Bank of Bahrain and Kuwait B.S.C. (BBK B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 2019. 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 misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)

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

Key audit matters (continued)

Impairment of carrying value of loans and advances	
Key audit matter	**How the key audit matter was addressed in the audit**

The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 - Financial instruments (IFRS 9) is a significant and complex area. IFRS 9 requires use of the Expected Credit Loss (ECL) model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgment using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significant judgments applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.
 	
As at 31 December 2019, the Group's gross loans and advances amounted to BD 1,774.2 million and the related ECL amounted to BD 103.3 million, comprising BD 26.1 million of ECL against Stage 1 and 2 exposures and BD 77.2 million against exposures classified under Stage 3. The basis of calculation of ECL is disclosed in the summary of significant accounting policies and note 33 to the consolidated financial statements.
	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:
	• We assessed:
	    o the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;
	    o Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and
	    o the theoretical soundness and tested the mathematical integrity of the models.
	• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, 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 with a focus on:
	    o Key modeling assumptions adopted by the Group; and
	    o Basis for and data used to determine overlays.
	• For a sample of exposures, we performed procedures to evaluate:
	    o Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;
	    o Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and
	    o ECL calculation.

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

Key audit matters (continued)

Impairment of carrying value of loans and advances (continued)	
Key audit matter	**How the key audit matter was addressed in the audit**
	• 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; • In addition, to obtain comfort on the overall model and significant assumptions used in applying IFRS 9, we reviewed the independent validation report prepared by the Group's consultant. Further, we performed procedures to ensure the competence, capabilities, objectivity and independence of the Group's consultant; and • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS. We also involved our internal specialists where their specific expertise was required. Refer to the significant accounting estimates and judgments, disclosures of loans and advances and credit quality in notes 3.4, 7 and 33 to the consolidated financial statements.

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

Other information included in the Group's 2019 Annual Report
Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report, which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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 identified above when it becomes available 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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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 ISAs 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK OF BAHRAIN AND KUWAIT B.S.C. (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 Group's Audit and Compliance 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.

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
We also provide the Group's Audit and Compliance 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.

From the matters communicated with the Group's Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, 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) 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 1 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 2019 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 Mr. Essa Al-Jowder.

Partner's registration no. 45
17 February 2020
Manama, Kingdom of Bahrain

BBK B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	*All figures in BD millions* 2019	2018
ASSETS			
Cash and balances with central banks	4	**376.4**	191.0
Treasury bills	5	**484.4**	410.4
Deposits and amounts due from banks and other financial institutions	6	**278.3**	239.2
Loans and advances to customers	7	**1,670.9**	1,772.5
Investment securities	8	**875.0**	800.3
Investments in associated companies and joint ventures	9	**70.6**	62.9
Interest receivable and other assets	10	**74.2**	77.9
Premises and equipment	11	**35.2**	27.5
TOTAL ASSETS		**3,865.0**	3,581.7
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**363.1**	258.7
Borrowings under repurchase agreement		**313.4**	199.0
Term borrowings	12	**333.0**	144.5
Customers' current, savings and other deposits	13	**2,169.5**	2,374.5
Interest payable and other liabilities	14	**139.0**	104.6
Total liabilities		**3,318.0**	3,081.3
Equity			
Share capital	15	**129.7**	108.2
Treasury stock	15	**(5.2)**	(2.5)
Perpetual tier 1 convertible capital securities	15	**-**	86.1
Share premium	15	**105.6**	41.0
Statutory reserve	15	**61.6**	54.1
General reserve	15	**54.1**	54.1
Cumulative changes in fair values	16	**11.2**	(25.1)
Foreign currency translation adjustments		**(12.2)**	(11.7)
Retained earnings		**144.6**	148.9
Proposed appropriations	17	**54.5**	44.6
Attributable to the owners of the Bank		**543.9**	497.7
Non-controlling interest		**3.1**	2.7
Total equity		**547.0**	500.4
TOTAL LIABILITIES AND EQUITY		**3,865.0**	3,581.7

Murad Ali Murad Chairman	Jassem Hasan Zainal Deputy Chairman	Reyadh Yousif Sater Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

BBK B.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	*All figures in BD millions* **2019**	*2018*
Interest and similar income	18a	**176.4**	165.8
Interest and similar expense	18b	**(69.1)**	(55.9)
Net interest and similar income		**107.3**	109.9
Fee and commission income - net	19	**26.6**	28.2
Other income	20	**17.6**	18.9
Total operating income		**151.5**	157.0
Staff costs		**(38.1)**	(36.4)
Other expenses		**(25.1)**	(21.3)
Total operating expenses		**(63.2)**	(57.7)
Total provisions - net	21	**(18.9)**	(35.3)
Net operating income		**69.4**	64.0
Share of profit from associated companies and joint ventures	9	**6.8**	4.1
PROFIT FOR THE YEAR BEFORE TAX		**76.2**	68.1
Tax expense	22	**(0.2)**	(0.4)
PROFIT FOR THE YEAR AFTER TAX		**76.0**	67.7
Attributable to:			
Owners of the Bank		**75.4**	67.1
Non-controlling interest		**0.6**	0.6
		76.0	67.7
Basic earnings per share (BD)	23	**0.059**	0.056
Diluted earnings per share (BD)	23	**0.059**	0.052

Murad Ali Murad Chairman	Jassem Hasan Zainal Deputy Chairman	Reyadh Yousif Sater Group Chief Executive

The attached notes 1 to 49 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

All figures in BD millions

	Note	***2019***	*2018*
Profit for the year		**76.0**	67.7
Other comprehensive income / (loss):			
Items that will not be reclassified subsequently to profit or loss			
Fair value through other comprehensive income reserve (equity instruments)		**7.6**	6.5
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
Foreign currency translation adjustments		**(0.5)**	(2.4)
Movement in hedging reserve:			
Effective portion of changes in fair value	16	**(1.1)**	0.4
Movement in fair value reserve:			
Net change in fair value	16	**30.6**	(21.3)
Net amount transferred to profit or loss	16	**(2.7)**	(2.9)
Other comprehensive income / (loss) for the year		**33.9**	(19.7)
Total comprehensive income for the year		**109.9**	48.0
Attributable to:			
Owners of the Bank		**109.3**	47.4
Non-controlling interest		**0.6**	0.6
		109.9	48.0

BBK B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

All figures in BD millions

	Notes	Share capital	Treasury stock	Perpetual tier 1 convertible capital securities	Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Foreign currency translation adjustments	Retained earnings	Proposed appropriations	Total	Non-controlling interest	Total equity
		Attributable to the owners of the Bank and capital securities' holders												
Balance at 1 January 2018		108.2	(1.0)	86.1	41.0	54.1	54.1	(8.3)	(9.3)	134.6	39.2	498.7	2.2	500.9
Profit for the year		-	-	-	-	-	-	-	-	67.1	-	67.1	0.6	67.7
Other comprehensive loss		-	-	-	-	-	-	(16.8)	(2.4)	(0.5)	-	(19.7)	-	(19.7)
Total comprehensive income		-	-	-	-	-	-	(16.8)	(2.4)	66.6	-	47.4	0.6	48.0
Share-based payments	42	-	-	-	-	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Distribution on perpetual tier 1 convertible capital securities		-	-	-	-	-	-	-	-	(7.1)	-	(7.1)	-	(7.1)
Dividends paid		-	-	-	-	-	-	-	-	-	(37.8)	(37.8)	(0.2)	(38.0)
Donations		-	-	-	-	-	-	-	-	-	(1.4)	(1.4)	-	(1.4)
Movement in treasury stock	15	-	(1.5)	-	-	-	-	-	-	-	-	(1.5)	-	(1.5)
Movement in non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Proposed appropriations	17	-	-	-	-	-	-	-	-	(44.6)	44.6	-	-	-
Balance at 31 December 2018		108.2	(2.5)	86.1	41.0	54.1	54.1	(25.1)	(11.7)	148.9	44.6	497.7	2.7	500.4
Profit for the year		-	-	-	-	-	-	-	-	75.4	-	75.4	0.6	76.0
Other comprehensive income / (loss)		-	-	-	-	-	-	36.3	(0.5)	(1.9)	-	33.9	-	33.9
Total comprehensive income		-	-	-	-	-	-	36.3	(0.5)	73.5	-	109.3	0.6	109.9
Share-based payments	42	-	-	-	-	-	-	-	-	0.6	-	0.6	-	0.6
Distribution on perpetual tier 1 convertible capital securities		-	-	-	-	-	-	-	-	(3.6)	-	(3.6)	-	(3.6)
Conversion of perpetual tier 1 convertible capital securities	15	21.5	-	(86.1)	64.6	-	-	-	-	-	-	-	-	-
Dividends paid	17	-	-	-	-	-	-	-	-	(12.8)	(43.0)	(55.8)	(0.2)	(56.0)
Donations	17	-	-	-	-	-	-	-	-	-	(1.6)	(1.6)	-	(1.6)
Movement in treasury stock	15	-	(2.7)	-	-	-	-	-	-	-	-	(2.7)	-	(2.7)
Transfer to statutory reserve	15	-	-	-	-	7.5	-	-	-	(7.5)	-	-	-	-
Proposed appropriations	17	-	-	-	-	-	-	-	-	(54.5)	54.5	-	-	-
Balance at 31 December 2019		**129.7**	**(5.2)**	**-**	**105.6**	**61.6**	**54.1**	**11.2**	**(12.2)**	**144.6**	**54.5**	**543.9**	**3.1**	**547.0**

