CITI ISLAMIC INVESTMENT BANK E.C.

ANNUAL REPORT

31 December 2019

Commercial registration	:	35731-1 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank)
Ultimate holding company	:	Citigroup Inc., USA
Office	:	Citibank House Al Seef District P.O. Box 548, Manama, Kingdom of Bahrain Telephone 17588588, Fax 17588654
Directors	:	Atiq Ur Rehman (Chairman) Mohammed Jaffer Nini (Deputy Chairman) Omer Emre Karter Naveed Kamal Usman Ahmed (Managing Director, Chief Executive Officer)
Auditors	:	KPMG Fakhro, Bahrain

Citi Islamic Investment Bank E.C.

ANNUAL REPORT
for the year ended 31 December 2019

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REPORT OF THE BOARD OF DIRECTORS
as at 31 December 2019 US$ 000's

I have the pleasure to present our annual report including the audited financial statements of Citi Islamic Investment Bank E.C. (the "Bank" or "CIIB") for the year ended 31 December 2019.

FINANCIAL PERFORMANCE
The financial highlights of the Bank for the year 2019 are as follows:

	2019 US$ 000	2018 US$ 000
Total income	**2,614**	2,386
Profit for the year	**1,035**	1,179
Total assets	**14,683**	14,624
Total equity	**14,397**	14,453

Total income is higher for the year as compared to the year 2018 mainly as a result of new Islamic products offered by Citi Islamic Investment Bank E.C. to different Citi entities, which resulted in higher revenue received compared to 2018. In terms of Murabaha deposits, the overall yield environment continued to put pressure on the Bank's spreads and there was a decrease in the placements from an average of US$ 213 million in 2018 to an average of US$ 143 million in 2019.
Net profit is slightly lower compared to year 2018, mainly as a result of implementing VAT and higher cost of consultancies.

FINANCIAL INDICATORS
The key financial indicators of the Bank for the past 5 years are as follows:

	2019	2018	2017	2016	2015
Return on average equity (ROAE)	7.18%	8.50%	3.67%	-2.96%	4.35%
Return on average assets (ROAA)	7.06%	8.36%	3.57%	-2.87%	4.26%
Cost to income ratio	60.39%	50.59%	66.85%	156.51%	63.53%
Earnings per share (USD$)	0.104	0.118	0.048	-0.039	0.06

No events have occurred subsequent to 31 December 2019 to date which would have a material effect on the 2019 financial statements.

On behalf of the Board of Directors.
Citi Islamic Investment Bank E.C.

Usman Ahmed
Chief Executive Officer

CORPORATE GOVERNANCE

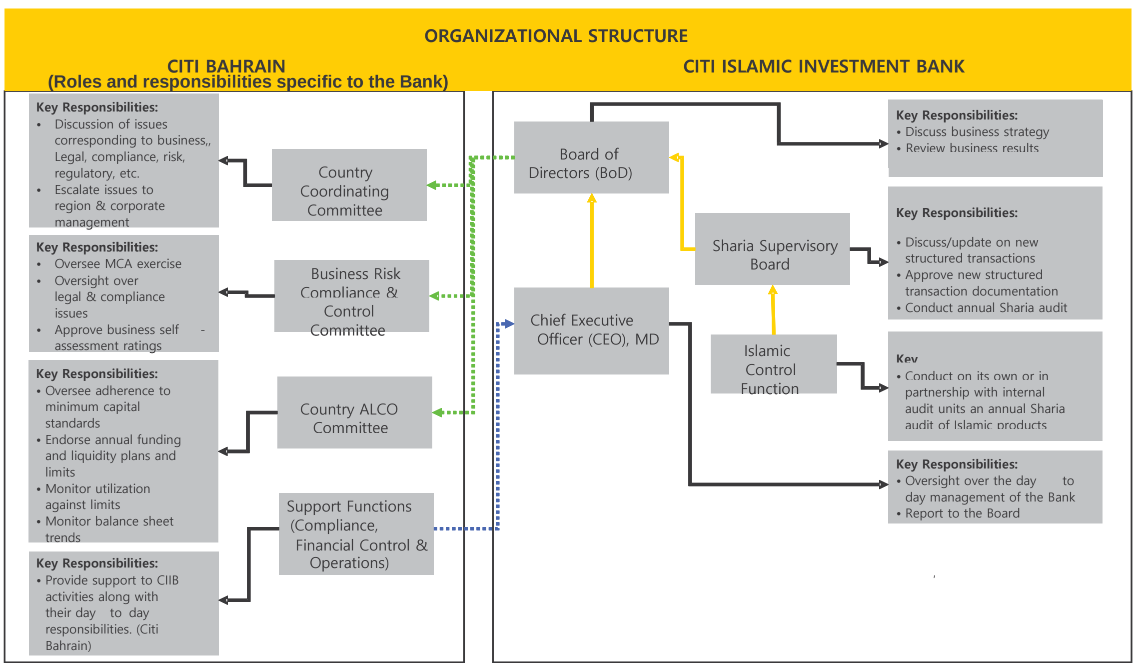
A) FRAMEWORK

The Bank's Board of Directors comprise five executive directors. The Directors on a regular basis maintain oversight over the activities of the Bank. The nature of the Bank's business is two-fold: offering a Sharia compliant Murabaha-based investment product to Islamic Financial Institutions and Corporates and to provide structuring services to other Citigroup entities in respect of markets, capital market and risk management transactions. The Bank at present does not offer, or intend to offer, any asset products.

The Managing Director and the Chief Executive Officer of the Bank is the Citi Country Officer ("CCO") of Citi Bahrain and also chairs the Country Coordinating Committee ("CCC") and the Business Risk Compliance and Control Committee ("BRCC") of Citi Bahrain. Furthermore, the Bank's Sharia Advisory Board conducts meetings on a frequent basis in order to review and approve all Islamic transactions undertaken by the Bank.

B) ORGANISATION STRUCTURE

The Bank operates under the umbrella of Citi Bahrain and has 2 employees. Since the scope of activities of the Bank is fairly limited, it utilises services from the various Citi Bahrain departments via Intera Citi Service Agreements.



C) COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors of the Bank consist of the following:

1)	Mr. Atiq Ur Rehman	(Chairman - Executive Director)
2)	Mr. Mohammed Jaffer Nini	(Deputy Chairman - Executive Director)
3)	Mr. Omer Emre Karter	(Board Member - Executive Director)
4)	Mr. Naveed Kamal	(Board Member - Executive Director)
5)	Mr. Usman Ahmed	(Managing Director & Chief Executive Officer (Citi Country Officer - Citibank N.A.) - Executive Director)

CORPORATE GOVERNANCE

The Board of Directors are appointed for a period of three years subject to re-appointment.

Profile of the Directors

1. Mr. Atiq Rehman *– Chairman – Executive Director*

Profession	:	Banker
Business title	:	Chief Executive Officer, EMEA Emerging Markets.
Experience in years	:	36 years
Qualifications	:	MBA
Start of term	:	28 January 2004

Mr. Atiq Rehman was appointed as Citi's Chief Executive Officer for the Middle East in 2009. In 2013, his responsibilities were expanded to include North Africa and in 2015 further expanded to include Sub-Saharan Africa. In 2019 Atiq was appointed as the Chief Executive Officer for EMEA Emerging Markets.

Prior to moving to the Middle East, Mr. Rehman held several senior positions in the company mostly based out of London. These include: Head of Loan Syndications for Europe, Middle East & Africa (EMEA); Co-Head of Capital Markets in EMEA; Global Head of Emerging Markets Debt Business; Global Co-Head of Loans and Leveraged Finance.

