure the protection of its human capital along-with uninterrupted supply of services to our customer base. Further, the strict prudential practices were followed to maintain sufficient liquidity levels and mitigate the possible impacts on assets base of the Bank. Further, the Group is actively monitoring the progress and impacts of such outbreak on its operations like possible loss of revenues, ECL, onerous contract etc.

The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications and offset such slowdown in economies. More specifically, the Central Bank of Bahrain and government has introduced following fiscal stimulus package:

- Payment holiday for 6 months to eligible customers free of any additional profit;
- Concessionary REPO to eligible banks free of cost or zero percent profit rate;
- Reduction of cash reserve ratio as 5% to 3% of subjective liabilities;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratio from 100% to 80%;
- Allowing to addback any additional impact on “Owners’ Equity”, from modification loss and ECL net of any subsidy/ grant, to equity for the determination of capital adequacy ratio during the financial year 2020 and 2021. Thereafter, such amount will be amortized over period of three year on an equal basis; and
- Support provided to local business in the form of subsidy in utility bills and staff salaries for a period of three months.

A summary of major financial impacts on the Group are given as follows:

	Net Impacts on Group's		
	Consolidated Income Statement	***Consolidated Statement of Financial Position***	***Consolidated Owner's Equity***
	US $ '000	***US $ '000***	***US $ '000***
Modification loss	-	(8,836)	(8,836)
Amortization of modification loss	8,836	8,836	8,836
Government grant	-	-	1,914
Concessionary REPO (matured during the period)	-	79,576	-
Average reduction in reserves	-	10,837	-
ECLs attributable to COVID-19	(146,110)	(146,110)	(146,110)