The attached notes 1 to 49 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

All figures in BD millions

	Notes	2019	2018
OPERATING ACTIVITIES			
Profit for the year before tax		**76.2**	68.1
Adjustments for non-cash items:			
Depreciation	11	**6.1**	3.7
Total provisions - net	21	**18.9**	35.3
Share of profit from associated companies and joint ventures	9	**(6.8)**	(4.1)
Realised gains on sale of investment securities	20	**(3.0)**	(3.2)
Accrual on term borrowings		**5.0**	0.7
Operating profit before changes in operating assets and liabilities		**96.4**	100.5
(Increase) / decrease in operating assets			
Mandatory reserve deposits with central banks		**(13.4)**	4.7
Treasury bills having original maturity of 90 days or more		**(74.0)**	16.7
Deposits and amounts due from banks and other financial institutions		**(19.6)**	(9.2)
Loans and advances to customers		**83.4**	(66.9)
Interest receivable and other assets		**2.5**	(7.3)
Increase / (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**104.5**	65.2
Borrowings under repurchase agreements		**114.4**	37.7
Customers' current, savings and other deposits		**(205.0)**	(249.1)
Interest payable and other liabilities		**29.5**	15.6
Income tax paid		**(0.6)**	-
Net cash from / (used in) operating activities		**118.1**	(92.1)
INVESTING ACTIVITIES			
Purchase of investment securities		**(407.9)**	(407.5)
Redemption / sale of investment securities		**372.3**	354.2
Net investment in associated companies and joint ventures	9	**(6.1)**	(14.7)
Dividends received from associated companies and joint ventures	9	**3.9**	3.1
Purchase of premises and equipment		**(13.8)**	(4.8)
Net cash used in investing activities		**(51.6)**	(69.7)
FINANCING ACTIVITIES			
Payment of dividend and donations	17	**(57.6)**	(39.2)
Term borrowings		**188.5**	(55.2)
Distribution on perpetual tier 1 convertible capital securities		**(3.6)**	(7.1)
Movement in treasury stock		**(2.7)**	(1.5)
Movement in share-based payments		**0.6**	(0.6)
Net cash from / (used in) financing activities		**125.2**	(103.6)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**191.7**	(265.4)
Foreign currency translation adjustments - net		**(0.3)**	(2.2)
Cash and cash equivalents at beginning of the year		**345.4**	613.0
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**536.8**	345.4

Additional Information:

		2019	2018
Interest received		**176.4**	163.6
Interest paid		**69.2**	46.6

The attached notes 1 to 49 form part of these consolidated financial statements

1 ACTIVITIES

Bank of Bahrain and Kuwait B.S.C. ("BBK B.S.C." or "the Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain ("CBB") and its shares are listed at Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India, and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 17 February 2020.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms of the Bank's memorandum and articles of association.

2.2 Accounting convention

These consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, investment securities at fair value through other comprehensive income (FVOCI), trading investments and financial assets designated at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars, which is the functional and presentation currency of the Bank.

2.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"). The year end of the Bank and all of its subsidiaries is 31 December. The Bank has following principal subsidiaries:

Name	*Ownership*		*Country of incorporation*	*Activity*
	2019	***2018***		
CrediMax B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Credit card operations
Invita Company B.S.C. (c)	**100%**	100%	Kingdom of Bahrain	Business process outsourcing services

CrediMax B.S.C. (c) owns 55% (2018: 55%) of the share capital of Global Payment Services W.L.L., which is established in the Kingdom of Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Invita Company B.S.C. (c) owns 60% (2018: 60%) interest in Invita Kuwait K.S.C.C., which is established in the State of Kuwait and engaged in business processing and outsourcing services. It also owns 70% (2018: 70%) stake in Invita Claims Management Company, which is established in the Kingdom of Bahrain and engaged in Third Party Administrators (TPA) services.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed off during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 ACCOUNTING POLICIES

3.1 New standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS.

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). These amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The Group is currently assessing the impact of this standard and will apply from the effective date.

The Group does not expect any significant impact on the Groups' financial position and results for the standards and amendments that are not yet adopted.

3 ACCOUNTING POLICIES (continued)

3.2 New standards and interpretations issued and effective

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 Leases (IFRS 16);
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment; and
- Amendments to IFRS 9 Prepayment features with negative compensation.

Annual improvements 2015-2017 cycle (issued in December 2017)

- IFRS 3 Business combinations;
- IAS 12 Income taxes; and
- IAS 23 Borrowing costs.

The above new standards, interpretations and amendments to IFRSs which were effective for annual accounting periods starting from 1 January 2019, did not have any material impact on the accounting policies, financial position or performance of the Group, except for the adoption of IFRS 16, which is explained below.

3.2.1 IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to BD 7.5 million, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using the incremental borrowing rate of 2.63% at 1 January 2019. Lease costs for the year ended 31 December 2019 relating to right-of-use assets of BD 2.4 million were included under depreciation and other expenses line in the statement of profit or loss.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	BD millions
Operating lease commitments as at 31 December 2018	**8.7**
Weighted average incremental borrowing rate as at 1 January 2019	**2.63%**
Discounted operating lease commitments at 1 January 2019	**7.5**
Lease liabilities as at 1 January 2019	**7.5**

3 ACCOUNTING POLICIES (continued)

3.2 New standards and interpretations issued and effective (continued)

3.2.1 IFRS 16 - Leases (continued)

Amounts recognised in the consolidated statements of financial position and profit or loss
The below are the carrying amounts of the Group's right-of-use assets and movement during the year:

	BD millions
As at 1 January	**7.5**
Addition of new leases	**2.9**
Depreciation for the year	**(2.3)**
Interest expense	**(0.1)**
As at 31 December 2019	**8.0**

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

a) Right of use assets
The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the statement of financial position.

b) Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the statement of financial position.

3.3 Summary of significant accounting policies

(a) Financial assets and financial liabilities

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

ii. Classification
Financial assets
On initial recognition, a financial asset is classified as at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(a) Financial assets and financial liabilities (continued)

ii. Classification (continued)

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets designation at fair value through profit or loss

The Group designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition, which may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(a) Financial assets and financial liabilities (continued)

ii. Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)
In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

iii. Derecognition
Financial assets
If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

A financial asset (in whole or in part) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- 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 ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled ,or expire.

(b) Deposits and amounts due from banks and other financial institutions
These are stated at cost, adjusted for effective fair value hedges (if any), less any amounts written-off and related expected credit losses.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(c) Loans and advances
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method, and adjusted for effective fair value hedges (if any) and net of interest suspended, expected credit losses and any amounts written-off.

(d) Investment securities
The investment securities includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are carried at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest rate method;
- Expected Credit Loss (ECL) and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is impaired or derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of changes in equity to statement of profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of the investment.

(e) Fair value measurement
The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(e) Fair value measurement (continued)

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained above.

(f) Impairment of financial assets

The Group recognises allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Loans and advances at amortised cost;
- Financial guarantee contracts issued; and
- Loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

(g) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

i) Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

ii) Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

iii) Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the IFRS 9 provision results from a two-step approach:

As step 1, the facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(g) Measurement of ECL (continued)
As step 2, the expected credit loss is calculated i.e., 12-month expected loss for all facilities in Stage 1 and lifetime expected credit loss for all facilities in Stage 2. The facilities in Stage 3 are covered by specific provisions.

(h) Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Bahrain), is credit-impaired, the Group considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields; or
- The rating agencies’ assessments of creditworthiness.

The exposure to the home country sovereign i.e. Bahrain is considered to be low risk and fully recoverable and hence, no ECL is measured. Refer to note 33 for further details.

(i) Presentation of allowances for ECL in the statement of financial position
Allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of such assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified the ECL on the loan commitment / off-balance sheet component separately from those on the drawn component, the Group presents a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of such assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve as a provision.

(j) Write-off
Loans and debt securities 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.

(k) Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any ECL is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Refer to note 33.3 (e) and note 34 for further details.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(l) Term borrowings
Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Investment in associated companies and joint ventures
The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

Subsequently, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. It is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(n) Premises and equipment
All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

(o) Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

(p) Deposits
These are carried at amortised cost, less amonts repaid.

(q) Repurchase and resale agreements
Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded as interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

(r) 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 Group operates.

In India, the Bank makes provision for income tax after considering both current and deferred taxes. The tax effect of timing differences between the book profit and taxable profits are reflected through deferred tax asset (DTA) / deferred tax liability (DTL). Current tax is determined in accordance with the provisions of Income Tax Act, 1961 and rules framed there under after considering the contested past adjustments on a prudent basis based on management estimates.

(s) Employees' end of service benefits
Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each jurisdiction where the Group operates.

(t) Share-based payment transactions
For equity-settled shared-based payment transactions, the Group measures the services received and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period, the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(u) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) and the costs to settle the obligation are both probable and able to be reliably measured.

(v) Treasury stock
Treasury stock is deducted from equity and is stated at consideration paid. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

(w) Non-controlling interests
Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank’s equity shareholders. Any change in Group’s ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(x) Perpetual Tier 1 capital securities
Perpetual Tier 1 capital securities of the Group are recognised under equity in the consolidated statement of financial position and the corresponding distribution on those securities are accounted as a debit to retained earnings.

(y) Proposed dividends
Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

(z) Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in ‘other liabilities’, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognised in the consolidated statement of profit or loss in on a straight line basis over the life of the guarantee.

(aa) Derivatives
The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

(ab) Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(ab) Hedge accounting (continued)
IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project. The Group has adopted IFRS 9 hedge accounting and has determined that all hedge relationships that were designated as effective hedging relationships under IAS 39 would continue to qualify for hedge accounting under IFRS 9.

At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

Classification of hedge accounting
For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

i) Fair value hedges
In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

ii) Cash flow hedges
In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of any gain or loss on the hedging instrument, that is determined to be an effective hedge is recognised initially in the consolidated statement of changes in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in the consolidated statement of changes in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(ab) Hedge accounting (continued)

Discontinuation of hedges
A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation, any subsequent changes in fair value of the hedging instrument are recognized in the consolidated statement of profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in the consolidated statement of changes in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

(ac) Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

(ad) Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

(ae) Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become non-performing i.e. are classified under Stage 3 (when overdue by more than ninety days). Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Fees and commissions that are linked to certain performance obligations are recognised after fulfilling those obligations.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

The Group recognises dividend income when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa), the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

(af) Foreign currencies

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(af) Foreign currencies (continued)

(i) Transactions and balances (continued)
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are recorded in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign operation. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of profit or loss are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

(ag) Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions having original maturities of ninety days or less.

3.4 Significant accounting judgment and estimates
In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

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, these consolidated financial statements continue to be prepared on a going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values. These judgment include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

3 ACCOUNTING POLICIES (continued)

3.4 Significant accounting judgment and estimates (continued)

Business model
In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

Impairment of financial instruments
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to note 33 for further details.

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns PDs to the individual ratings;
- The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2019	*2018*
Cash in hand and vaults	**21.2**	20.3
Current accounts and placements with central banks	**266.2**	95.1
Mandatory reserve deposits with central banks	**89.0**	75.6
	376.4	191.0

Mandatory reserve deposits are not available for use in the Group's day to day operations.

5 TREASURY BILLS

These are short-term treasury bills issued by the Government of the Kingdom of Bahrain, which are carried at amortised cost, and Republic of India which are carried at FVOCI amounting to BD 482.3 million and BD 2.1 million (31 December 2018: BD 405.8 million and BD 4.6 million) respectively. At 31 December 2019, treasury bills issued by Government of the Kingdom of Bahrain includes short-term Islamic Sukuk amounting to BD 76.7 million (31 December 2018: Nil).