During his 36 year career at Citigroup, Mr. Rehman has worked on some of the most prominent transactions around the world, including ground breaking acquisition financings, several large and high profile corporate restructurings and infrastructure financing transactions both in the Developed and Emerging Markets. More recently he has led the initiative of Citi's re-entry into Saudi Arabia.

Mr. Rehman in his current role is closely involved in managing several senior client and regulatory relationships and provides senior leadership in dealing with complex franchise, risk and business issues including involvement in large franchise defining transactions.

2. Mr. Mohammed Jaffer Nini *– Deputy Chairman – Executive Director*

Profession	:	Banker
Business title	:	Managing Director, Chief Financial Officer – EMEA Emerging Markets Cluster
Experience in years	:	30 years
Qualifications	:	Fellow Chartered Accountant
Start of term	:	8 April 2012

Mr. Mohammed Jaffer Nini is the Managing Director and Chief Financial Officer of Citi for EMEA Emerging Markets Cluster. He is responsible for Finance function in the region across all businesses and products.

Mr. Nini has been with Citi for last 26 years working in Pakistan, Saudi Arabia, Egypt and UAE. Before joining Citi, he worked with PWC as Audit Manager. He is a Fellow member of Institute of Chartered Accounts of Pakistan.

Mr. Nini was assigned as Deputy Chairman for Citi Islamic Investment Bank effective from June 16th, 2014.

CORPORATE GOVERNANCE

3. Mr. Omer Emre Karter *– Board member – Executive Director*

Profession	:	Banker
Business title	:	Managing Director – Head of Treasury and Trade Solutions (TTS), MENAPT, Middle East, North Africa, Pakistan and Turkey
Experience in years	:	24 years
Qualifications	:	M.Sc. in Intl Business and Finance – New Hampshire College, Manchester, NH, USA
Start of term	:	14 January 2020

Mr. Omer Emre Karter is Managing Director – Head of Treasury and Trade Solutions (TTS), MENAPT, Middle East, North Africa, Pakistan and Turkey with 24 years of progressively responsible positions in business, product, franchise, and relationship/client management, and regional business management.

Mr. Karter is experienced in governance, process, balance sheet and people management in a diverse culture, multi geography structure.

Mr. Karter is highly proficient in leading and managing, coverage, sales and pipeline management, product positioning, cross-sell and innovation. With in-depth experience in Risk and Control, Operational issues and Asset & Liability management.

Mr. Karter is Senior Business Risk Officer (SBRO).

4. Mr. Naveed Kamal *– Board member – Executive Director*

Profession	:	Banker
Business title	:	Managing Director– Head of Corporate Banking, Middle East and North Africa (MENA)
Experience in years	:	29 years
Qualifications	:	Master of Business Administration
Start of term	:	14 January 2020

Mr. Naveed Kamal is the Head of Corporate Banking, MENA and has been based in Dubai since 2004.

Mr. Kamal was previously Head of Corporate Banking for the UAE and responsible for managing relationships with our most important clients in Dubai and Abu Dhabi having developed the business through several economic cycles.

Mr. Kamal has also managed Citi's Public Sector client relationships across MENA and built up strong partnerships with several governments and GREs in the region.

5. Mr. Usman Ahmed *– Managing Director & Chief Executive Officer – Executive Director*

Profession	:	Banker
Business title	:	Managing Director, CEO Citi Islamic Investment Bank and Head of Citi Bahrain, Kuwait & Qatar
Experience in years	:	26 years
Qualifications		MBA
Start of term	:	20 September 2015

Mr. Usman Ahmed was appointed as the CEO of Citi Islamic Investment Bank E.C. in September 2015. Mr. Ahmed is concurrently the Head of Citi for Bahrain, Kuwait & Qatar.

CORPORATE GOVERNANCE

Prior to this appointment, Mr. Ahmed was the Managing Director, Head of Corporate and Investment Banking for the Philippines and concurrently the Managing Director, Head of Global Islamic Banking for the Asia Pacific region. Mr. Ahmed was based in Manila from August, 2012 to September, 2015 and was also as an Executive Director on the Board of Citicorp Capital Philippines, Inc.

Mr. Ahmed was appointed as Managing Director & Chief Operating Officer, Corporate Banking as well as Managing Director, Head of Global Islamic Banking for the Asia Pacific region in August 2011 and was based in Hong Kong till July, 2012.

Between April, 2008 and July 2011, Mr. Ahmed was the Managing Director and Head of Corporate Banking for Emerging Markets at Barclays Bank, with responsibility for 14 countries across the Middle East, Africa and South Asia.

Mr. Ahmed was the Chief Executive Officer & Managing Director of Global Islamic Banking at Citi, based in Dubai prior to joining Barclays Bank and has also worked with Citi in various other roles, including as a Director in Capital Markets Origination, London, and as a Product Manager and Relationship Manager in Bahrain and Pakistan. Mr. Ahmed ‘s total banking experience spans over 20 years, in various roles across the EMEA and Asia Pacific regions.

Mr. Ahmed has also been a Senior Credit Officer at Citi since 2013.

In addition to Citi Islamic Investment Bank, Mr. Ahmed is also a Board Member of the American Chamber of Commerce, Bahrain, the Bahrain International School Association, the Bahrain Institute of Banking & Finance and Injaz Bahrain.

D) FUNCTIONS OF THE BOARD OF DIRECTORS:

The Board is responsible for the overall business performance and strategy of the Bank.

The Board establishes the objectives of the Bank, the adoption of strategy and annual review thereof, management structure and responsibilities and the systems and controls framework. It monitors management performance and the implementation of strategy by management, keeps watch over conflicts of interest and prevents abusive related party transactions.

The Board delegates to management the responsibility for the day-to-day management of the Bank in accordance with policies, guidelines and parameters set by the Board.

The Board of Directors is accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank’s strategy and financial performance, within a framework of sound corporate governance and effective risk management.

The Board of Directors of the Bank has responsibility for:

1 Preparation and fair presentation of financial statements in accordance with Financial Accounting Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) and for such internal controls as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

2 The Bank’s undertaking to operate in accordance with Islamic Sharia rules and principles.

3 Complying with the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain Financial Institutions Law 2006 and applicable regulations of the rulebook issued by the Central Bank of Bahrain.

CORPORATE GOVERNANCE

4 Making available to the auditors access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation, other matters and additional information required for the purpose of the audit and unrestricted access to persons within the entity from whom it is necessary to obtain audit evidence.

E) BOARD MEETINGS

As per the internal polices, the Board members are required to meet at least four times a year.

Summary of meetings of Board of Directors and attendance during the year:

Board Member	20 March 2019	19 June 2019	11 September 2019	29 November 2019	% of attendance
Mr. Atiq Ur Rehman	Yes	Yes	Yes	Yes	Yes
Mr. Mohammed Jaffer Nini	Yes	Yes	Yes	Yes*	Yes
Mr. Ahmet Bekce	Yes*	No	No	No	No
Mr. Usman Ahmed	Yes*	Yes*	Yes*	Yes	Yes*
Mr. Samad Sirohey	Yes	Yes	No	No	No
% of attendance	100%	80%	60%	60%	60%

* Attendance via video / conference call.

F) CODE OF ETHICS

The Board has adopted a Code of Ethics for Financial Professionals governing all Citi Islamic Investment Bank employees. A copy of the Code of Ethics is available on Citigroup website.