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019	*2018*
Deposits with banks and other financial institutions	**183.1**	195.1
Other amounts due from banks (Nostro and Current Accounts)	**95.5**	44.1
Less: Expected credit losses	**(0.3)**	-
	278.3	239.2

7 LOANS AND ADVANCES TO CUSTOMERS

	2019	*2018*
Loans and advances to customers at amortised cost:		
Commercial loans and overdrafts	**1,229.0**	1,343.1
Consumer loans	**545.2**	553.5
	1,774.2	1,896.6
Less: Expected credit losses	**(103.3)**	(124.1)
	1,670.9	1,772.5

Ageing analysis of past due but not impaired loans is as follows:

	2019			
	Up to 30 days	***31 to 60 days***	***61 to 89 days***	***Total***
Commercial loans and overdrafts	**144.5**	**7.8**	**7.6**	**159.9**
Consumer loans	**20.0**	**4.8**	**10.5**	**35.3**
	164.5	**12.6**	**18.1**	**195.2**

	2018			
	Up to 30 days	*31 to 60 days*	*61 to 89 days*	*Total*
Commercial loans and overdrafts	61.0	64.6	6.0	131.6
Consumer loans	15.2	4.5	14.7	34.4
	76.2	69.1	20.7	166.0

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

The distribution of loans and advances by geographic region and industry sector was as follows:

	2019	*2018*
Geographic region:		
Gulf Co-operation Council countries	**1,384.9**	1,506.7
North America	**-**	0.1
Europe	**123.1**	103.5
Asia	**113.5**	128.8
Others	**49.4**	33.4
	1,670.9	1,772.5

	2019	*2018*
Industry sector:		
Trading and manufacturing	**533.2**	561.1
Banks and other financial institutions	**239.1**	217.1
Construction and real estate	**262.9**	348.4
Government and public sector	**7.8**	9.1
Individuals	**501.9**	496.7
Others	**126.0**	140.1
	1,670.9	1,772.5

Movements in allowances for ECL on loans and advances are as follows:

i) Commercial loans and overdrafts

	2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit - impaired***	***Stage 3: Lifetime ECL credit - impaired***	***Total***
Balance at 1 January	**6.3**	**20.8**	**81.7**	**108.8**
Transferred to 12 month ECL	**1.2**	**(0.8)**	**(0.4)**	**-**
Transferred to lifetime ECL not credit-impaired	**(0.3)**	**1.7**	**(1.4)**	**-**
Transferred to lifetime ECL credit-impaired	**-**	**(8.8)**	**8.8**	**-**
Net remeasurement of loss allowance	**(0.4)**	**(1.1)**	**18.9**	**17.4**
Recoveries / write-backs	**-**	**-**	**(1.9)**	**(1.9)**
Amounts written-off during the year	**-**	**-**	**(33.6)**	**(33.6)**
Foreign exchange and other movements	**(3.6)**	**7.2**	**1.2**	**4.8**
Balance at 31 December	**3.2**	**19.0**	**73.3**	**95.5**

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

i) Commercial loans and overdrafts (continued)

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Balance at 1 January	4.6	30.9	58.0	93.5
Transferred to 12 month ECL	0.1	(0.1)	-	-
Transferred to lifetime ECL not credit-impaired	(0.2)	0.2	-	-
Transferred to lifetime ECL credit-impaired	-	(38.7)	38.7	-
Net remeasurement of loss allowance	1.8	27.5	10.5	39.8
Recoveries / write-backs	-	-	(6.1)	(6.1)
Amounts written-off during the year	-	-	(18.9)	(18.9)
Foreign exchange and other movements	-	1.0	(0.5)	0.5
Balance at 31 December	6.3	20.8	81.7	108.8

ii) Consumer loans

	2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit - impaired***	***Stage 3: Lifetime ECL credit - impaired***	***Total***
Balance at 1 January	**5.1**	**4.7**	**5.5**	**15.3**
Transferred to 12 month ECL	**0.7**	**(0.7)**	**-**	**-**
Transferred to lifetime ECL not credit-impaired	**(0.1)**	**0.1**	**-**	**-**
Transferred to lifetime ECL credit-impaired	**-**	**(0.5)**	**0.5**	**-**
Net remeasurement of loss allowance	**-**	**(0.8)**	**2.7**	**1.9**
Recoveries / write-backs	**-**	**-**	**(1.5)**	**(1.5)**
Amounts written-off during the year	**-**	**-**	**(3.7)**	**(3.7)**
Foreign exchange and other movements	**(4.0)**	**(0.2)**	**-**	**(4.2)**
Balance at 31 December	**1.7**	**2.6**	**3.5**	**7.8**

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Balance at 1 January	4.2	6.4	8.2	18.8
Transferred to 12 month ECL	1.0	(1.0)	-	-
Transferred to lifetime ECL not credit-impaired	(0.1)	0.1	-	-
Transferred to lifetime ECL credit-impaired	-	(0.1)	0.1	-
Net remeasurement of loss allowance	-	(0.7)	3.0	2.3
Recoveries / write-backs	-	-	(1.0)	(1.0)
Amounts written-off during the year	-	-	(4.8)	(4.8)
Balance at 31 December	5.1	4.7	5.5	15.3

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2019 amounts to BD 54.8 million (31 December 2018: BD 59.8 million).

At 31 December 2019, gross loans and advances include Islamic financing facilities provided by the Group to corporates amounting to BD 93.4 million (31 December 2018: BD 118.7 million). These mainly consists of Murabaha and Ijarah financing facilities.

8 INVESTMENT SECURITIES

	FVTPL	***FVOCI ****	***Amortised cost***	***2019 Total***
Quoted investments:				
Government bonds	**-**	**334.2**	**19.5**	**353.7**
Other bonds	**-**	**326.8**	**-**	**326.8**
Equities	**-**	**42.1**	**-**	**42.1**
	-	**703.1**	**19.5**	**722.6**
Unquoted investments:				
Government bonds	**-**	**-**	**126.0**	**126.0**
Equities	**-**	**26.2**	**-**	**26.2**
Managed funds	**0.7**	**-**	**-**	**0.7**
	0.7	**26.2**	**126.0**	**152.9**
	0.7	**729.3**	**145.5**	**875.5**
Less: Expected credit losses	**-**	**(0.5)**	**-**	**(0.5)**
	0.7	**728.8**	**145.5**	**875.0**

	FVTPL	*FVOCI **	*Amortised cost*	*2018 Total*
Quoted investments:				
Government bonds	-	275.7	20.2	295.9
Other bonds	0.7	311.2	-	311.9
Equities	-	38.3	-	38.3
	0.7	625.2	20.2	646.1
Unquoted investments:				
Government bonds	-	-	125.6	125.6
Other bonds	0.1	-	-	0.1
Equities	-	28.2	-	28.2
Managed funds	0.8	-	-	0.8
	0.9	28.2	125.6	154.7
	1.6	653.4	145.8	800.8
Less: Expected credit losses	-	(0.5)	-	(0.5)
	1.6	652.9	145.8	800.3

* At 31 December 2019, investment securities include government bonds and other bonds of BD 409.1 million (31 December 2018: BD 286.1 million), which are pledged against the borrowings under repurchase agreements.

At 31 December 2019, investment securities include long-term Islamic Sukuk amounting to BD 90.4 million (31 December 2018: BD 72.7 million).

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2018: 23.03%) equity interest in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 22% (2018: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain, which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 40% (2018: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The Group has a 24.27% (2018: 24.27%) stake in Bahrain Liquidity Fund, an investment vehicle established in the Kingdom of Bahrain to enhance liquidity in the market and to close the valuation gap between securities listed on Bahrain Bourse and their regional peers.

The Group has a 50% (2018: 50%) stake in Aegila Capital Management Limited, a joint venture company incorporated in the United Kingdom which is engaged in capital market advisory services for alternative investments with particular focus in the real estate.

The Group has a 49.96% (2018: 49.96%) stake in Magnum Partners Holding Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Netherlands.

The Group has a 24.99% (2018: 24.99%) stake in Evoque Holdings Jersey Limited, a joint venture company incorporated in Jersey to indirectly acquire real estate investment in Germany.

The Group has a 45% (2018: Nil) stake in LSE Jersey Holdings Limited Partnership, a joint venture partnership registered in Jersey to facilitate the indirect real estate investment in the United Kingdom.

	2019	*2018*
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**62.9**	47.0
Acquisitions during the year	**7.1**	15.2
Share of profit for the year	**6.8**	4.1
Dividends received	**(3.9)**	(3.1)
Change in unrealised fair values - associated companies (note 16)	**(1.1)**	0.5
Foreign currency translation adjustments	**(0.2)**	(0.3)
Capital distribution	**(1.0)**	(0.5)
At 31 December	**70.6**	62.9

Investment in associated companies and joint ventures includes the Group's investment in BCFC, which is considered to be a material associate. The following table illustrates the financial information of the Group's investment in BCFC:

	2019	*2018*
Net interest income	**27.6**	25.0
Gross profit on automotive sales	**6.8**	7.2
Other operating income	**13.5**	13.1
Total operating income	**47.9**	45.3
Operating expenses	**(22.1)**	(21.1)
Other expenses	**(5.2)**	(2.8)
Adjusted profit for the year	**20.6**	21.4
Group's share of adjusted profit for the year	**4.7**	4.9

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)

	2019	*2018*
Assets		
Cash and balances with banks	**6.7**	4.7
Loans and advances to customers	**330.6**	304.9
Inventories	**27.1**	29.0
Other assets	**57.1**	52.1
Total assets	**421.5**	390.7
Liabilities		
Bank overdrafts	**0.1**	1.0
Trade and other payables	**26.0**	19.4
Bank term loans	**220.0**	184.1
Bonds issued	**20.0**	40.0
Total liabilities	**266.1**	244.5
Donation reserve	**(0.7)**	(0.9)
Equity	**154.7**	145.3
Proportion of the Group's ownership	**23.03%**	23.03%
	35.6	33.5

The figures reported above for BCFC are based on 30 September 2019 reviewed financial statements adjusted for expected performance for the last quarter ended 31 December 2019 (2018: same).

The market value of the Group's investment in BCFC is BD 38.1 million (2018: BD 29.0 million).

10 INTEREST RECEIVABLE AND OTHER ASSETS

	2019	*2018*
Accounts receivable	**17.3**	23.1
Interest receivable	**15.6**	15.6
Collateral pending sale	**12.2**	13.5
Prepaid expenses	**2.1**	1.2
Deferred tax asset (note 22)	**1.3**	1.1
Positive fair value of derivatives (note 28)	**1.3**	11.3
Others	**24.4**	12.1
	74.2	77.9

11 PREMISES AND EQUIPMENT

	Freehold land	***Properties and buildings***	***Furniture and equipment***	***Right-of-use assets***	***Capital work in progress***	***Total***
Net book value at 31 December 2019	**9.0**	**9.0**	**7.8**	**8.0**	**1.4**	**35.2**

11 PREMISES AND EQUIPMENT (continued)

	Freehold land	*Properties and buildings*	*Furniture and equipment*	*Right-of-use assets*	*Capital work in progress*	*Total*
Net book value at 31 December 2018	8.8	11.9	6.6	-	0.2	27.5

The depreciation charge for the year amounted to BD 6.1 million (2018: BD 3.7 million).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprised:

Rate of interest	*Maturity*	***2019***	*2018*
3.50%	2020	**144.5**	144.5
5.50%	2024	**188.5**	-
		333.0	144.5

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2019	*2018*
Term deposits	**965.1**	1,259.4
Savings accounts	**655.1**	571.3
Current accounts	**491.0**	484.7
Other accounts	**58.3**	59.1
	2,169.5	2,374.5

14 INTEREST PAYABLE AND OTHER LIABILITIES

	2019	*2018*
Accrued expenses	**48.5**	37.6
Negative fair value of derivatives (note 28)	**27.0**	4.8
Interest payable	**24.0**	24.1
Accounts payable	**16.4**	14.2
Lease liability	**6.1**	-
Allowance for ECL on financial contracts	**3.3**	1.0
Others	**13.7**	22.9
	139.0	104.6

15 EQUITY

	2019	*2018*
(i) Share capital		
Authorised		
1,500,000,000 shares of BD 0.100 each	**150.0**	150.0
Issued and fully paid		
1,296,891,745 shares (2018: 1,081,647,952 shares) of BD 0.100 each	**129.7**	108.2

15 EQUITY (continued)

(i) Share capital (continued)

At the Extra-Ordinary General Meeting held on 20 March 2019, the shareholders approved the conversion of the Bank's perpetual tier 1 convertible capital securities of BD 86.1 million to ordinary shares at a price of 400 fils per share effective 2 May 2019. As a result, the issued shares increased by 215,243,793 shares, the paid up capital increased by BD 21.5 million and share premium increased by BD 64.6 million.

(ii) Treasury stock

Treasury stock represents the Bank purchase of its own shares. At the end of the year, the Bank held 12,380,542 (2018: 6,213,641) of its own shares.

	2019	*2018*
Consideration paid	**(5.2)**	(2.5)

(iii) Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB. During the year, share premium was increased by BD 64.6 million [refer to note 15(i)].

(iv) Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (refer to note 42).

(v) Unclaimed dividends

During the year, the Group transferred BD Nil (2018: BD 0.022 million) to equity as unclaimed dividends by the shareholders and paid BD 0.025 million (2018: BD Nil) to its shareholders from the reserve account in the equity. As per the Group's policy and procedures, any unclaimed dividends outstanding for more than 10 years are transferred to equity, however are available to the respective shareholders for any future claims.

(vi) Perpetual tier 1 convertible capital securities

During the year 2016, the Bank issued BD 86,098 thousand Basel III compliant Additional Tier I Convertible Perpetual Capital Securities. Distribution Payment Amounts shall be payable subject to and in accordance with terms and conditions on the outstanding nominal amount of the Capital Securities at rate of 8.25 per cent per annum. These securities were recognised under equity in the consolidated statement of financial position. During the year, these securities were converted into ordinary shares [refer to note 15 (i)].

(vii) Statutory reserve

The statutory reserve has been created in accordance with the BCCL. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year, the Bank transferred BD 7.5 million to statutory reserve (2018: Nil). The reserve is not available for distribution, except in circumstances as stipulated in the BCCL and following the approval from the CBB.

(viii) General reserve

The general reserve has been built up in accordance with the provisions of the Bank’s articles of association and underlines the shareholders’ commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval from the CBB and the Annual General Assembly of the Shareholders.

16 CUMULATIVE CHANGES IN FAIR VALUES

	2019	2018
Fair value through other comprehensive income		
At 1 January	**(25.7)**	(8.6)
Transferred to retained earnings on sale / write-off of equity securities	**1.9**	0.5
Transferred to profit or loss on sale of investment securities (debt)	**(2.8)**	(3.2)
Transferred to profit or loss on impairment (debt)	**0.1**	0.3
Fair value changes on investment securities carried at FVOCI	**38.2**	(14.7)
At 31 December	**11.7**	(25.7)
Cash flow hedges		
At 1 January	**0.6**	0.2
Change in unrealised fair values	**-**	(0.1)
Change in unrealised fair values - associated companies (note 9)	**(1.1)**	0.5
At 31 December	**(0.5)**	0.6
	11.2	(25.1)

17 PROPOSED APPROPRIATIONS

	2019	2018
Cash dividend	**38.6**	43.0
Stock dividend	**6.4**	-
Transfer to general reserve	**7.5**	-
Donations	**2.0**	1.6
	54.5	44.6

The Board of Directors proposed a final cash dividend of BD 0.040 per share and stock dividend of BD 0.005 per share (including an interim cash dividend of BD 0.010 per share, declared and paid during July 2019), net of treasury stock as of 31 December 2019 (2018: BD 0.040 per share). Further, a transfer of 10% of the Group's annual profit to general reserve amounting to BD 7.5 million (2018: BD Nil) was proposed by the Board of Directors.

During the year, the Bank paid dividends of BD 0.040 per share pertaining to 2018 (2018: BD 0.035 per share pertaining to 2017) and the interim cash dividend of BD 0.010 per share pertaining to 2019 (2018: BD Nil), net of treasury stock.

The above appropriations will be submitted for approval at the forthcoming Annual General Assembly of the Shareholders. The payment of the final cash dividend is subject to the approval of the CBB.

18 NET INTEREST AND SIMILAR INCOME

	2019	2018
a) INTEREST AND SIMILAR INCOME		
Loans and advances to customers	**104.4**	107.7
Investment securities	**39.8**	33.4
Treasury bills	**16.1**	16.0
Deposits and amounts due from banks and other financial institutions	**16.1**	8.7
	176.4	165.8
b) INTEREST AND SIMILAR EXPENSE		
Customers' deposits	**(44.4)**	(39.6)
Deposits and amounts due to banks and other financial institutions	**(24.7)**	(16.3)
	(69.1)	(55.9)
	107.3	109.9

19 FEE AND COMMISSION INCOME - NET

	2019	2018
Fee and commission income	**49.3**	49.2
Fee and commission expense	**(22.7)**	(21.0)
	26.6	28.2

Included in fee and commission income is BD 0.02 million (2018: BD 0.07 million) relating to trust and other fiduciary activities.

20 OTHER INCOME

	2019	2018
Dividend income	**3.9**	6.2
Gain on foreign exchange	**5.9**	5.3
Realised gains on investment securities	**3.0**	3.2
Others	**4.8**	4.2
	17.6	18.9

21 TOTAL PROVISIONS - NET

	2019	2018
Loans and advances to customers	**15.9**	35.0
Investment securities	**0.1**	0.3
Off-balance sheet exposures	**2.3**	(0.4)
Collateral pending sale	**0.6**	0.4
	18.9	35.3

22 TAXATION

	2019	2018
Consolidated statement of financial position		
Deferred tax asset (note 10)	**1.3**	1.1
Consolidated statement of profit or loss		
Deferred tax expense on foreign operations	**0.2**	0.4
	0.2	0.4

Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period. Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Effective tax rate for the year ended 31 December 2019 is 43.68% (2018: 43.68%). During 2018, tax was paid as per Minimum Alternate Tax (MAT), under Section 115J of the Income Tax Act, 1961.

The Group is exposed to a contingent tax liability of BD 1.9 million (2018: BD 0.7 million). Based on the opinion of the management, no liability is likely to arise from these ongoing cases with local tax authorities in the relevant country of incorporation of the group entities, in accordance with the tax laws prevailing in those jurisdictions.

23 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank by the weighted average number of shares outstanding during the year.

Diluted earnings per share
Diluted earnings per share for the year are calculated by dividing the profit for the year attributable to the owners of the Bank less distribution on perpetual tier 1 convertible capital securities, by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion into ordinary shares.

	2019	*2018*
Profit for the year attributable to the owners of the Bank for basic and diluted earnings per share computation	**75.4**	67.1
Less: Distribution on perpetual tier 1 convertible capital securities	**(3.6)**	(7.1)
Adjusted net profit for the year attributable to the owners of the Bank	**71.8**	60.0
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,210,868,457**	1,076,676,556
Basic earnings per share (BD)	**0.059**	0.056
Weighted average number of ordinary shares adjusted for the effect of dilution, net of treasury stock, outstanding during the year	**1,210,868,457**	1,291,920,336
Diluted earnings per share (BD)	**0.059**	0.052

24 OPERATING SEGMENTS

Segment information
For management purposes, the Group is organised into four major business segments:

Retail banking Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.

Corporate banking Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

International banking Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

Investment, treasury and other activities Principally providing money market, trading and treasury services as well as the management of the Group’s funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a transfer pricing rate, which approximates the marginal cost of funds on a matched funded basis.