G) CODE OF CONDUCT

The Board has adopted a Code of Conduct, which outlines the laws, rules, regulations and Citi policies that govern the activities of Citi and sets the standards of business behaviour and ethics that apply across Citigroup. The Code of Conduct applies to every director, officer and employee of Citi. All employees, directors and officers are required to read and follow the Code of Conduct. In addition, other persons performing services for Citi may be subject to the Code of Conduct by contract or agreement. A copy of the Code of Conduct is available on Citigroup website at www.citigroup.com.

H) CHANGES IN THE STRUCTURE OF THE BOARD DURING THE YEAR

During the year, Mr. Ahmet Bekce and Mr. Samad Sirohey resigned from the board and Mr.Omer Emre Karter and Mr. Naveed Kamal joined the board on 14 January 2020.

I) SHARIA COMPLIANCE

Citi's Islamic business has a dedicated Group wide internal Islamic control function and the Bank has a Sharia Supervisory Board ("SSB") to ensure Sharia compliance of its activities on an ongoing basis throughout the year complying with the Sharia Standards of AAOIFI. The Group Islamic control function and the SSB also conduct a Sharia audit every year.

J) SOCIAL RESPONSIBILITY

The Bank discharges its social responsibility at a group level in Bahrain. Citi Bahrain operations contributes/ donates to charitable organisations and participates in various community initiatives.

K) COMMUNICATIONS POLICY

The disclosure policy applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable local and international laws and regulatory requirements. Information on new products or any change in existing products will be placed on the Bank's website www.citibank.com/ciib/ and/ or published in the media. Product details are also shared with customers through brochures and/ or advertisements.

L) COMPLAINT HANDLING

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints. No complaints were lodged with the Bank during the year.

M) MATERIAL TRANSACTIONS

Given the size of the organisation most of the transactions are subject to review and approval by the Board of Directors. For day-to-day operations, the Board has delegated authority to the management/ CEO to approve transactions. All transactions are subject to the wider Citigroup policies and approval processes. All non-routine transactions outside the normal course of business shall be subject to approval by the Board of Directors.

N) COMPLIANCE WITH HC MODULE

In relation to the corporate governance requirements as specified in the HC module, the Bank has a practice to explain its non-compliance if any to its shareholders at the annual general meeting. Further, the Bank has been exempted by the CBB vide letter dated 3 May 2012 from the requirements under paragraphs 1.2.7, 1.8, 1.9, 3.2, 3.3, 4.2 to 4.4, and 5.1 to 5.5, and vide letter dated 19 March 2012 from paragraphs 1.4.6, 1.4.8 and 1.5.2, subject to an annual re-assessment, whereby the CBB has the right to revoke the exemptions as it sees fit.

O) REMUNERATION POLICIES

The Bank's employees are remunerated as per the Citigroup compensation policies. The operations, compliance and other support functions are carried out by Citibank NA Bahrain as per a service level agreement between CIIB and Citibank NA Bahrain. No remuneration is awarded by the Bank to the Board of Directors of the Bank. The Sharia Supervisory Board is paid attendance fee for the meetings held which is as per the resolution approved by the Board.

Citi Islamic Investment Bank is following Citigroup's remuneration policy which is governed by Citigroup Global remuneration policy.

Citigroup Inc's Global Remuneration Committee which is known as the P&C Committee (Personnel and Compensation Committee) is a duly constituted committee of the Board of Directors of the overall US parent company, Citigroup Inc. The P&C Committee draws on considerable experience of the non-executive directors of the Board of Citigroup Inc., and is empowered to draw upon internal and external expertise and advice as it determines appropriate.

In 2010, Citi established a Remuneration Committee for the Europe Middle East & Africa "EMEA" region (the "EMEA RemCo") to provide regional oversight. The EMEA RemCo is a sub-committee of the EMEA Governance Committee which provides;

- Reviews and approves Citi's compensation framework in the EMEA region to ensure that this is in line with business strategy and is consistent with and promotes effective risk management and does not encourage risk taking which exceeds the tolerated level of risk within Citi EMEA.

- It consists of members of Citi EMEA's senior management team and includes members of the Risk, Compliance, Human Resources, Legal, Finance and the CEO. Through the Human Resources and Legal functions, the EMEA RemCo is advised externally by Clifford Chance.

In 2011, Citi appointed Diana Taylor, a Non-Executive Director of the P&C Committee and EMEA Governance Committee onto the EMEA RemCo. The P&C Committee retains ultimate oversight of Citi's remuneration matters.

CORPORATE GOVERNANCE

Citi's global compensation principles are developed and approved by the P&C Committee in consultation with management, independent consultants and Citi's senior risk officers. The P&C Committee comprised independent directors who have experience evaluating compensation structures, especially for senior executives. Citi's compensation principles are designed to advance Citi's business strategy by attracting, retaining and motivating the best talent available to execute the strategy, while ensuring, among other things, unnecessary or excessive risk-taking is not encouraged.

The link between remuneration and performance
Citi is committed to responsible compensation practices and structures. Citi seeks to balance the need to compensate its employees fairly and competitively based on their performance, while assuring that their compensation reflects principles of risk management and performance metrics that reward long-term contributions to sustained profitability.

Citi's compensation programmes aim to enhance stockholder value through the practice of responsible finance, facilitate competitiveness by attracting and retaining the best talent, promote meritocracy by recognising employee contributions and manage risk through sound incentive compensation practices

Individual performance assessment and award determination process
Citi has an annual performance management process which operates through the Global Talent and Management System ("GTMS").

The performance assessment is based on individually tailored goals and an assessment against Citi's Core Principles Statements, which incorporates risk management and non-financial performance factors by business area into the performance appraisal process.

Individuals complete a self-appraisal against their individual and Core Principle Statement goals. This is followed by a discussion between the individual and their manager. Managers complete their appraisal of the individual against their goals, and other metrics that may be pertinent to their business and record in GTMS the individual's performance and contribution. A rating is then given based on the performance factors identified for the individual.

Managers must carefully consider the risk metrics pertinent to their business unit when determining individual performance ratings, especially when applying any discretion that results in an individual compensation outcome varying from the level implied by the performance of their business unit.

Identified Staff are subject to an additional independent risk review process under which the control functions (i.e., Compliance, Finance, Risk and Internal Audit and Legal) provide an evaluation of their individual risk behaviors. The independent risk review process is included in the performance evaluation system to inform the performance review conducted by the identified staff's manager.

Remuneration of control function employees
Citi takes several measures to avoid conflicts of interest between the business and Control Functions. They are:

- Employees engaged in control functions have direct reporting lines that are separate from the business and those reporting lines within the control functions are responsible for the reward of those employees both in terms of year end compensation, salary increases and promotion.
- The control functions are allocated a bonus pool separate from the revenue generating businesses and decisions about allocations of those pools are made within the Control Functions themselves.
- Compensation (both salary and variable incentive) for the Control Functions is regularly tested in line with external market data to gauge whether it is in keeping with the market. The level of variable remuneration for Control Function employees is determined by reference to performance against objectives that are set and assessed within their respective functions.

CORPORATE GOVERNANCE

Use of stock as deferred variable compensation

In general, amounts subject to Citi's mandatory deferral policy, are deferred into shares or share-linked instruments. Subject to headroom limitations relating to Citi's shareholder approved stock deferral plans, a portion of deferred remuneration may be in the form of deferred cash, Citi stock and/ or phantom units related to Citi's share price.

The Capital Accumulation Program ("CAP") and Citigroup Stock Award Program ("CSAP") are the main programmes under which Citi may make awards of stock to selected employees.

Certain senior executives are subject to stock ownership commitments, further aligning the executives' interests with those of stockholders and other stakeholders.