24 OPERATING SEGMENTS (continued)

Segment information for the year ended 31 December 2019 was as follows:

	Retail banking	*Corporate banking*	*International banking*	*Investment, treasury and other activities*	*Total*
Interest income	**33.7**	**40.3**	**40.8**	**61.6**	**176.4**
Interest expense	**(5.1)**	**(16.4)**	**(15.8)**	**(31.8)**	**(69.1)**
Internal fund transfer price	**5.5**	**4.1**	**(4.8)**	**(4.8)**	**-**
Net interest income	**34.1**	**28.0**	**20.2**	**25.0**	**107.3**
Other operating income	**19.4**	**3.7**	**5.7**	**15.4**	**44.2**
Operating income before share of profit from associated companies and joint ventures	**53.5**	**31.7**	**25.9**	**40.4**	**151.5**
Total provisions - net	**0.8**	**0.6**	**(19.6)**	**(0.7)**	**(18.9)**
Segment result	**25.6**	**17.7**	**(9.0)**	**34.9**	**69.2**
Share of profit from associated companies and joint ventures	**5.7**	**-**	**-**	**1.1**	**6.8**
Profit for the year					**76.0**
Profit attributable to non-controlling interest					**(0.6)**
Profit for the year attributable to the owners of the Bank					**75.4**
Segment assets	**629.6**	**620.7**	**1,015.4**	**1,476.3**	**3,742.0**
Investment in associated companies and joint ventures	**40.6**	**-**	**-**	**30.0**	**70.6**
Common assets					**52.4**
Total assets					**3,865.0**
Segment liabilities	**901.4**	**838.8**	**826.6**	**661.7**	**3,228.5**
Common liabilities					**89.5**
Total liabilities					**3,318.0**

24 OPERATING SEGMENTS (continued)

Segment information for the year ended 31 December 2018 was as follows:

	Retail banking	*Corporate banking*	*International banking*	*Investment, treasury and other activities*	*Total*
Interest income	32.3	41.4	41.4	50.7	165.8
Interest expense	(3.6)	(10.9)	(12.7)	(28.7)	(55.9)
Internal fund transfer price	3.3	(2.1)	(7.8)	6.6	-
Net interest income	32.0	28.4	20.9	28.6	109.9
Other operating income	21.2	3.5	5.2	17.2	47.1
Operating income before share of profit from associated companies and joint ventures	53.2	31.9	26.1	45.8	157.0
Total provisions - net	0.3	(26.4)	(8.9)	(0.3)	(35.3)
Segment result	26.2	(9.2)	1.8	44.8	63.6
Share of profit from associated companies and joint ventures	4.4	-	-	(0.3)	4.1
Profit for the year					67.7
Profit attributable to non-controlling interest					(0.6)
Profit for the year attributable to the owners of the Bank					67.1
Segment assets	643.1	661.3	992.7	1,175.9	3,473.0
Investment in associated companies and joint ventures	37.9	-	-	25.0	62.9
Common assets					45.8
Total assets					3,581.7
Segment liabilities	823.8	702.1	803.3	693.3	3,022.5
Common liabilities					58.8
Total liabilities					3,081.3

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East / Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located.

	Domestic	***Others***	***Total***
31 December 2019			
Net interest income	**92.9**	**14.4**	**107.3**
Share of profit from associated companies and joint ventures	**5.7**	**1.1**	**6.8**
Other income	**40.0**	**4.2**	**44.2**
	138.6	**19.7**	**158.3**
Non-current assets*	**91.3**	**26.7**	**118.0**

24 OPERATING SEGMENTS (continued)

Geographic information (continued)

	Domestic	*Others*	*Total*
31 December 2018			
Net interest income	94.9	15.0	109.9
Share of profit from associated companies and joint ventures	4.4	(0.3)	4.1
Other income	43.6	3.5	47.1
	142.9	18.2	161.1
Non-current assets*	83.9	20.0	103.9

* Non-current assets represents investment in associated companies and joint venutres, collateral pending sale, and premises and equipment.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the consolidated statement of cash flows included the following as at 31 December:

	2019	*2018*
Cash in hand and vaults (note 4)	**21.2**	20.3
Current accounts and placements with central banks (note 4)	**266.2**	95.1
Deposits and amounts due from banks and other financial institutions having original maturities of ninety days or less	**249.4**	230.0
	536.8	345.4

26 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associated companies and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. All the loans and advances to related parties are performing and subject to ECL allowances.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders	*Associated companies and joint ventures*	*Directors and key management personnel*	*Total*
31 December 2019				
Loans and advances to customers	**-**	**21.9**	**3.0**	**24.9**
Investments in associated companies and joint ventures	**-**	**70.6**	-	**70.6**
Customers' current, savings and other deposits	**210.4**	**5.1**	**9.1**	**224.6**
31 December 2018				
Loans and advances to customers	-	23.3	3.0	26.3
Investments in associated companies and joint ventures	-	62.9	-	62.9
Customers' current, savings and other deposits	185.4	3.1	6.8	195.3

26 RELATED PARTY TRANSACTIONS (continued)

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	Major shareholders	*Associated companies and joint ventures*	*Directors and key management personnel*	*Total*
31 December 2019				
Interest income	**-**	**1.5**	**-**	**1.5**
Interest expense	**4.6**	**0.1**	**0.2**	**4.9**
Share of profit from associated companies and joint ventures	-	**6.8**	-	**6.8**
31 December 2018				
Interest income	-	1.4	-	1.4
Interest expense	6.1	0.1	0.1	6.3
Share of profit from associated companies and joint ventures	-	4.1	-	4.1

Compensation of the key management personnel is as follows:

	2019	*2018*
Short-term employee benefits	**10.9**	10.6
Long-term employee benefits	**1.2**	0.4
	12.1	11.0

For key management personnel interest in the employee share incentive scheme, refer to note 42.

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities given below has been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

	Within 1 month	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Subtotal*	*1 to 5 years*	*5 to 10 years*	*10 to 20 years*	*More than 20 years*	*Total*
31 December 2019										
Assets										
Cash and balances with central banks	287.4	-	-	-	287.4	-	-	-	89.0	376.4
Treasury bills	69.2	190.3	127.2	97.7	484.4	-	-	-	-	484.4
Deposits and amounts due from banks and other financial institutions	248.6	-	-	29.7	278.3	-	-	-	-	278.3
Loans and advances to customers	213.7	113.8	164.8	132.2	624.5	750.7	203.6	48.4	43.7	1,670.9
Investment securities	38.3	32.4	39.4	29.0	139.1	295.9	305.8	20.3	113.9	875.0
Investments in associated companies and joint ventures	-	-	-	-	-	-	-	-	70.6	70.6
Interest receivable and other assets	62.0	-	-	-	62.0	12.2	-	-	-	74.2
Premises and equipment	0.1	0.1	0.1	0.3	0.6	27.7	2.1	3.2	1.6	35.2
Total assets	919.3	336.6	331.5	288.9	1,876.3	1,086.5	511.5	71.9	318.8	3,865.0
Liabilities										
Deposits and amounts due to banks and other financial institutions	228.7	48.9	64.5	19.2	361.3	1.8	-	-	-	363.1
Borrowings under repurchase agreement	3.0	10.2	-	129.2	142.4	171.0	-	-	-	313.4
Term borrowings	-	144.5	-	-	144.5	188.5	-	-	-	333.0
Customers' current, savings and other deposits	255.2	41.5	86.2	49.5	432.4	0.2	-	-	1,736.9	2,169.5
Interest payable and other liabilities	133.2	0.1	0.1	0.3	133.7	1.3	1.9	2.1	-	139.0
Total liabilities	620.1	245.2	150.8	198.2	1,214.3	362.8	1.9	2.1	1,736.9	3,318.0
Net	299.2	91.4	180.7	90.7	662.0	723.7	509.6	69.8	(1,418.1)	547.0
Cumulative	299.2	390.6	571.3	662.0		1,385.7	1,895.3	1,965.1	547.0	

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Within 1 month	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Subtotal*	*1 to 5 years*	*5 to 10 years*	*10 to 20 years*	*More than 20 years*	*Total*
31 December 2018										
Assets										
Cash and balances with central banks	115.4	-	-	-	115.4	-	-	-	75.6	191.0
Treasury bills	62.6	123.3	99.2	125.3	410.4	-	-	-	-	410.4
Deposits and amounts due from banks and other financial institutions	195.2	37.8	-	6.2	239.2	-	-	-	-	239.2
Loans and advances to customers	247.2	143.2	108.9	136.0	635.3	812.0	236.2	29.0	60.0	1,772.5
Investment securities	33.7	24.7	29.7	18.7	106.8	299.7	260.3	28.3	105.2	800.3
Investments in associated companies and joint ventures	-	-	-	-	-	-	-	-	62.9	62.9
Interest receivable and other assets	64.4	-	-	-	64.4	13.5	-	-	-	77.9
Premises and equipment	-	-	-	-	-	24.5	0.3	1.1	1.6	27.5
Total assets	718.5	329.0	237.8	286.2	1,571.5	1,149.7	496.8	58.4	305.3	3,581.7
Liabilities										
Deposits and amounts due to banks and other financial institutions	156.8	79.3	22.6	-	258.7	-	-	-	-	258.7
Borrowings under repurchase agreement	-	-	2.0	-	2.0	197.0	-	-	-	199.0
Term borrowings	-	-	-	-	-	144.5	-	-	-	144.5
Customers' current, savings and other deposits	258.5	34.9	87.7	99.2	480.3	16.1	-	-	1,878.1	2,374.5
Interest payable and other liabilities	104.6	-	-	-	104.6	-	-	-	-	104.6
Total liabilities	519.9	114.2	112.3	99.2	845.6	357.6	-	-	1,878.1	3,081.3
Net	198.6	214.8	125.5	187.0	725.9	792.1	496.8	58.4	(1,572.8)	500.4
Cumulative	198.6	413.4	538.9	725.9		1,518.0	2,014.8	2,073.2	500.4	

28 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2019	***Positive fair value***	***Negative fair value***	***Notional amount***
Derivatives held for trading			
Forward foreign exchange contracts	**0.7**	**0.6**	**174.4**
Derivatives held as fair value hedges			
Interest rate swaps	**0.6**	**26.4**	**595.4**
	1.3	**27.0**	**769.8**

31 December 2018	*Positive fair value*	*Negative fair value*	*Notional amount*
Derivatives held for trading:			
Forward foreign exchange contracts	0.5	0.5	125.8
Derivatives held as fair value hedges:			
Interest rate swaps	10.8	4.3	586.8
	11.3	4.8	712.6

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

28 DERIVATIVES (continued)

Derivative product types (continued)

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back-to-back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices. Also, included under this category are derivatives which do not meet IFRS 9 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management, the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases, the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, fair value through other comprehensive income debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

In these hedge relationships, the main sources of ineffectiveness is the maturity mis-matches or the hedging instruments. The hedged instruments are subject to different counterparty risks, resulting in a change to hedge effectiveness measurement elements.

At 31 December 2019, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

	Less than 1 month	*1–3 months*	*3 months – 1 year*	*1–5 years*	*More than 5 years*
Interest rate risk					
Hedge of investment securities					
31 December 2019					
Nominal amount	**3.4**	**14.3**	**12.8**	**253.4**	**311.5**
Average fixed interest rate	**6%**	**6%**	**5%**	**5%**	**6%**
31 December 2018					
Nominal amount	3.8	-	14.4	255.5	313.1
Average fixed interest rate	3%	0%	5%	5%	6%

28 DERIVATIVES (continued)

Fair value hedges (continued)

The line item in the statement of financial position where the positive fair value of derivatives included is "Interest receivable and other assets".

The amounts relating to items designated as hedged items were as follows:

	2019		*2018*	
	Carrying amount	***Accumulated fair value hedge adjustments on the hedged item included in the carrying amount***	*Carrying amount*	*Accumulated fair value hedge adjustments on the hedged item included in the carrying amount*
Bonds (Investment securities)	**583.5**	**22.1**	574.4	(8.0)

For the year ended 31 December 2019, the Group recognised a net gain of BD 32.3 million (2018: net loss of BD 6.3 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 32.6 million (2018: gain of BD 6.5 million).

Cash flow hedges

At 31 December 2019, the Group did not hold any instruments to hedge exposures to changes in interest rates and foreign currency.

The line item in the statement of financial position where the negative fair value of derivatives included is "Interest payable and other liabilities".

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments
Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2019	***On demand***	***Less than 3***	***3 to 12 months***	***Total***
Contingencies				
Letters of credit	**2.2**	**10.7**	**13.2**	**26.1**
Guarantees	**222.3**	**-**	**-**	**222.3**
				248.4
Commitments				
Undrawn loan commitments	**154.5**	**-**	**-**	**154.5**
				154.5
				402.9

31 December 2018	*On demand*	*Less than 3 months*	*3 to 12 months*	*Total*
Contingencies				
Letters of credit	2.4	16.1	13.9	32.4
Guarantees	231.6	-	-	231.6
				264.0
Commitments				
Undrawn loan commitments	120.6	-	-	120.6
				120.6
				384.6

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

For ECL on financial contracts disclosed above, refer to note 14.

30 RISK MANAGEMENT

The activities of the group entails Risk taking on regular basis through its businesses. Risk management involves the identifying, measuring, monitoring and managing of risks on a continuous basis. Efficient and timely management of risks in the Group's activities is critical for the financial soundness and profitability of the Group. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices with aim to manage the overall risk profile of the Group in most efficient and effective way.

The Group's Risk Management framework involves the following major categories:

Credit and Counterparty Risk (including concentration effects): Credit Risk is risk of loss if customer of the Group fail to fulfill their agreed obligations and that the pledged collaterals do not cover the obligations. Credit Risks mainly stem from various forms of lending. They also arise from guarantees and documentary credits, counterparties credit risks in derivative contracts, transfer risks in case of transfer of money and settlement risks. Credit Risk may further amplify by individual, country and sector concentration risk.

Market Risk: is the risk of loss in the Group holdings and transactions due to changes in market rate and parameters that affect the market value. These rates and parameters include but are not limited to exchange rates, credit spreads, interest rates, equity and bond prices and derivative prices.

Liquidity and Funding risk: Liquidity risk is defined the Group's inability to meet its financial obligations at a reasonable cost. Funding risk is defined as the risk of the Group being unable to finance the development of its activities in line with its commercial objectives and at a competitive cost.

Operational Risks: Risk of losses resulting from inadequacies or failures in processes, personnel or systems or from external events. They include - non-compliance (including legal and tax risks), misconduct risks and reputational risks.

Strategic/business risk: Risks resulting from the Group's inability to execute its strategy and business plans.

Risk is measured, monitored and reported according to principles and policies approved by the Board of Directors. The Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks. The Chief Risk Officer (CRO) is head of Risk and Credit Management Division (RCMD). CRO reports to Board Risk Committee, ensuring segregation of duties and management oversight from the Business originating units – a fundamental principle of risk management process.

Whilst the Board approves and periodically reviews risk management policies and strategies based on the recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC), the Country Risk Committee (CRC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to Asset Liability mismatches and liquidity. The CRC reviews country risk, business strategies and macro-economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee (ORMC) manages the overall operational risk for the Bank by instituting Central Bank of Bahrain guidelines and Basel standards and carrying out required oversight.

30 RISK MANAGEMENT (continued)

RCMD of the Group maintains a high standard of risk management by means of applying available techniques and methodology. The control environment is, among other things, based on the principle of segregation of duties and independence. RCMD is responsible for looking into risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing or amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. RCMD in collaboration with Financial Control Division, prepares the Risk Appetite & the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank. RCMD is also responsible for ensuring adherence to regulatory and statutory requirements related to risk management such as introducing use of IFRS 9 guidelines, ICAAP etc. in the Bank.

Group Internal Audit makes an independent valuation of the processes regarding risk and capital management in accordance with the annual audit plan.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the notes below.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Credit Risk is risk of loss to the Group due to failure of clients, customers or counterparties, including sovereigns, to fully honor their obligationsincludingthe whole and timely payment of principal, interest, collateral and other receivablesThe failure there by causes the Group to incur a financial loss.

ThecreditriskthatBBK Group faces arises from loans and advances together with the counterparty credit risk arising from derivative contracts with clients; trading activities, including debt securities, settlement balances with market counterparties and reverse repurchase loans

• Credit risk management objectives are to:
• maintain a framework of controls to oversee credit risk;
• identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
• control and plan credit risk taking in line with the Board of Directors expectations and avoiding undesirable concentrations; and
• monitor credit risk and adherence to agreed controls.

31 CREDIT RISK (continued)

A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry. Policy limits and operating limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated risk appetite. Limits are typically based on the nature of the lending and the amount of the underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure limits to individual counterparties' exposures. Excesses are reported to the appropriate authority as set by Credit Risk Policy.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit as well as at a portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the Designated Credit & Investment Officers in RCMD before approval of the appropriate approving authority is obtained. The Bank has a tiered approval authority level matrix depending on the extent of risk, comprising individuals with proven credit & investment credentials, Management Credit Committee and Board Committees. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. All larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer / Designated Investment Officer in RCMD is one of the signatories in the credit / investment approval chain and provides independent view on credit & investment proposals.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the CBB and the local regulators in overseas locations.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return, reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

31 CREDIT RISK (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and for commitments and contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2019	*2018*
Balances with central banks	**355.2**	170.7
Treasury bills	**484.4**	410.4
Deposits and amounts due from banks and other financial institutions	**278.3**	239.2
Loans and advances to customers	**1,670.9**	1,772.5
Investment securities	**806.0**	733.0
Interest receivable and other assets	**58.6**	62.1
	3,653.4	3,387.9
Contingent liabilities	**248.4**	264.0
Undrawn loan commitments	**154.5**	120.6
	402.9	384.6
	4,056.3	3,772.5

32 CONCENTRATION RISK

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector was as follows:

	2019			*2018*		
	Assets	**Liabilities**	**Credit commitments and contingencies**	*Assets*	*Liabilities*	*Credit commitments and contingencies*
Geographic region:						
Gulf Co-operation Council countries	**3,151.1**	**2,475.1**	**345.9**	2,968.5	2,581.0	327.5
North America	**99.2**	**7.9**	**0.9**	42.3	12.5	0.3
Europe	**282.9**	**605.8**	**7.5**	250.7	337.8	6.1
Asia	**248.9**	**212.4**	**45.7**	259.9	134.6	49.3
Others	**82.9**	**16.8**	**2.9**	60.3	15.4	1.4
	3,865.0	**3,318.0**	**402.9**	3,581.7	3,081.3	384.6
Industry sector:						
Trading and manufacturing	**647.8**	**147.3**	**192.6**	673.0	102.2	186.4
Banks and other financial institutions	**763.4**	**1,207.8**	**35.6**	695.8	1,344.1	25.0
Construction and real estate	**302.1**	**58.0**	**132.2**	385.1	69.9	135.1
Government and public sector	**1,327.1**	**420.5**	**-**	1,013.5	368.8	1.4
Individuals	**501.9**	**1,077.0**	**0.4**	496.7	934.3	0.4
Others	**322.7**	**407.4**	**42.1**	317.6	262.0	36.3
	3,865.0	**3,318.0**	**402.9**	3,581.7	3,081.3	384.6

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 and 10 as non-performing grades, in line with Basel III guidelines. Grades 1 to 3 represent high grade (undoubted through to good credit risk), 4 to 6 represent standard grade (satisfactory through to adequate credit risk) and 7 to 8 represent sub-standard grade (satisfactory through to high credit risk).

The Group's rating method comprises 19 rating levels for debt instruments. The master scale maps the external credit ratings of rating agencies for debt instruments in to high, standard, substandard and past due or individually impaired. Grades 1 to 7 represent high grade (AAA to A-), 8 to 16 represent standard grade (BBB+ to B-) and 17 to 19 represent sub-standard grade (CCC+ to CCC-).

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

33.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2019			
	Stage 1: 12 - month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Loans and advances to customers				
Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	**212.5**	**3.4**	-	**215.9**
Standard (Grade 4 to 6)	**632.3**	**168.8**	-	**801.1**
Substandard (Grade 7 to 8)	**3.8**	**115.3**	-	**119.1**
Non-performing (Grade 9 to 10)	-	-	**92.9**	**92.9**
	848.6	**287.5**	**92.9**	**1,229.0**
Expected credit losses	**(3.2)**	**(19.0)**	**(73.3)**	**(95.5)**
Net carrying amount	**845.4**	**268.5**	**19.6**	**1,133.5**

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.1 Credit quality analysis (continued)

	31 December 2018			
	Stage 1: 12 - month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Loans and advances to				
Commercial loans and overdrafts at amortised cost				
High (Grade 1 to 3)	237.3	5.5	-	242.8
Standard (Grade 4 to 6)	669.4	156.4	-	825.8
Substandard (Grade 7 to 8)	9.6	124.5	-	134.1
Non-performing (Grade 9 to 10)	-	-	140.4	140.4
	916.3	286.4	140.4	1,343.1
Expected credit losses	(6.3)	(20.8)	(81.7)	(108.8)
Net carrying amount	910.0	265.6	58.7	1,234.3

	31 December 2019			
	Stage 1: 12 - month ECL	***Stage 2: Lifetime ECL not credit - impaired***	***Stage 3: Lifetime ECL credit - impaired***	***Total***
Loans and advances to customers				
Consumer loans at amortised cost				
High (Grade 1 to 3)	**518.5**	**-**	**-**	**518.5**
Standard (Grade 4 to 6)	**-**	**7.3**	**-**	**7.3**
Substandard (Grade 7 to 8)	**-**	**8.0**	**-**	**8.0**
Non-performing (Grade 9 to 10)	**-**	**-**	**11.4**	**11.4**
	518.5	**15.3**	**11.4**	**545.2**
Expected credit losses	**(1.7)**	**(2.6)**	**(3.5)**	**(7.8)**
Net carrying amount	**516.8**	**12.7**	**7.9**	**537.4**