Deferred stock awards made to identified staff are subject to Performance Based Vesting ("PBV"). The trigger for application of a PBV reduction of a tranche of unvested deferred stock is the emergence of pre-tax losses in the relevant "reference business" of the individual. If there are pre-tax losses in the reference business, a portion of the deferred stock tranche is forfeited, the proportion of which is based on the extent of the losses and prior year net profits.

Use of deferred cash as deferred compensation

Identified staff may have a portion of their incentive compensation delivered in the form of deferred cash awards, subject to ("PBV"). PBV for the deferred cash portion of the award is a discretionary feature. If it is determined that a Material Adverse Outcome ("MAO") has occurred and that a given Identified Staff is deemed to have had "significant responsibility" for that

MAO, then a discretionary reduction may be made to the unvested portion of the deferred cash award. Determinations of when a MAO has occurred, which (if any) Identified Staff have significant responsibility for the MAO and what reductions to awards will be made, are all based on the facts and circumstances of a given outcome.

The Bank's employees currently do not meet remuneration thresholds that would require deferral or delivery of compensation in shares or share linked instruments. The total value of remuneration awards for the current fiscal year 2019 are as follows:

Total value of remuneration awards for the current fiscal year 2019	**Unrestricted**	**Deferred**
Fixed remuneration:		
- Cash-based	USD 291,700	Nil
-Shares and share-linked instruments	Nil	Nil
- Other	USD 92,400	Nil
Variable remuneration:		
- Cash-based	USD 9,750	Nil
-Shares and share-linked instruments	Nil	Nil
- Other	Nil	Nil

Note: Above figures are for the two employees of Citi Islamic Investment Bank E.C. who were existing during the year and as at year end.

SHARIA SUPERVISORY BOARD REPORT
as at 31 December 2019

In the name of Allah, The Beneficent, The Merciful, Prayers and peace upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

To: Citi Islamic Investment Bank Share Holders & Board of Directors

Alsalam Alaikum Wa Rahmat Allah Wa Barakatuh

The Sharia Supervisory Board of Citi Islamic Investment Bank ("CIIB") has reviewed the principles and the contracts relating to the transactions and applications introduced by CIIB during the financial year ended December 2019. We have also conducted our review to form an opinion as to whether CIIB has complied with Sharia Rules and Principles and also with the specific Fatwas, rulings and guidelines issued by us.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by CIIB.

CIIB management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Sharia Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of CIIB and to report to you.

In our opinion, the contracts, transactions and dealings with respect to Murabaha Placement business entered into by CIIB during the **year 2019** that we have reviewed are in compliance with the Islamic Sharia Rules and Principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wa Alsalam Alaikum Wa Rahmat Allah Wa Barakatuh

Dr. Nazih Hammad
President, CIIB Sharia Advisory Board

Dr. Mohammed Eid Elgari
Member, CIIB Sharia Advisory Board

Dr. Nizam M. Yaquby
Member, CIIB Sharia Advisory Board

Mohammed Imad Ali
Islamic Control Function &
Secretary to CIIB Sharia Advisory Board

Dated: 13th February 2020

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Citi Islamic Investment Bank E.C.
Manama, Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying financial statements of Citi Islamic Investment Bank E.C. (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of income, changes in equity, cash flows and changes in restricted investment accounts for the year then ended and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its results of operations, its cash flows, its changes in owners' equity and its changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the directors' report is consistent with the financial statements;
c) we are not aware of any violations during the year of the Commercial Companies, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 100
20 February 2020

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019 US$ 000's

	Note	**31 December 2019**	31 December 2018
ASSETS			
Bank balances		501	632
Murabaha receivables	3	13,622	13,530
Other assets	4	560	462
Total assets		**14,683**	14,624
LIABILITIES AND EQUITY			
Liabilities			
Payables and other accrued expenses		287	171
Total liabilities		**287**	171
Equity			
Share capital	5	10,000	10,000
Statutory reserve		3,465	3,361
Retained earnings		931	1,092
Total equity		**14,396**	14,453
Total liabilities and equity		**14,683**	14,624

The financial statements, were approved by the Board of Directors on 20 February 2020 and signed on its behalf by:

Mohammed Jaffer Nini
Deputy Chairman

Usman Ahmed
Chief Executive Officer

The accompanying notes 1 to 16 form an integral part of these financial statements.

INCOME STATEMENT
for the year ended 31 December 2019 US$ 000's

	Note	2019	2018
INCOME			
Income from advisory services	6	2,158	1,909
Fee from restricted investment accounts		126	182
Income from murabaha contracts		330	295
Total income		**2,614**	2,386
EXPENSES			
Staff costs	7	394	360
Other expenses	8	1,185	847
Total expenses		**1,579**	1,207
PROFIT FOR THE YEAR		**1,035**	**1,179**

Mohammed Jaffer Nini
Deputy Chairman

Usman Ahmed
Chief Executive Officer

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019 US$ 000's

	Share Capital	**Statutory reserve**	**Retained earnings**	**Total**
Balance at 1 January 2019	10,000	3,361	1,092	14,453
Profit for the year	-	-	1,035	1,035
Total recognised income and expense for the year	-	-	1,035	1,035
Dividends declared for 2018	-	-	(1,092)	(1,092)
Transfer to statutory reserve	-	104	(104)	-
As at 31 December 2019	**10,000**	**3,465**	**931**	**14,396**

	Share Capital	Statutory reserve	Retained earnings	Total
Balance at 31 December 2017	10,000	3,243	38	13,281
Impact of adopting FAS 30 as at 1 January 2018	-	-	(7)	(7)
Balance at 1 January 2018	10,000	3,243	31	13,274
Profit for the year	-	-	1,179	1,179
Total recognised income and expense for the year	-	-	1,179	1,179
Transfer to statutory reserve	-	118	(118)	-
As at 31 December 2018	10,000	3,361	1,092	14,453

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019 US$ 000's

	2019	2018
OPERATING ACTIVITIES		
Receipt of advisory income	2,100	2,061
Receipt of income from murabaha contracts	330	295
Receipt of income from restricted investment accounts	126	182
Payments to employees and suppliers	(725)	(835)
Management fees paid	(785)	(488)
Net cash from operating activities	**1,046**	1,215
FINANCING ACTIVITIES		
Dividends declared	(1,092)	-
Net cash used in financing activities	**(1,092)**	-
Net (decrease) / increase in cash and cash equivalents	**(46)**	1,215
Cash and cash equivalents at 1 January	14,169	12,954
Cash and cash equivalents at 31 December	**14,123**	14,169
Cash and cash equivalents comprise:		
Bank balances	501	632
Murabaha receivables	13,622	13,537
	14,123	14,169

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2019 US$ 000's

	2019	2018
As at 1 January	157,708	196,385
Net deposits/(withdrawals)	229,909	(42,743)
Gross income	3,172	4,248
Bank's income as an agent	(126)	(182)
As at 31 December	**390,663**	157,708

The Bank acts as an agent for Deposit Murabaha transactions for its customers and invests the funds only in Commodity Murabaha transactions on behalf of its customers.

1 REPORTING ENTITY

Citi Islamic Investment Bank E.C. (the "Bank") was incorporated in the Kingdom of Bahrain as an exempt closed shareholding Bank on 29 June 1996. 99.99% of the Bank's shares are owned by Citicorp Banking Corporation, USA and 0.01% of the Bank's shares are owned by Citicorp Global Holding Inc., USA. Citigroup Inc., USA is the ultimate parent for the Bank. The Bank operates as Wholesale Islamic Investment Bank under a licence granted by the Central Bank of Bahrain (the "CBB").

The Bank's principal activities are to undertake and carry out banking and investment activities in compliance with the principles of Islamic Sharia.