	31 December 2018			
	Stage 1: 12 - month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Loans and advances to customers				
Consumer loans at amortised cost				
High (Grade 1 to 3)	523.8	-	-	523.8
Standard (Grade 4 to 6)	-	8.4	-	8.4
Substandard (Grade 7 to 8)	-	10.9	-	10.9
Non-performing (Grade 9 to 10)	-	-	10.4	10.4
	523.8	19.3	10.4	553.5
Expected credit losses	(5.1)	(4.7)	(5.5)	(15.3)
Net carrying amount	518.7	14.6	4.9	538.2

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.1 Credit quality analysis (continued)

	31 December 2019			
	Stage 1: 12 - month ECL	***Stage 2: Lifetime ECL not credit - impaired***	***Stage 3: Lifetime ECL credit - impaired***	***Total***
Debt investment securities at FVOCI				
High (AAA to A-)	**150.9**	**-**	**-**	**150.9**
Standard (BBB+ to B-) *	**332.9**	**179.3**	**-**	**512.2**
	483.8	**179.3**	**-**	**663.1**
Expected credit losses	**(0.2)**	**(0.3)**	**-**	**(0.5)**
Net carrying amount	**483.6**	**179.0**	**-**	**662.6**
Debt investment securities at amortised cost				
High (AAA to A-)	**77.9**	**-**	**-**	**77.9**
Standard (BBB+ to B-) *	**531.2**	**18.7**	**-**	**549.9**
	609.1	**18.7**	**-**	**627.8**
Expected credit losses	**-**	**-**	**-**	**-**
Net carrying amount	**609.1**	**18.7**	**-**	**627.8**
Loan commitments and financial guarantees				
High (Grade 1 to 3)	**125.1**	**-**	**-**	**125.1**
Standard (Grade 4 to 6)	**166.7**	**52.4**	**-**	**219.1**
Substandard (Grade 7 to 8)	**-**	**36.7**	**-**	**36.7**
Non-performing (Grade 9 to 10)	**-**	**-**	**22.0**	**22.0**
	291.8	**89.1**	**22.0**	**402.9**
Expected credit losses	**(0.5)**	**(2.8)**	**-**	**(3.3)**
Net carrying amount	**291.3**	**86.3**	**22.0**	**399.6**

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.1 Credit quality analysis (continued)

	31 December 2018			
	Stage 1: 12 - month ECL	*Stage 2: Lifetime ECL not credit - impaired*	*Stage 3: Lifetime ECL credit - impaired*	*Total*
Debt investment securities at FVOCI				
High (AAA to A-)	144.5	-	-	144.5
Standard (BBB+ to B-) *	308.8	138.2	-	447.0
	453.3	138.2	-	591.5
Expected credit losses	(0.2)	(0.3)	-	(0.5)
Net carrying amount	453.1	137.9	-	591.0
Debt investment securities at amortised cost				
High (AAA to A-)	74.3	-	-	74.3
Standard (BBB+ to B-) *	458.6	18.8	-	477.4
	532.9	18.8	-	551.7
Expected credit losses	-	-	-	-
Net carrying amount	532.9	18.8	-	551.7
Loan commitments and financial guarantees				
High (Grade 1 to 3)	113.0	-	-	113.0
Standard (Grade 4 to 6)	160.6	43.2	-	203.8
Substandard (Grade 7 to 8)	0.6	61.3	-	61.9
Non-performing (Grade 9 to 10)	-	-	5.9	5.9
	274.2	104.5	5.9	384.6
Expected credit losses	(0.5)	(0.5)	-	(1.0)
Net carrying amount	273.7	104.0	5.9	383.6

* Standard grade includes unrated investments amounting to BD 5.2 million (2018: BD 6.1 million).

The non-trading financial assets measured at FVTPL rated as Standard (BBB+ to B-) amounted to BD Nil (2018: BD 0.8 million).

33.2 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and bank guarantees;
- For retail lending, mortgages over residential properties;
- Cash collaterals such as bank deposits; and
- Marketable securities.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.2 Collateral and other credit enhancements (continued)

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	2019	*2018*
Derivative assets held for risk management	**38.9**	9.2
Loans and advances:		
- Cash	**59.3**	60.9
- Mortgage lending	**1,013.6**	978.7
- Financial Instruments	**12.9**	42.4
- Others*	**24.6**	80.6

* Others include assignments of right, bank guarantees, general documents, insurance policies, offering letters, promissory notes, term loan agreements and tugs and ships.

33.3 Inputs, assumptions and techniques used for estimating impairment

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

(b) Credit risk grades

The Group allocates each borrower to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each borrower is allocated to a credit risk grade at initial recognition based on available information about the borrower. Borrowers are subject to ongoing monitoring, which may result in a brorrower being moved to a different credit risk grade.

(c) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of 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 to analyse 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 Bank has taken exposures. For most exposures, the key macro-economic indicators include: GDP Growth, Real Interest Rates, Unemployment, Domestic Credit Growth, Oil Prices, Central Government Revenue as Percentage of GDP and Central Government Expenditure as Percentage of GDP.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.3 Inputs, assumptions and techniques used for estimating impairment (continued)

(d) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such, and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

(e) Renegotiated / Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in the past twelve months will be classified under Stage 2. The twelve month period is sufficient to test the adequacy of the cash flows and to test satisfactory performance under the revised terms of restructuring.

(f) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

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 realising security (if any security is held);
- The borrower is past due more than 90 days on any credit obligation to the Group; and
- The borrower is rated 9 or 10 as per the Group's credit rating model.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

A financial instrument is considered as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.3 Inputs, assumptions and techniques used for estimating impairment (continued)

(g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PD's are significantly deviated from the present forecast of the economic conditions, qualitative PD overlays shall be used by 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 Expected Credit Loss (ECL) applicable to the Stage 1 and Stage 2 exposures which are considered as performing (Stage 3 are the exposures under the default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

(h) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

i) Probability of default (PD);
ii) Loss given default (LGD); and
iii) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Market data is used to derive the PD for banks and sovereign counterparties. If a counterparty or exposure migrates between rating PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimations are estimations of :
1- Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
2- Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
3- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for-time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The contractual life have been considered as maturity for ECL computation for the assets with fixed maturity whereas, for revolving and overdraft loans a maturity of 3 years (Stage 2) and 1 year (Stage 1) shall be considered based upon the stage under which asset lies.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics and counterparty type that include:

i) Credit risk gradings;
ii) Product type; and
iii) Geographic location of the borrower.

33 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

33.3 Inputs, assumptions and techniques used for estimating impairment (continued)

(h) Measurement of ECL (continued)

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

i) Banks and financial institutions;
ii) Sovereign; and
iii) Investment securities (debt instruments).

34 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

The table below shows the carrying amount for financial assets by class that were restructured during the year and had no significant impact on ECL.

	2019	*2018*
Loans and advances to customers		
Commercial loans	**67.6**	42.2
Consumer loans	**4.0**	3.1
	71.6	45.3

35 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities / implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investments (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 36.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December 2019, VaR calculated based on the above parameters was BD 0.2 million (2018: BD 0.2 million).

35 MARKET RISK (continued)

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the CBB requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

36 INTEREST RATE RISK

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/ duration limits. The Group also uses ‘what if’ scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, and foreign exchange agreements to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2019, an increase of 200 basis points in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 20.1 million (2018: increase by BD 22.6 million). However, further downward movement of interest rates by 200 basis points might not be a practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income for the year ended 31 December 2019 is BD 19.6 million (2018: BD 22.4 million).

Rate Shock Forecasting (+200 bps)	***2019***	*2018*	***Rate Shock Forecasting (-200 bps)***	***2019***	*2018*
Bahraini Dinars	**15.7**	12.0	Bahraini Dinars	**15.7**	12.0
US Dollar	**5.0**	10.5	US Dollar	**4.5**	10.4
Kuwaiti Dinars	**0.6**	0.9	Kuwaiti Dinars	**0.6**	0.8
Others	**(1.2)**	(0.8)	Others	**(1.2)**	(0.8)
Total	**20.1**	22.6	**Total**	**19.6**	22.4

An increase of 200 basis points in interest rates, with all other variables held constant, will result in a negative impact on capital of approximately 3.4% amounting to BD 18.3 million (2018: 4.6%, BD 24.2 million). Similarly, a decrease of 200 basis point in interest rates, with all other variables held constant, will result in a positive impact on capital of approximately 3.4% amounting to BD 18.3 million (2018: 4.6%, BD 24.2 million).

37 CURRENCY RISK

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates. The functional currency of the Group is Bahraini Dinars.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	***2019* Equivalent long (short)**	*2018 Equivalent long (short)*
US Dollar	**92.8**	82.8
Euro	**3.7**	3.4
GCC currencies (excluding Kuwaiti Dinars)	**13.0**	12.7
Kuwaiti Dinars	**(2.4)**	(0.6)
Others	**(1.2)**	(1.1)

As the Bahraini Dinars and other GCC currencies (except the Kuwaiti Dinars) are pegged to the US Dollar (US$), positions in US$ and other GCC currencies are not considered to have a significant currency risk. For currency sensitivity impact, refer to VaR (note 35).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

38 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as FVOCI) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities		*% Change in Index*	*Effect on Equity*	
	2019	*2018*		***2019***	*2018*
Bahrain Bourse	**9.6**	11.5	± 15%	**1.4**	1.7
Other stock exchanges	**32.5**	26.8	± 15%	**4.9**	4.0
				6.3	5.7

39 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

39 LIQUIDITY RISK (continued)

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits for time bucket of the maturity ladder, cumulative outflow of cash limits for time buckets and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Head of the Treasury and Investment Division, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

39 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

	31 December 2019									
	On demand	***Within 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***1 to 5 years***	***5 to 10 years***	***10 to 20 years***	***More than 20 years***	***Total***
Deposits and amounts due to banks and other financial institutions	**55.0**	**199.9**	**49.3**	**77.7**	**19.7**	**2.1**	**-**	**-**	**-**	**403.7**
Borrowings under repurchase agreement	**-**	**3.6**	**11.7**	**2.7**	**134.4**	**181.6**	**-**	**-**	**-**	**334.0**
Term borrowings	**-**	**5.3**	**147.1**	**-**	**5.3**	**230.5**	**-**	**-**	**-**	**388.2**
Customers' current, savings and other deposits	**1,180.0**	**140.2**	**221.2**	**320.8**	**263.5**	**51.5**	**-**	**-**	**-**	**2,177.2**
Total undiscounted financial liabilities	**1,235.0**	**349.0**	**429.3**	**401.2**	**422.9**	**465.7**	**-**	**-**	**-**	**3,303.1**
Letter of guarantees	**222.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**222.3**
Undrawn loan commitments	**154.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**154.5**
Derivative financial instruments										
Contractual amounts payable	**-**	**(6.8)**	**(19.3)**	**(9.5)**	**(27.2)**	**(355.9)**	**(318.0)**	**(43.3)**	**(54.1)**	**(834.1)**
Contractual amounts receivable	**-**	**6.5**	**18.8**	**8.9**	**26.1**	**347.7**	**310.7**	**38.9**	**52.5**	**810.1**
	-	**(0.3)**	**(0.5)**	**(0.6)**	**(1.1)**	**(8.2)**	**(7.3)**	**(4.4)**	**(1.6)**	**(24.0)**

	31 December 2018									
	On demand	*Within 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 5 years*	*5 to 10 years*	*10 to 20 years*	*More than 20 years*	*Total*
Deposits and amounts due to banks and other financial institutions	109.8	47.1	70.7	32.7	0.2	1.2	-	-	-	261.7
Borrowings under repurchase agreement	-	0.6	0.8	3.9	3.3	208.6	-	-	-	217.2
Term borrowings	-	-	2.6	-	2.6	147.1	-	-	-	152.3
Customers' current, savings and other deposits	1,104.2	243.0	161.7	366.7	446.1	100.8	-	-	-	2,422.5
Total undiscounted financial liabilities	1,214.0	290.7	235.8	403.3	452.2	457.7	-	-	-	3,053.7
Letter of guarantees	231.6	-	-	-	-	-	-	-	-	231.6
Undrawn loan commitments	120.6	-	-	-	-	-	-	-	-	120.6
Derivative financial instruments										
Contractual amounts payable	-	(7.2)	(4.7)	(15.6)	(22.6)	(359.3)	(303.9)	(57.4)	(56.6)	(827.3)
Contractual amounts receivable	-	7.3	4.7	16.2	24.0	366.9	305.6	57.5	56.6	838.8
	-	0.1	-	0.6	1.4	7.6	1.7	0.1	-	11.5

40 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2019, there was a legal case pending against the Group aggregating to BD 0.484 million (2018: BD 0.795 million). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The Operational Risk Department operates independently from other units of the Bank and reports to the Chief Risk Officer. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank’s premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank’s business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The significant inputs for valuation of equities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2019 and 2018:

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Bonds	**660.5**	**-**	**-**	**660.5**
Equities	**42.1**	**8.4**	**17.8**	**68.3**
Managed funds	**-**	**0.7**	**-**	**0.7**
Derivatives held for trading	**-**	**0.7**	**-**	**0.7**
Derivatives held as fair value hedges	**-**	**0.6**	**-**	**0.6**
	702.6	**10.4**	**17.8**	**730.8**
Financial liabilities				
Derivatives held for trading	**-**	**0.6**	**-**	**0.6**
Derivatives held as fair value hedges	**-**	**26.4**	**-**	**26.4**
	-	**27.0**	**-**	**27.0**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Bonds	587.1	-	0.1	587.2
Equities	38.3	6.5	21.7	66.5
Managed funds	-	0.8	-	0.8
Derivatives held for trading	-	0.5	-	0.5
Derivatives held as fair value hedges	-	10.8	-	10.8
	625.4	18.6	21.8	665.8
Financial liabilities				
Derivatives held for trading	-	0.5	-	0.5
Derivatives held as fair value hedges	-	4.3	-	4.3
	-	4.8	-	4.8

41 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Transfers between Level 1, Level 2 and Level 3
During the years ended 31 December 2019 and 2018, there were no transfers into or out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

	2019			*2018*		
	Carrying value	***Fair value***	***Difference***	*Carrying value*	*Fair value*	*Difference*
Financial liabilities						
Term borrowings	**333.0**	**339.7**	**6.7**	144.5	140.6	(3.9)
Financial assets						
Investment securities	**145.5**	**146.1**	**(0.6)**	145.8	144.1	1.7

The above financial liabilities and assets are Level 1 fair value.

As at 31 December 2019 and 2018, the fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

42 SHARE - BASED PAYMENTS

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the CBB and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on 10 March 2015. The new share plan has been combined with the newly revised remuneration framework mandated by the CBB and is revered to as Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP).

Short-Term and Long-Term Shares Incentive Plan
Long Term Incentive Shares are granted to Executive Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period). Short Term Incentive Shares are granted to employees in line with CBB's Sound Remuneration Guidelines.

The expense recognised for employee services received during the year is shown in the following table:

	2019	*2018*
Expense arising from equity-settled share-based payment transactions	**2.6**	1.3
Shares vested during the year	**(2.0)**	(1.9)

The movement in the number of shares in the Bank's LTIP and STIP was as follows:

	Number of shares 2019	*Number of shares 2018*
Opening balance of shares granted but not vested	**11,547,534**	11,564,615
Equity shares transferred to trust	**964,270**	1,028,457
Shares released during the year to the participants	**(1,469,713)**	(1,045,538)
	11,042,091	11,547,534

The market price of the Bank's shares as at 31 December 2019 was BD 0.573 (2018: BD 0.454) per share.

43 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Group is as follows:

	2019	*2018*
CET1 capital	**535.7**	404.6
Additional Tier 1 capital	**-**	86.1
Tier 2 capital	**28.5**	29.7
Total capital base (a)	**564.2**	520.4
Credit risk weighted exposure	**2,282.6**	2,378.3
Operational risk weighted exposure	**267.9**	242.3
Market risk weighted exposure	**47.4**	37.6
Total risk weighted exposure (b)	**2,597.9**	2,658.2
Capital adequacy (a/b*100)	**21.72%**	19.58%
Minimum requirement	**14.00%**	14.00%

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the CBB, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

44 NET STABLE FUNDING RATIO

In August 2018, the Central Bank of Bahrain (CBB) issued its regulations on Liquidity Risk Management (LM). Amongst other things, the LM regulations mandated banks to implement Net Stable Funding Ratio (NSFR) effective 31 December 2019. The objective of the 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 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.

The consolidated NSFR calculated in accordance with the guidelines of the CBB rulebook, for the Group is as follows:

	2019
Total available stable funding	**2,544.5**
Total required stable funding	**1,977.8**
Group's consolidated NSFR	**128.7%**
Minimum NSFR requirement	**100.0%**

As the effective date for NSFR regulations in the Kingdom of Bahrain is 31 December 2019, no comparative figures were provided for year ended 31 December 2018.

45 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. This scheme covers eligible "natural persons" (individuals) up to a maximum of BD 20,000 as set by the CBB requirements. A periodic contribution as mandated by CBB is paid by the Bank under the scheme.

46 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employees of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2019, the total contribution fund including the earned income stands at BD 19.0 million (2018: BD 17.2 million). Out of the total fund amount, payment of the principal amount equal to BD 16.4 million (2018: BD 15.1 million) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 4.9 million (2018: BD 8.2 million) is invested in Bahrain sovereign bonds and GCC bonds.

47 FUDICIARY ASSETS

Funds under management as at 31 December 2019 amounted to BD 66.0 million (2018: BD 61.3 million). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position. The total market value of all such funds at 31 December 2019 was BD 68.3 million (2018: BD 60.8 million).

48 CLASSIFICATION OF ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2019	***Designated as at FVTPL***	***FVOCI – debt instrume***	***FVOCI – equity instrument***	***Amortised cost / others***	***Total***
Cash and balances with central banks	**-**	**-**	**-**	**376.4**	**376.4**
Treasury bills	**-**	**2.1**	**-**	**482.3**	**484.4**
Deposits and amounts due from banks and other financial institutions	**-**	**-**	**-**	**278.3**	**278.3**
Loans and advances to customers	**-**	**-**	**-**	**1,670.9**	**1,670.9**
Investment securities	**0.7**	**660.5**	**68.3**	**145.5**	**875.0**
Investments in associated companies and joint ventures	**-**	**-**	**-**	**70.6**	**70.6**
Interest receivable and other assets	**-**	**-**	**-**	**74.2**	**74.2**
Premises and equipment	**-**	**-**	**-**	**35.2**	**35.2**
Total assets	**0.7**	**662.6**	**68.3**	**3,133.4**	**3,865.0**
Deposits and amounts due to banks and other financial institutions	**-**	**-**	**-**	**363.1**	**363.1**
Borrowings under repurchase agreement	**-**	**-**	**-**	**313.4**	**313.4**
Term borrowings	**-**	**-**	**-**	**333.0**	**333.0**
Customers' current, savings and other deposits	**-**	**-**	**-**	**2,169.5**	**2,169.5**
Interest payable and other liabilities	**-**	**-**	**-**	**139.0**	**139.0**
Total liabilities	**-**	**-**	**-**	**3,318.0**	**3,318.0**

31 December 2018	*Designated as at FVTPL*	*FVOCI – debt instrument*	*FVOCI – equity instruments*	*Amortised cost / others*	*Total*
Cash and balances with central banks	-	-	-	191.0	191.0
Treasury bills	-	4.6	-	405.8	410.4
Deposits and amounts due from banks and other financial institutions	-	-	-	239.2	239.2
Loans and advances to customers	-	-	-	1,772.5	1,772.5
Investment securities	1.6	586.4	66.4	145.9	800.3
Investments in associated companies and joint ventures	-	-	-	62.9	62.9
Interest receivable and other assets	-	-	-	77.9	77.9
Premises and equipment	-	-	-	27.5	27.5
Total assets	1.6	591.0	66.4	2,922.7	3,581.7
Deposits and amounts due to banks and other financial institutions	-	-	-	258.7	258.7
Borrowings under repurchase agreement	-	-	-	199.0	199.0
Term borrowings	-	-	-	144.5	144.5
Customers' current, savings and other deposits	-	-	-	2,374.5	2,374.5
Interest payable and other liabilities	-	-	-	104.6	104.6
Total liabilities	-	-	-	3,081.3	3,081.3

49 COMPARATIVE INFORMATION

Certain corresponding figures for 2018 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.