The Bank's activities are supervised by a Sharia Supervisory Board (the "Sharia Board") consisting of three members. The role of the Sharia Board is defined in a separate agreement between the Bank and Sharia Board members. The Financial Control and administrative activities of the Bank are carried out by Citibank N.A., Bahrain under intra Citi service agreements between the two parties.

The transactions, balances and results reported in these financial statements are those of Citi Islamic Investment Bank E.C. Bahrain, only and accordingly do not include the results of other Islamic banking activities carried out by Citibank N.A. or any of its affiliates worldwide.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently to all periods presented in the financial statements.

(a) Statement of compliance

The financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Bank uses guidance from the relevant International Financial Reporting Standards.

(b) Basis of preparation

The financial statements are prepared on the historical cost basis. The preparation of financial statements may require the use of certain critical accounting estimates. It also may require management to exercise its judgement in the process of applying the Bank's accounting policies. There were no significant estimates and judgement made in the process of preparation of financial statements for the year ended 31 December 2019.

The Bank classifies its expenses by the nature of expense method.

(c) New standards, amendments and interpretations effective from 1 January 2019

FAS 28 – Murabaha and Other Deferred Payment Sales

FAS 28 is effective on the financial statements of the institutions beginning on or after 1 January 2019. This standard supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale".

The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures to apply in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories
In the books of the Bank acting in the capacity as seller, the inventory is recognised at cost and subsequently at lower of cost or net realisable value. In the books of the Bank acting in the capacity as buyer, the asset purchased shall be initially recognised at cost and subsequently shall be tested for net realisable value, if the asset represents inventory or all other assets shall be tested for impairment.

Receivables
Banks acting in the capacity of seller shall recognise revenue when the inventory is sold under Murabaha or deferred payment sale contract. Subsequent to initial recognition, gross receivables shall be carried at their outstanding amount less any allowance for credit losses. Revenue can be recognised only when the inventory is sold and control is transferred. For Banks acting in the capacity of buyer, the accounts payable on account of Murabaha and other deferred payment sales an amount equal to the face value once the control to the asset is procured.

The adoption of this amendment has had no significant impact on the financial statements.

(d) New standards, amendments and interpretations issued but not yet effective
There are no AAOIFI accounting standards or interpretations that have been issued but not yet effective for the financial year beginning after 1 January 2019 that would be expected to have a material impact on the Bank.

(e) Foreign currencies
(i) Functional and presentation currency
Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(g) Murabaha receivables
Murabaha receivables comprise placements with Citicorp Banking Corporation, Bahrain. Murabaha receivables are stated at amortised cost less impairment allowances, if any. Murabaha receivables are impaired when they are considered to be uncollectible. The deferred income relating to murabaha contracts is netted off against the related receivable for the purpose of presentation in the financial statements.

(h) Income from Murabaha contracts
Income from Murabaha contracts is recognised on a time-apportioned basis over the period of the contract.

(i) Restricted investment accounts
Restricted investment accounts represent assets acquired using funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an agent. The restricted investment accounts are exclusively designated for investment in specified instruments as directed by the investments account holders. Restricted investment accounts are not included in the Bank's statement of financial position and are considered as funds under management.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income from advisory services

Income from advisory services is measured at the fair value of the consideration received and receivable and recognised at a point in time when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to the service, and it is highly probable that the economic benefits from the transaction will flow to the Bank and income can be reliably measured.

(k) Income from restricted investment accounts

The Bank’s share of fee charged as an agent to restricted investment accounts are normally recognised on the basis of the Bank's entitlement to receive such revenue from the restricted investment accounts, as per agreed contractual terms, except when the Bank elects to waive its entitlement in favour of its customers.

(l) Statutory reserve

In accordance with the requirements of the Commercial Companies Law, a minimum of 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable, except in the circumstances stipulated in the Commercial Companies Law.

(m) Employee benefits

All short term employee benefits are recognised in the income statement. Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a “defined contribution scheme” in nature under IAS 19 ‘Employee Benefits’, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

(n) Segment reporting

The Bank’s activities are limited to carrying out banking and investment advisory activities in compliance with the principles of Islamic Sharia. The Bank does not have any reportable segments and the revenue, assets, liabilities and performance is evaluated on an entity basis. Accordingly, no segment information is reported in these financial statements.

(o) Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on trade date, i.e. the date that the Bank contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(p) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(q) Offsetting

Financial assets and liabilities are offset only when there is a legal or religious enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

for the year ended 31 December 2019 US$ 000's

3 MURABAHA RECEIVABLES

	31 December 2019	31 December 2018
Gross contract value	13,661	13,586
Less: Deferred profits	(39)	(56)
	13,622	13,530

All murabaha receivables are financed through equity. Profit and/ or principal repayment in respect of murabaha receivables are not past due at 31 December 2019.

4 OTHER ASSETS

	31 December 2019	31 December 2018
Prepayments	34	34
Other receivables	526	428
	560	462

5 SHARE CAPITAL

	31 December 2019	31 December 2018
Authorised		
20,000,000 shares of US$ 1 each	20,000	20,000
Subscribed, issued and paid-up		
10,000,000 shares of US$ 1 each	10,000	10,000

Dividends declared for the year amounted to US$ 1,092,00 (2018: Nil).

6 INCOME FROM ADVISORY SERVICES

Income from advisory services is earned by the Bank in its capacity as an agent for Sharia compliant structuring and arranging execution of Islamic financing deals. The Bank mainly provides such advisory services in relation to financing deals in which other Citigroup entities originate/ participate. For such deals, advisory income is recognised only on completion of the transaction. The revenue recognition of fees earned from syndication is dependent upon the level of participation of Citigroup in the syndication, the aggregate fees received by Citigroup and the fees received by other participants. The fee earned on each financing transaction is shared between the Bank and other Citibank entities on an agreed proportion by way of a charge as per the service level agreement. The Bank recognises revenue at a point in time only when it is highly probable that it will be entitled to its share of income from participation in each deal. The Bank recognises revenue, net of expenses paid to other Citibank entities as part of syndication.

for the year ended 31 December 2019 US$ 000's

7 STAFF COST

	2019	2018
Salaries and benefits	383	350
Social security costs	11	10
	394	360

8 OTHER EXPENSES

	2019	2018
Sharia Board expenses	159	165
Management fees	785	488
Head office charges	42	47
Professional fees	64	52
CBB license fees	34	34
Travel expenses	7	-
Others	94	61
	1,185	847

9 RELATED PARTY TRANSACTIONS

A significant portion of the Bank's transactions in the normal course of business are with other branches of Citibank N.A. and other companies of Citigroup. All transactions are subject to controls embedded in respective processes in line with the Citigroup policies and procedures. These financial statements may not necessarily be indicative of the financial position that would have existed or of the Bank's results of operations, if the Bank had been operated as an unaffiliated bank.

The significant income, expenses and balances arising from dealing with related parties included in the financial statements are as follows:

	31 December 2019	31 December 2018
Murabaha receivables	13,622	13,530
Bank balances	501	632
Other assets	478	420
Other payables	182	138
Income from advisory services	1,939	1,697
Income from murabaha contracts	330	295
Key management personnel	394	360
Sharia Board expenses	159	165
Management fees	785	488
Head office charges	42	47

No remuneration is being paid to the Board of Directors.

for the year ended 31 December 2019 US$ 000's

10 ZAKAH

The Bank is not obliged to pay Zakah. Further, the Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. As per the requirements of AAOIFI standards, disclosure of Zakah due per share is required to be made in the financial statements. The Zakah payable by the shareholders as at 31 December 2019 computed by the Bank on the basis of the method prescribed by the Bank's Sharia Supervisory Board amounts to 37 US cents (2018: 37 cents) for every share held.

11 SHARIA SUPERVISORY BOARD

The Bank's Sharia Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Sharia principles and specific fatwas, rulings and guidelines issued. Their review primarily includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Sharia principles.

12 CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS

The concentration of the Bank's credit exposures on financial instruments and the distribution of other assets and liabilities as at 31 December 2019 were as follows:

(a) Sectoral classification

31 December 2019	**Banks and financial institutions**	**Inter-group**	**Others**	**Total**
Bank balances	-	501	-	501
Murabaha receivables	-	13,622	-	13,622
Other assets	5	478	77	560
Total assets	**5**	**14,601**	**77**	**14,683**
Payables and other accrued expenses	-	182	105	287
Total liabilities	**-**	**182**	**105**	**287**
Restricted investment accounts	390,663	-	-	**390,663**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019 US$ 000's

12 CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS (continued)

31 December 2018	Banks and financial institutions	Inter-group	Others	Total
Bank balances	-	632	-	632
Murabaha receivables	-	13,530	-	13,530
Other assets	-	420	42	462
Total assets	-	14,582	42	14,624
Payables and other accrued expenses	-	138	33	171
Total liabilities	-	138	33	171
Restricted investment accounts	97,033	-	60,675	157,708

(b) Geographical distribution

31 December 2019	**Middle East**	**Asia**	**Europe**	**Americas**	**Total**
Bank balances	97	-	-	404	501
Murabaha receivables	13,622	-	-	-	13,622
Other assets	450	-	45	65	560
Total assets	**14,169**	**-**	**45**	**469**	**14,683**
Payables and other accrued expenses	252	-	35	-	287
Total liabilities	**252**	**-**	**35**	**-**	**287**

31 December 2018	Middle East	Asia	Europe	Americas	Total
Bank balances	37	-	-	595	632
Murabaha receivables	13,530	-	-	-	13,530
Other assets	365	-	93	4	462
Total assets	13,932	-	93	599	14,624
Payables and other accrued expenses	161	-	10	-	171
Total liabilities	161	-	10	-	171

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12 CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS (continued)

Restricted investment accounts	**31 December 2019**	31 December 2018
Middle East	**390,663**	157,708

13 MATURITY PROFILE

This note presents the expected maturity profile of assets and liabilities of the Bank. The contractual maturity of the assets and liabilities is not significantly different from the profile presented below.

31 December 2019	Within 8 days	9 days to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year	Total
Bank balances	501	-	-	-	-	501
Murabaha receivables	-	5,016	8,606	-	-	13,622
Other assets	-	488	46	26	-	560
Total assets (a)	**501**	**5,504**	**8,652**	**26**	**-**	**14,683**
Payables and other accrued expenses	-	57	148	82	-	287
Total liabilities (b)	**-**	**57**	**148**	**82**	**-**	**287**
Net (a-b)	**501**	**5,447**	**8,504**	**(56)**	**-**	**14,396**

31 December 2018	Within 8 days	9 days to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year	Total
Bank balances	632	-	-	-	-	632
Murabaha receivables	-	5,021	8,509	-	-	13,530
Other assets	-	430	6	26	-	462
Total assets (a)	632	5,451	8,515	26	-	14,624
Payables and other accrued expenses	-	14	126	31	-	171
Total liabilities (b)	-	14	126	31	-	171
Net (a-b)	632	5,437	8,389	(5)	-	14,453

for the year ended 31 December 2019 US$ 000's

13 MATURITY PROFILE (continued)

The maturity profile of restricted investment accounts:

31 December 2019	**Within 8 days**	**9 days to 1 month**	**Over 1 month to 3 months**	**Over 3 months to 1 year**	**Total**
Murabaha receivables	352,646	38,017	-	-	**390,663**

31 December 2018	Within 8 days	9 days to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Total
Murabaha receivables	98,858	17,935	40,915	-	157,708

14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

OVERVIEW
Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Bank include bank balances, accrued income on restricted investment accounts and murabaha receivables. Financial liabilities of the Bank include payables and other accrued expenses.

The Bank has the following risks from the use of financial instruments:
- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks and the Bank's management of capital.

RISK MANAGEMENT FRAMEWORK
The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management framework is aligned with Citigroup risk policies and procedures.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities.

CREDIT RISK
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties and securing exposures by collateral, where appropriate.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

for the year ended 31 December 2019 US$ 000's

14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

	31 December 2019	31 December 2018
Bank balances	501	632
Murabaha receivables	13,622	13,530
Other financial assets	560	462
	14,683	14,624

The Bank's exposure to credit risk on these financial assets is limited as the murabaha receivables and the bank balances are placed with Citigroup entities. During the year, there have been no transfer of exposures between various stages. All the exposures are classified as stage 1 and the expected credit loss is also allocated to stage 1. The are no exposures which are past due as at 31 December 2019 (2018: Nil).

LIQUIDITY RISK

Liquidity risk is the Bank's inability to meet a financial commitment to a customer, creditor, or investor when due, on account of maturity mis-match between assets and liabilities. This risk is dimensioned and continuously monitored through limits on maximum cumulative outflow across various tenors.

The Bank's exposure to liquidity risk is very limited as it does not have any significant liabilities. For maturity profile of assets and liabilities refer note 13.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Bank does not have a trading portfolio and is therefore not exposed to equity price risk.

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019, the Bank is required to maintain LCR greater than 100%. As of 31 December 2019 the Bank had LCR ratio of 558.9%.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

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14 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

NSFR as a percentage is calculated as “Available stable funding” divided by “Required stable funding”. Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2019 the Bank had NSFR ratio of 552.7%.

PROFIT RATE RISK
Profit rate risk arises due to different timing of re-pricing of the Bank’s assets and liabilities. The Bank’s profit rate risk arises from Murabaha receivables and is considered limited due to the short-term nature of Murabaha receivables.

FOREIGN EXCHANGE RISK
Foreign exchange risk is the risk that the Bank’s earning will be affected as a result of fluctuations in currency exchange rates. The Bank’s exposure to foreign exchange risk is limited as most of its transactions are in US$ which is the Bank’s functional currency or in Bahraini dinars which is pegged to US$.

OPERATIONAL RISK
Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance.

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values represent the amount at which an asset could be exchanged or a liability settled, in a transaction between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

The estimated fair values of the financial assets and liabilities are not significantly different from their book values as the items are primarily short-term in nature.

16 CAPITAL MANAGEMENT

The Bank’s lead regulator, the CBB, sets and monitors capital requirements for the Bank. In implementing the current capital requirements, the CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The CBB’s capital adequacy framework is based on the Basel III accord which became effective 1 January 2015 and IFSB guidelines. The Bank has adopted the standardised approach to credit and market risk management and the basic indicator approach for the operational risk management. The Bank’s policy is to maintain sufficient capital to sustain investor and market confidence and to support future development of the business.
The Bank’s regulatory capital position at 31 December was as follows:

	31 December 2019	31 December 2018
Tier 1 Capital	14,397	14,453
Tier 2 Capital	7	-
Total capital base (tier 1 + tier 2)	**14,404**	14,453
Total risk-weighted assets	**10,169**	9,699
Total regulatory capital expressed as a percentage of total risk weighted assets	**141.64%**	149.02%

The Bank has complied with all externally imposed capital requirements throughout the year.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

FOR THE YEAR ENDED 31 December 2019

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2019 and should be read in conjunction with the financial statements for the year ended 31 December 2019 and other sections of the annual report.

1. EXECUTIVE SUMMARY

The Central Bank of Bahrain's (CBB) Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. Banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%].These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3 reflects the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks on their web site along with the audited financial statements.

The PD Module requires disclosure of the Bank's exposure to risks on its banking and trading book. As the Bank does not have a trading book all its disclosures are limited to the risks faced on its banking book.

The Bank has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The nature of CIIB's business is mainly focused on offering a Sharia compliant Murabaha-based deposit product to Financial Institutions and Corporates and to provide structuring services to other Citigroup entities in respect of capital market, cash management and market services transactions. The Bank at present does not offer, or intend to offer, any asset products. All policies and procedures have been designed to cover risks arising from these products of the Bank.

As at 31 December 2019, the Bank's total risk weighted assets amounted to US$ 10,169; Tier 1 Capital amounted to US$ 14,397 and Tier 2 capital US$ 7. Accordingly, CET1,Tier 1 and Total Capital Adequacy Ratios were 141.57% and 141.64% respectively. These ratios exceed the minimum capital requirements under the CBB's Basel 3 framework.

2. RISK FRAMEWORK

The Bank operates under the One-Citi model. The Board of Directors and the Sharia Supervisory Board (SSB) maintain the Board level oversight of the Bank's activities. The Bank is represented on the main country level management committees (Country Coordinating Committee, Business Risk Compliance and Control Committee) of Citi Bahrain by its Managing Director to ensure oversight of the Bank's transactions and activities. The Bank has been exempted by Central Bank of Bahrain from the requirements of forming Audit Committee, Nomination, and Remuneration Committee.

The Sharia Supervisory Board (SSB) of the Bank along with the Group Internal Control Function is responsible for approval and oversight of all Islamic transactions undertaken at the Group level. The SSB is further assisted by the Group Internal Control Function which conducts annual Sharia Audits over all the Islamic products and transactions undertaken by the Bank.

CIIB has a dedicated CEO to oversee all Islamic business activity. The operations, compliance, financial control, risk management and other support functions are managed by Citi Bahrain staff through Inter-Citi Service Agreements with the Bank (under the one-Citi approach).
As per the CBB capital adequacy framework, the Bank is exposed to the following risks:

- Credit and counterparty risk
- Market risk (limited to forex risk in the banking book)
- Operational risk
- Liquidity risk
- Profit rate risk in the banking book

2. Risk Framework (continued)

(a) Credit and Counterparty Risk

Transactions booked in CIIB entity has no or very limited third party credit risk. All Murabaha placements of the Bank are on a short term basis (maturing within 3 months) and are placed only with Citigroup entities.

All the new Islamic products introduced by the Bank are approved by the New Product Approval Committee (NPAC) of Citigroup. Moreover, Islamic financing/product structures are discussed in the Board meetings to discuss the risks involved in them.

There are no loans extended or other asset products offered by the Bank to its customers. Moreover, the off balance sheet exposures where the Bank acts as an agent between a purchaser (restricted investment account) and a seller (a Citi entity) do not expose the Bank to any type of credit risk.

Structuring and advising on capital market transactions don’t expose the entity to credit risk as CIIB doesn’t carry any underwriting activity.

Quarterly updates on the current credit exposures of the Bank are reported to the Business Risk Compliance and Control Committee (“BRCC”) and the Country Coordinating Committee (“CCC”).

Overall, the Bank considers that its policies and procedures constitute a reasonable approach to managing the credit risk in the activities it is engaged in.

(b) Foreign Exchange Risk

The Bank has no on-balance sheet exposures to foreign exchange risk as all of its transactions are denominated in US$ which is the Bank’s functional currency and the bank currently has no trading Book. The inter-bank Murabaha transactions do not expose the Bank to any commodity price risk.

Moreover, the FX risk in the off balance sheet exposures is borne by the purchaser and the seller of the contract, and the Bank does not incur any market risk in these transactions since it undertakes the role of an agent.

(c) Operational Risk

The on-balance sheet activities of the Bank are limited in volume. However, as a part of its asset management activities, where the Bank acts as an agent between a purchaser and a seller, the Bank is exposed to operational risk in the event of any negligence on its part.

Citi Bahrain’s Risk Management Function is headed by the Operation Risk Manager (ORM). Along with its risk management related responsibilities, the Risk Management function is also responsible for coordinating the Management Control Assessment (MCA) exercise at the country level which includes the Bank’s operations. As part of the MCA, all processes and activities undertaken by the various departments at Citi Bahrain are identified. The processes and activities relating to the Bank are also documented as part of the Citi Bahrain MCA. Furthermore, the relevant risks and controls are identified and tested on a quarterly basis through the operational risk management system “CitiRisk”.

The individual departments undertake tests to assess the effectiveness of the existing controls. Any issues arising from these tests are escalated to the BRCC and the summary results are discussed in the CCC.

The Managing Director of the Bank chairs these committees, hence fulfilling the oversight role over the operational risk management framework encompassing the Bank.

Furthermore, corrective actions agreed on all issues identified are discussed and tracked in the CCC meeting. Major business issues are also escalated to the regional management committees.

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2. Risk Framework (continued)

(c) Operational Risk (continued)

The operational risk is supplemented by the Internal Control Function. The Internal Control Function conducts annual Sharia audits in order to ensure the Bank's adherence to the CBB Rulebook for Islamic Financial Institutions, Sharia and AAOIFI standards as well as Fatwas issued by the Sharia Advisory Board.

The management assesses the effectiveness of the Bank's internal control annually. Based on this assessment, management believes that, as of December 31, 2019, the bank's internal control over financial reporting was effective. In addition, there were no changes in the Bank's internal control over financial reporting during the fiscal year ended December 31, 2019 that materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

The Internal Audit (IA) which is the group audit team responsible for global reviews covers the Bank based on the frequency derived from the global risk based approach. During the year, the Internal Audit performed audit over certain functions of the Bank.

(d) Liquidity Risk

Based on the financial statements as at 31 December 2019, the bank does not have any liquidity Risk as documented in ALCO. The Bank also does not have any equity from investment account holders on its statement of financial position. If the Bank receives a deposit from customers, the Bank place it in short term inter-bank Murabaha with Citigroup entities. The Bank matches the tenor of its Murabaha receivables with the deposits received in order to avoid a short term liquidity mismatch.

The Bank follows the global liquidity management policy of Citibank which provides the overall guidelines for liquidity management. Refer Note 13 for the maturity profile of assets, liabilities and restricted investment accounts.

Following are the key liquidity ratios as at 31 December 2019:

Description	Ratio
Short Term Assets : Total Assets	1.00 : 1.00
Short Term Assets : Short Term Liabilities	71.49 : 1.00

(e) Profit Rate Risk in Banking Book

Currently the Bank does not have any profit bearing liabilities and therefore does not face the risk of mismatch between the rate of return earned on assets and liabilities.

(f) Compliance Risk

The Compliance Function at Citi Bahrain is the designated compliance function for the country and covers the Bank's compliance activities. The Compliance Function has established a “Regulatory Risk Matrix” which constitutes the rules and regulations pertaining to all businesses operating under the umbrella of Citi Bahrain. This includes the Bank as well (local regulatory requirements and global policy compliance requirements).

The MCA is intended to encompass all the businesses and control activities in Citi Bahrain including the Bank. The MCA includes the Regulatory Risk Matrix which identifies the key local regulatory requirements as well as global policy compliance requirements pertaining to Citi Bahrain. As part of the MCA process, the Bank has identified procedures for every department to conduct tests in order to ensure adherence to all rules and regulations. These tests are conducted by the business and support units on a quarterly basis. The results of these tests are reviewed by the Enterprise Risk Manager on an ad-hoc basis, who in turn reports to the BRCC.

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2. Risk Framework (continued)
All material compliance issues identified during these tests are escalated to the BRCC. A member of the Bank's team is also represented on the BRCC. The BRCC is headed by the Citi Country Officer who is also the Managing Director of the Bank, hence fulfilling the Bank's oversight role over its management of compliance risk.

(g) Displaced Commercial Risk
Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. Currently the Bank is not exposed to any displaced commercial risk that may arise from its restricted investment accounts as it only acts as an agent for its customers.

(h) Restricted Investment Accounts (RIA)
The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels.

All RIA offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Sharia, Financial Control, Legal and Risk Management Departments to ensure that the investors have sufficient information to make an informed decision after considering all relevant risk factors.

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's objectives regarding its fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Sharia principles and the CBB regulations;
- Appropriately advising Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Distributing the capital and profits to the Investor in a just and equitable manner as agent; and
- In all matters related to the RIA, and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Historical returns over the past five years:

Product	Launch date	Annualised returns					Status
		2019	2018	2017	2016	2015	
Deposit Murabaha	1996	2.02%	0.91%	0.91%	0.43%	0.15%	Active

The movement in the Restricted Investment Accounts is disclosed on page 16.

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3. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank is comfortably placed in terms of regulatory capital adequacy and the current regulatory Capital Adequacy Ratio (CAR) is 141.64% as opposed to the minimum CBB requirement of 12.5%.

The Bank’s paid up capital consists only of ordinary equity shares and does not have any other type of capital instruments.

The Bank’s Tier 1 capital comprise share capital, retained earnings and eligible reserves. Retained profits are included in Tier 1 pursuant to an external audit.

The Bank does not have any components of Tier 2 Capital.

The capital of the Bank is currently not subject to any regulatory adjustments/ deductions.

(a) Capital structure, minimum capital requirement and capital adequacy:

	Amount
Tier 1	
Issued and fully paid ordinary shares	10,000
Statutory reserves	3,465
Retained earnings	932
Total Tier 1 capital (A)	**14,397**
Tier 2 (Expected credit loss provision)	7
Total eligible capital (B)	**14,404**

	Risk weighted exposure	**Capital requirement @ 12.5%**
Claims on Banks	7,302	913
Claims on Corporates	3	-
Other assets	34	4
Credit risk exposures	**7,340**	**917**
Market risk exposures	**-**	**-**
Operational risk exposures	**2,829**	**354**
Total risk weighted exposures (C)	**10,169**	**1,271**
Total capital adequacy ratio (B/C)	**141.57%**	
Tier 1 capital adequacy ratio (A/C)	**141.64%**	

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3. Capital Structure and Capital Adequacy (continued)
(b) Credit risk weighted assets

The exposure to credit risk for the Bank is from the following:

	Gross credit exposure	Risk weight	Credit risk weighted assets	Average gross credit exposures during the year *
Claims on Banks with Citigroup	14,602	50%	7,301	14,210
Claims on Banks	2	100%	2	2
Claims on Corporates (Unrated)	3	100%	3	3
Claims on Sovereigns	44	0%	-	15
Other assets	34	100%	34	21
Total gross credit risk exposures	**14,684**		**7,340**	**14,246**

* These have been computed based on a quarterly average.

The claims on banks with Citigroup comprise of Murabaha receivables, cash and bank balances and other receivables. The Bank uses the rating provided by External Credit Assessment Institutions (ECAI) to ascertain the risk weight of the assets. As per the rating provided by Standard & Poor's rating services, Citigroup falls in the bucket of A+ to A- based on which a risk weight of 50% is used to arrive at the credit risk weighted assets. For short term receivables from third parties the bank used rating from Standard & Poor's and MOODY's.

None of the exposures are either past due, impaired or restructured. The exposures are not backed by collaterals and hence no benefits for credit risk mitigation is applicable.

The Bank does not have any unfunded exposures.

Refer Note 12 for the geographical and sectoral concentration and Note 13 for the maturity profile of assets, liabilities and restricted investment accounts in the financial statements.

Large exposure limits

The Bank has significant exposure to Citigroup entities (as a Group) as mentioned below.

Type of exposure	Amount of exposure	% of capital base
Direct exposure	14,601	101.42%
Restricted investment accounts	390,663	2,713.57%
Combined exposure	**405,263**	**2,814.99%**

However, these exposures qualify as exempt exposures as they are in the nature of short term inter-bank exposures and hence no regulatory capital deduction is considered necessary.

(c) Operational risk weighted assets
The operational risk weighted assets are computed as per the guidelines of the CBB which are as follows:
[Average gross income (excluding extraordinary and exceptional income) for the past 3 years x 15% x 12.5].

3. Capital Structure and Capital Adequacy (continued)

Particulars	**Amount**
Average gross income (A)	1,509
Alpha (B)	15%
(C) = (A) * (B)	226
Risk weighted exposures ((C) * 12.5)	**2,829**

The Bank did not have any non-sharia complaint income/ sharia violations/ material legal contingencies during the year 2019.

(d) Capital management and allocation

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements.

4. COMPOSITION OF CAPITAL DISCLUSURE

Step1 : Balance sheet under the regulatory scope of consolidation

This step in not applicable to the Bank since the scope of regulatory and accounting is identical and the bank is a standalone entity.

Step 2: Reconciliation of published financial balance sheet to regulatory reporting As at 31 December 2019

USD '000s	**Statement of financial position in published financial statements USD'000s**	**Statement of financial position as per regulatory reporting USD'000s**	**Reference**
Assets			
Bank balances	501	-	
of which Cash and balances at central bank	-	501	
Murabaha receivables	13,622	-	
of which placements with banks and similar financial institution	-	13,629	a
Other assets	560	560	
Total assets	**14,683**	**14,358**	
Payables and other accrued expenses	287	-	
of which other liabilities	-	287	
Total Liabilities	**287**	**287**	
Equity Investment			
Share capital	10,000	10,000	
Statutory reserve	3,465	3,361	b
Retained earnings	931	-	b
of which Net profit/ (loss) for the current period	-	1,035	b
of which retained earnings/ (losses) brought forward		-	
Expected credit losses (Stages 1 & 2)*	-	7	a
Total shareholder's equity	**14,396**	**14,403**	

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4. Composition of capital disclosure (continued)
Note (a): This variance is due to Expected credit loss on Murabaha receivables of USD 7 thousands being presented net in the statement of financial position.
Note (b): In the financial statements 10% of the net profit for the year transferred to statutory reserve.

Step 3: Composition of Capital Common Template (transition) as at 31 December 2019

Equity Tier 1 capital : instruments and reserves	
	31-Dec-19
	Amt. in USD '000s
Issued and fully paid ordinary shares	10,000
Statutory reserves	3,361
Retained earnings	-
Current interim net income/ (losses)	1,035
Total CET1 capital prior to regulatory adjustments	**14,396**
Other capital (AT1 & T2)	**-**
Expected credit losses (Stages 1 & 2)	7
Total capital	**14,403**

5. DISCLOSURE TEMPLATE FOR MAIN FEATURE OF REGULATORY CAPITAL INSTRUMENTS

1	Issuer	Citi Islamic Investment bank E.C.
2	Unique identifier (Bahrain Bourse ticker)	NA
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument Type	Common shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	USD 10 million
9	Par Value of instrument	USD 1 per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1996
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA

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4. Disclosure template for main feature of regulatory capital instruments (continued)

	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend is declared by shareholders in the AGM
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Refer to 17 above
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA