



National Bank of Bahrain B.S.C.

Financial Statements - 31 December 2019

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

National Bank of Bahrain BSC
PO Box 106
Manama
Kingdom of Bahrain

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), 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 financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(x), note 7 and disclosures of credit risk in note 3 of the financial statements)

Description	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none">• of the significance of loans and advances representing 38% of total assets• impairment of loans and advances involves:<ul style="list-style-type: none">○ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;○ use of statistical models and methodologies for determination of expected credit losses; and○ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses	<p>Our audit procedures, amongst others, to address significant risks associated with impairment included:</p> <ul style="list-style-type: none">• Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice.• Confirming our understanding of management's processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development. <p>Controls testing</p> <p>We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and application controls over key systems used in the ECL process. Key aspects of our control testing involved the following:</p> <ul style="list-style-type: none">• Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;• Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

inputs and assumptions elements into the IFRS 9 ECL models;

- Testing controls over the transfer of data between underlying source systems and the ECL models that the Bank operates;
- Evaluating controls over the modelling process, including governance over model monitoring, validation and approval;
- Evaluating controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays; and
- Testing key controls relating to selection and implementation of material economic variables.

Test of details

Key aspects of our testing involved:

- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;
- Re-performing key aspects of the Bank's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Re-performing key elements of the Bank's model calculations and assessing performance results for accuracy; and
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

Use of specialists

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include:

- We involved our Information Risk Management specialists to test controls over the new IT systems, recording of data in source systems and transfer of data between source systems and the impairment models;
- We involved our Financial Risk Management specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling by reference to our own knowledge and external market data and economic conditions. This typically included challenging key assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, recovery rates, use macro-economic variables and probability weighted outcomes.

Disclosures

We assessed the adequacy of the Bank's disclosure in relation to use of significant estimates and judgement and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 that we have obtained prior to the date of this auditors' 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 financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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 regulatory requirements

As required by the 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 financial statements are in agreement therewith;
- b) the financial information contained in the board of directors report is consistent with the financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

KPMG Fakhro
Partner registration number 83
12 February 2020


National Bank of Bahrain B.S.C.

Statement of Financial Position

As at 31 December	Note	2019		2018	
		BD millions	US\$ millions	BD millions	US\$ millions
Assets					
Cash and balances at central banks	4	110.6	294.1	107.3	285.4
Treasury bills	5	425.3	1,131.1	387.1	1,029.5
Placements with banks and other financial institutions	6	228.8	608.5	259.7	690.6
Loans and advances	7	1,213.7	3,227.9	1,190.1	3,165.2
Investment securities	8	1,070.7	2,847.6	1,132.2	3,011.2
Investment in associates	9	53.6	142.6	51.6	137.2
Interest receivable and other assets	10	60.0	159.6	50.9	135.4
Property and equipment	18	31.8	84.6	16.6	44.1
Total assets		3,194.5	8,496.0	3,195.5	8,498.6
Liabilities					
Due to banks and other financial institutions	11	396.6	1,054.8	381.4	1,014.4
Borrowings under repurchase agreements	12	108.4	288.3	103.9	276.3
Customer deposits	13	2,094.0	5,569.1	2,190.6	5,826.1
Interest payable and other liabilities	14	63.2	168.1	43.8	116.5
Total liabilities		2,662.2	7,080.3	2,719.7	7,233.3
Equity					
Share capital	19	154.3	410.4	140.3	373.1
Shares unallocated under share incentive scheme	19	(1.4)	(3.7)	(1.5)	(4.0)
Share premium	20	6.3	16.7	5.0	13.2
Statutory reserve	20	77.1	205.0	70.1	186.4
General reserve	20	32.4	86.2	32.4	86.2
Other reserves and retained earnings	20	263.6	701.1	229.5	610.4
Total equity		532.3	1,415.7	475.8	1,265.3
Total liabilities and equity		3,194.5	8,496.0	3,195.5	8,498.6

The consolidated financial statements were approved by the board of directors on 12 February 2020 and signed on its behalf by:


Farouk Yousuf Khalil Almoayyed
Chairman


Dr. Essam Abdulla Fakhro
Deputy Chairman


Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 44 are an integral part of these financial statements.

National Bank of Bahrain B.S.C.


Statement of Profit or Loss

For the year ended 31 December

		2019		2018	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
Interest income	22	144.3	383.8	126.8	337.3
Interest expense	22	(51.0)	(135.6)	(39.6)	(105.4)
Net interest income		93.3	248.2	87.2	231.9
Net fee and commission income	23	13.7	36.4	11.8	31.5
Other income	24	18.8	50.0	18.4	48.8
Total operating income		125.8	334.6	117.4	312.2
Staff expenses	25	27.2	72.3	26.0	69.1
Other operating expenses	26	18.0	47.9	15.8	42.0
Total operating expenses		45.2	120.2	41.8	111.1
Profit before impairment provisions		80.6	214.4	75.6	201.0
Net impairment provisions	15	(6.4)	(17.0)	(5.6)	(14.9)
Profit for the year		74.2	197.4	70.0	186.1
Basic and diluted earnings per share	39	49 fils	13 cents	46 fils	12 cents


Farouk Yousuf Khalil Almoayyed
Chairman


Dr. Essam Abdulla Fakhro
Deputy Chairman


Jean-Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 44 are an integral part of these financial statements.

National Bank of Bahrain B.S.C.

Statement of Comprehensive Income

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	74.2	197.4	70.0	186.1
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss:				
Fair value through other comprehensive income (debt investments)				
Net change in fair value	13.8	36.7	(8.9)	(23.7)
Net amount transferred to profit or loss	(5.6)	(14.9)	-	-
Items that will not be reclassified to profit or loss:				
Net change in fair value of equity FVOCI investments	8.6	22.9	5.5	14.6
Total other comprehensive income / (loss) for the year	16.8	44.7	(3.4)	(9.1)
Total comprehensive income for the year	91.0	242.1	66.6	177.0

The accompanying notes 1 to 44 are an integral part of these financial statements.

National Bank of Bahrain B.S.C.

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings			Total	
						Fair value reserve	Donation and charity reserve	Retained earnings	BD millions	US\$ millions
Balance at 31 December 2018	140.3	(1.5)	5.0	70.1	32.4	10.0	17.5	202.0	475.8	1,265.3
2018 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(34.8)	(34.8)	(92.5)
Bonus shares issued at 10%	14.0	(0.2)	-	-	-	-	-	(13.8)	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.5	(3.5)	-	-
Transfer to statutory reserve	-	-	-	7.0	-	-	-	(7.0)	-	-
Balance after 2018 appropriations	154.3	(1.7)	5.0	77.1	32.4	10.0	21.0	142.9	441.0	1,172.8
Employee shares allocated	-	0.3	1.3	-	-	-	-	-	1.6	4.3
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	74.2	74.2	197.3
Other comprehensive income	-	-	-	-	-	16.8	-	-	16.8	44.7
Total comprehensive income for the year	-	-	-	-	-	16.8	-	74.2	91.0	242.0
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.3)	-	(1.3)	(3.4)
Balance at 31 December 2019 (notes 19-21)	154.3	(1.4)	6.3	77.1	32.4	26.8	19.7	217.1	532.3	1,415.7

The appropriations for the year 2019 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 38.7 million for cash dividend at 25% (2018: 25%) and BD 3.7 million for donations and contributions. The Board of Directors has also proposed a one for ten bonus issue through utilisation of BD 15.5 million from retained earnings and the transfer of BD 8.0 million from retained earnings to the statutory reserve.

For the year ended 31 December 2018

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings			Total	
						Fair value reserve	Donation and charity reserve	Retained earnings	BD millions	US\$ millions
Balance at 31 December 2017	127.5	(1.7)	4.0	63.8	32.4	26.1	16.0	179.8	447.9	1,191.3
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	-	-	(12.7)	-	9.9	(2.8)	(7.4)
Impact of adopting IFRS 9 by associates	-	-	-	-	-	-	-	(4.1)	(4.1)	(10.9)
Balance at 1 January 2018	127.5	(1.7)	4.0	63.8	32.4	13.4	16.0	185.6	441.0	1,173.0
2017 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(31.5)	(31.5)	(83.8)
Bonus shares issued at 10%	12.8	(0.1)	-	-	(12.8)	-	-	0.1	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.1	(3.1)	-	-
Transfer to general reserve	-	-	-	-	19.1	-	-	(19.1)	-	-
Transfer to statutory reserve	-	-	-	6.3	(6.3)	-	-	-	-	-
Balance after 2017 appropriations	140.3	(1.8)	4.0	70.1	32.4	13.4	19.1	132.0	409.5	1,089.2
Employee shares allocated	-	0.3	1.0	-	-	-	-	-	1.3	3.7
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	70.0	70.0	186.1
Other comprehensive income	-	-	-	-	-	(3.4)	-	-	(3.4)	(9.1)
Total comprehensive income for the year	-	-	-	-	-	(3.4)	-	70.0	66.6	176.9
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.6)	-	(1.6)	(4.5)
Balance at 31 December 2018 (notes 19-21)	140.3	(1.5)	5.0	70.1	32.4	10.0	17.5	202.0	475.8	1,265.3

Unallocated shares are shares that remain unallocated to employees under the employee share incentive scheme.

The accompanying notes 1 to 44 are an integral part of these financial statements.

National Bank of Bahrain B.S.C.

Statement of Cash Flows

For the year ended 31 December

		2019		2018	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
Cash flows from operating activities					
Profit for the year		74.2	197.4	70.0	186.1
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation		2.9	7.7	2.0	5.4
Amortisation of right-of-use leased asset		1.7	4.5	-	-
Net impairment provisions	15	6.4	17.0	5.6	14.9
Share of profit of associates		(4.1)	(10.9)	(5.4)	(14.4)
Profit for the year after adjustments		81.1	215.7	72.2	192.0
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		(0.1)	(0.2)	7.8	20.7
Treasury bills		17.6	46.8	52.1	138.6
Placements with banks and other financial institutions		(3.2)	(8.5)	2.6	6.8
Loans and advances		(31.4)	(83.5)	27.7	73.7
Investment securities		99.2	263.8	(75.0)	(199.1)
Interest receivable and other assets		(16.6)	(44.1)	(0.7)	(1.8)
Due to banks and other financial institutions		15.2	40.4	(2.6)	(7.0)
Borrowings under repurchase agreements		4.5	12.0	36.1	96.0
Customer deposits		(96.6)	(256.9)	25.4	67.5
Interest payable and other liabilities		7.9	21.0	7.7	20.3
Net cash from operating activities		77.6	206.5	153.3	407.7
Cash flows from investing activities					
Dividend received from associates		1.1	2.9	1.2	3.1
Capital reduction of associates		1.0	2.7	-	-
Purchase of property and equipment, net		(15.6)	(41.5)	(5.7)	(15.2)
Net cash used in investing activities		(13.5)	(35.9)	(4.5)	(12.1)
Cash flows from financing activities					
Dividends paid		(35.1)	(93.3)	(31.5)	(83.9)
Donations and charities paid		(1.3)	(3.4)	(1.6)	(4.3)
Payment of lease liabilities		(3.0)	(8.0)	-	-
Net cash used in financing activities		(39.4)	(104.7)	(33.1)	(88.2)
Net increase in cash and cash equivalents		24.7	65.9	115.7	307.4
Cash and cash equivalents at 1 January	4	310.9	826.5	195.2	519.1
Cash and cash equivalents at 31 December	4	335.6	892.4	310.9	826.5

The accompanying notes 1 to 44 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1. REPORTING ENTITY

The National Bank of Bahrain B.S.C., a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by the Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

The Bank's registered address is National Bank of Bahrain B.S.C., P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US Dollar at the rate of BD 0.376 to US\$ 1 (2018: BD 0.376 to US\$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments classified as fair value through profit or loss, fair value through other comprehensive income investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

i) New standards, amendments and interpretations effective from 1 January 2019:

A. IFRS 16 'Leases'

The Bank has applied IFRS 16 with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognised in the financial statements as at 31 December 2018.

As permitted by the transitional provisions of IFRS 16, the Bank elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Set out below are the details of the specific IFRS 16 accounting policies applied in the current period and the IFRS 16 transition impact disclosures for the Bank.

i) Changes in accounting policies

At the inception of the contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Changes in accounting policies (Continued)

- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - the Bank has the right to operate the asset; or
 - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

Measurement

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Bank's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Changes in accounting policies (Continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) Impact of adopting IFRS 16

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in property and equipment by BD 5.5 million and an increase in interest payable and other liabilities by BD 5.5 million:

	Property and equipment	Interest payable and other liabilities
Closing balance under IAS 17 (31 December 2018)	16.6	43.8
<u>Impact on remeasurements:</u>		
Right-of-use asset	5.5	-
Lease liability	-	5.5
	<u>5.5</u>	<u>5.5</u>
Opening balance under IFRS 16 on date of initial application of 1 January 2019	<u>22.1</u>	<u>49.3</u>

c. Foreign currencies

i) Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in other income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss, except for differences arising on the retranslation of fair value through other comprehensive income equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

ii) Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at the spot exchange rate at the reporting date. The income and expenses of these overseas branches for the year are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of the standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value of the financial instruments.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss.

The Bank has an internal credit rating model that uses 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. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank also uses external credit ratings for certain exposures.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and includes forward-looking information.

In determining whether credit risk has increased significantly since initial recognition the following criteria are considered:

- I. Downgrade in risk rating according to the approved ECL policy.
- II. Facilities restructured during the previous twelve months.
- III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in applicable circumstances.

The Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Accounting for income and expenses (Continued)

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability is unfunded and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i. Recognition and initial measurement

The Bank initially recognised loans and advances and deposits on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost 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 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 (SPPI).

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 (SPPI).

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. 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 Bank 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.

Business model assessment

The Bank 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, maintaining practical interest rate profile, realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- 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 Bank'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.

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. 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.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

The Bank classifies its financial liabilities, other than financial guarantees, as measured at amortised cost.

iii. Reclassifications

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

iv. Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest rate method.

v. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

vi. Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

The Bank designated certain derivatives as hedging instruments to hedge variability in fair values associated with interest rates.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

vii. Repos and reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as borrowings under repurchase agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in placements with banks and other financial institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective interest rate method.

viii. Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

ix. Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities the fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

x. Identification and measurement of impairment

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

- Financial assets including loans and advances, debt instruments and placements;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank 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.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial assets and liabilities (Continued)

xi. Derecognition of financial assets and liabilities

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

- The rights to receive cash flows from the asset have expired; or
- The Bank 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 Bank has transferred substantially all the risks and rewards of the asset; or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset 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 the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of an existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

j. Other provisions

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

k. Off-setting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

l. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives and assets classified as fair value through profit or loss are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative and assets classified as fair value through profit or loss transactions are recognised on trade date, representing the date the Bank contracts to purchase or sell.

Notes to the Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of the Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary bonus scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices regulation of the Central Bank of Bahrain.

o. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability

The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. The Bank's Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of their carrying amount and their fair value less costs to sell and are reported within other assets.

s. Assets under management

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of a trust or other institution. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

Notes to the Financial Statements

For the year ended 31 December 2019

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The overall authority for risk management in the Bank is vested with the Board of Directors. The Board authorises appropriate credit, liquidity, market, and operational risk policies based on the recommendation of the Board Risk Committee and Management of the Bank. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. The Risk Group functions independent of the business units and reports directly to the Board Risk Committee and administratively to the Chief Executive Officer.

The Board Risk Committee is responsible for identifying and monitoring risks within the framework of the risk appetite established by the Board of Directors including reviewing and reporting its conclusions and recommendations to the Board on the Bank's current and future risk appetite, the Bank's risk management framework as well as the Bank's risk culture.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Credit appraisal is based on the financial position of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties.

The Credit Risk Department of the Bank independently analyses risks and puts forth its recommendations prior to approval by the appropriate authorities for facilities above a specified threshold. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and annual review process supports the identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies as part of the appraisal process while considering exposures to rated entities.

Notes to the Financial Statements

For the year ended 31 December 2019

3. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset and liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity.

Market risk

Market risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardised method under Basel III for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

Operational risk

Operational risk is the risk of monetary loss on account of human error, fraud, system failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks. Additionally, new products and services are reviewed and assessed for operational risks prior to their implementation.

Capital management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on the return on shareholder's equity is also recognised, and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Notes to the Financial Statements for the year ended 31 December 2019

4 CASH AND CASH EQUIVALENTS

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Cash and balances at central banks	110.6	294.1	107.3	285.4
Less: mandatory cash reserves	(75.6)	(201.1)	(75.5)	(200.8)
	35.0	93.0	31.8	84.6
Treasury bills (less than 3 months)	75.0	199.5	19.3	51.2
Placements with banks (less than 3 months)	225.6	599.9	259.8	690.7
	<u>335.6</u>	<u>892.4</u>	<u>310.9</u>	<u>826.5</u>

5 TREASURY BILLS

Treasury bills are short-term in nature and include treasury bills, Islamic Sukuks and certificate of deposits issued by the Government of Bahrain, the Government of Saudi Arabia and the Central Bank of UAE.

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Government of Bahrain	410.2	1,090.9	377.1	1,002.9
Government of Saudi Arabia	10.0	26.6	10.0	26.6
Central Bank of UAE	5.1	13.6	-	-
	<u>425.3</u>	<u>1,131.1</u>	<u>387.1</u>	<u>1,029.5</u>

6 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Placements with banks	212.8	566.0	257.8	685.5
Placements with other financial institutions	16.0	42.5	1.9	5.1
	<u>228.8</u>	<u>608.5</u>	<u>259.7</u>	<u>690.6</u>

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Term placements	194.3	516.8	244.5	650.2
Current and call accounts	19.0	50.5	15.2	40.4
Reverse repos	15.5	41.2	-	-
	<u>228.8</u>	<u>608.5</u>	<u>259.7</u>	<u>690.6</u>

7 LOANS AND ADVANCES

a) As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Loans and advances to non-banks	1,230.3	3,272.0	1,157.3	3,078.1
Loans and advances to banks	31.5	83.8	82.2	218.5
Less: provision for impairment	(48.1)	(127.9)	(49.4)	(131.4)
	<u>1,213.7</u>	<u>3,227.9</u>	<u>1,190.1</u>	<u>3,165.2</u>

b) As at 31 December 2019, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 461.9 million (US\$ 1,228.5 million) [31 December 2018: BD 466.2 million (US\$ 1,239.9 million)].

Notes to the Financial Statements for the year ended 31 December 2019

7 LOANS AND ADVANCES (Continued)

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are immediately defined as non-performing. Any interest accrued is reversed and future interest is only recognised on a cash basis. The ageing schedule of non-performing loans and advances based on the time period since the last repayment of principal or interest by the customer, is as follows:

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Up to 3 months	<u>44.6</u>	<u>118.6</u>	<u>53.5</u>	<u>142.3</u>
Over 3 months to 1 year	34.2	91.0	12.5	33.2
1 to 3 years	7.2	19.1	26.1	69.4
Over 3 years	<u>9.8</u>	<u>26.1</u>	<u>9.2</u>	<u>24.5</u>
	<u>51.2</u>	<u>136.2</u>	<u>47.8</u>	<u>127.1</u>
Total	<u>95.8</u>	<u>254.8</u>	<u>101.3</u>	<u>269.4</u>
Fair market value of collateral	94.1	250.3	132.8	353.2
Stage 3 provisions	(36.3)	(96.5)	(36.5)	(97.1)

In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling off period of not less than 1 year from the date of becoming performing.

Loans that are past due below 90 days but not impaired are those for which contractual interest or principal payments are past due but the Bank believes that specific impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2019, loans past due below 90 days but not impaired amounted to BD 5.6 million (US\$ 14.9 million) [31 December 2018: BD 11.3 million (US\$ 29.9 million)].

d) 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 de-recognised and the renegotiated loan recognised as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. During 2019, credit facilities amounting to BD 20.2 million (US\$ 53.7 million) were restructured [2018: BD 3.7 million (US\$ 9.8 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Bank's impairment charge or the future earnings. In accordance with the Central Bank of Bahrain guidelines, loans that have been restructured should be reported as stage 2 for not less than 1 year from the date of restructuring.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and /or shares and sovereign / bank guarantees. Some of these collaterals are held through a special purpose vehicle. As at 31 December 2019, loans and advances amounting to BD 281.7 million (US\$ 749.2 million) [31 December 2018: BD 292.1 million (US\$ 776.8 million)] were fully collateralised and loans and advances amounting to BD 63.5 million (US\$ 168.9 million) [31 December 2018: BD 44.4 million (US\$ 118.1 million)] were partly collateralised with a collateral value of BD 12.2 million (US\$ 32.4 million) [31 December 2018: BD 19.2 million (US\$ 51.0 million)].

Notes to the Financial Statements for the year ended 31 December 2019

7 LOANS AND ADVANCES (Continued)

f) Exposure to credit risk

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
1. Impaired (stage 3)				
Substandard	85.0	226.1	91.1	242.2
Doubtful	2.1	5.6	1.9	5.1
Loss	8.7	23.1	8.3	22.1
Gross amount	95.8	254.8	101.3	269.4
Stage 3 provisions	(36.3)	(96.5)	(36.5)	(97.1)
Impaired (stage 3) carrying amount	59.5	158.3	64.8	172.3
2. Past due below 90 days but not impaired				
Gross amount	5.6	14.9	11.3	30.1
Stage 1 or 2 provision	(1.9)	(5.1)	(0.2)	(0.5)
Past due but not impaired carrying amount	3.7	9.8	11.1	29.6
3. Neither past due nor impaired by internal rating				
Stage 1				
Rating grades 1 to 4	205.6	546.8	133.7	355.6
Rating grades 5 to 8	261.7	696.0	371.9	989.1
Rating grades 9 to 13	190.7	507.2	117.5	312.5
Unrated	472.1	1,255.5	460.8	1,225.5
Gross amount	1,130.1	3,005.5	1,083.9	2,882.7
Stage 1 provisions	(7.5)	(19.9)	(6.6)	(17.6)
Carrying amount of stage 1	1,122.6	2,985.6	1,077.3	2,865.1
Stage 2				
Rating grades 1 to 4	3.0	8.0	-	-
Rating grades 5 to 8	6.6	17.5	4.5	12.0
Rating grades 9 to 13	15.1	40.2	31.4	83.5
Unrated	5.6	14.9	7.1	18.9
Gross amount	30.3	80.6	43.0	114.4
Stage 2 provisions	(2.4)	(6.4)	(6.1)	(16.2)
Carrying amount of stage 2	27.9	74.2	36.9	98.2
Neither past due nor impaired carrying amount	1,150.5	3,059.8	1,114.2	2,963.3
Total carrying amount	1,213.7	3,227.9	1,190.1	3,165.2

Ratings 1 to 13 represent performing loans. Unrated includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

By staging

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total	Total
	BD millions	BD millions	BD millions	BD millions	US\$ millions
Loans and advances	1,130.5	35.5	95.8	1,261.8	3,355.8
Less: impairment provision	(7.5)	(4.3)	(36.3)	(48.1)	(127.9)
Net loans and advances	1,123.0	31.2	59.5	1,213.7	3,227.9
As at 31 December 2018					
	Stage 1	Stage 2	Stage 3	Total	Total
	BD millions	BD millions	BD millions	BD millions	US\$ millions
Loans and advances	1,085.5	52.7	101.3	1,239.5	3,296.5
Less: impairment provision	(6.6)	(6.3)	(36.5)	(49.4)	(131.4)
Net loans and advances	1,078.9	46.4	64.8	1,190.1	3,165.2

g) Impairment provisions on loans and advances

2019	Stage 1	Stage 2	Stage 3	Total	Total
	BD millions	BD millions	BD millions	BD millions	US\$ millions
Impairment at 1 January 2019	6.6	6.3	36.5	49.4	131.4
Net transfer between stages	3.4	(6.1)	2.7	-	-
Write off during the year	-	-	(6.8)	(6.8)	(18.1)
Charge for the year (net)	(2.5)	4.1	3.9	5.5	14.6
Impairment at 31 December 2019	7.5	4.3	36.3	48.1	127.9
2018					
	Stage 1	Stage 2	Stage 3	Total	Total
	BD millions	BD millions	BD millions	BD millions	US\$ millions
Impairment at 1 January 2018	9.4	1.6	31.4	42.4	112.8
Net transfer between stages	(1.2)	(0.4)	1.6	-	-
Write off during the year	-	-	(2.2)	(2.2)	(5.9)
Charge for the year (net)	(1.6)	5.1	5.7	9.2	24.5
Impairment at 31 December 2018	6.6	6.3	36.5	49.4	131.4

Notes to the Financial Statements for the year ended 31 December 2019

8 INVESTMENT SECURITIES

i. Composition

Investment securities comprise the following:

As at 31 December 2019	FVTPL BD millions	FVOCI BD millions	Amortised cost BD millions	Total BD millions	Total US\$ millions
Quoted investments:					
Debt instruments	-	238.8	-	238.8	635.1
Equity instruments	-	52.2	-	52.2	138.8
Total quoted investments	-	291.0	-	291.0	773.9
Unquoted investments:					
Debt instruments	-	-	767.4	767.4	2,041.0
Equity instruments	1.2	11.1	-	12.3	32.7
Total unquoted investments	1.2	11.1	767.4	779.7	2,073.7
Total investment securities	1.2	302.1	767.4	1,070.7	2,847.6

As at 31 December 2018	FVTPL BD millions	FVOCI BD millions	Amortised cost BD millions	Total BD millions	Total US\$ millions
Quoted investments:					
Debt instruments	-	301.6	-	301.6	802.1
Equity instruments	-	43.6	-	43.6	115.9
Total quoted investments	-	345.2	-	345.2	918.0
Unquoted investments:					
Debt instruments	-	-	775.5	775.5	2,062.4
Equity instruments	0.4	11.1	-	11.5	30.8
Total unquoted investments	0.4	11.1	775.5	787.0	2,093.2
Total investment securities	0.4	356.3	775.5	1,132.2	3,011.2

ii. Breakdown between repricing nature of debt instruments

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Fixed rate debt instruments	459.3	1,221.6	484.0	1,287.1
Floating rate debt instruments	546.9	1,454.5	593.1	1,577.4
	1,006.2	2,676.1	1,077.1	2,864.5

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
AAA	-	-	13.8	36.7
AA	8.8	23.4	12.9	34.3
A	10.4	27.7	11.8	31.4
BBB	-	-	3.7	9.8
BB	7.6	20.2	7.0	18.6
B	969.0	2,577.1	1,014.9	2,699.1
Unrated	10.4	27.7	13.0	34.6
	1,006.2	2,676.1	1,077.1	2,864.5

The debt instruments rated B primarily represent instruments issued by sovereigns.

As at 31 December 2019, all debt instruments were classified as stage 1.

iv. Investments designated as fair value through profit or loss

The Bank holds investment in managed funds designated as fair value through profit or loss amounting to BD 1.2 million (US\$ 3.2 million) [2018: BD 0.4 million (US\$ 1.1 million)]

Notes to the Financial Statements for the year ended 31 December 2019

9 INVESTMENT IN ASSOCIATES

The Bank has a 29.1% shareholding in Bahrain Islamic Bank B.S.C. (BISB). BISB is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities. Further details on the increase in the Bank's shareholding in BISB from 29.1% as reported at 31 December 2019 to 78.8% in January 2020 is included in note 44.

The Bank has a 34.8% interest in The Benefit Company B.S.C. (c) which is incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain cheque truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has a 24.3% interest in the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain rulebook volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investor confidence in the market's listed securities.

The Bank has recognised the above investments as equity accounted associates in accordance with IAS 28 'Investment in associates'.

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Opening balance	51.6	137.2	51.6	137.2
Impact of adopting IFRS 9 by associates	-	-	(4.1)	(10.9)
At 1 January	51.6	137.2	47.5	126.3
Share of profit	4.1	10.9	5.4	14.4
Dividends received	(1.1)	(2.9)	(1.2)	(3.2)
Other movements	(1.0)	(2.6)	(0.1)	(0.3)
At 31 December	53.6	142.6	51.6	137.2

Shares of Bahrain Islamic Bank are listed on the Bahrain Bourse and the quoted price on 31 December 2019 is BD 0.120 (31 December 2018: BD 0.130). The estimated fair value of the investment based on this price is BD 37.1 million (US\$ 98.7 million) [(31 December 2018: BD 40.2 million) (US\$ 106.9 million)], which approximates its carrying value.

10 INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Interest receivable	26.4	70.2	28.9	76.9
Accounts receivable and prepayments	18.3	48.7	6.4	17.0
Positive fair value of derivatives	8.2	21.8	10.2	27.1
Others	7.1	18.9	5.4	14.4
	60.0	159.6	50.9	135.4

Others include BD 4.7 million (US\$ 12.5 million) [31 December 2018: BD 5.2 million (US\$ 14.0 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of their carrying value and fair value less cost to sell.

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Term deposits	343.8	914.4	350.9	933.2
Current and call accounts	52.8	140.4	30.5	81.2
	396.6	1,054.8	381.4	1,014.4

As at 31 December 2019 and 31 December 2018 the Bank was a net contributor into the treasury bill and interbank money markets.

12 BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amount to BD 108.4 million (US\$ 288.3 million) [31 December 2018: BD 103.9 million (US\$ 276.3 million)] and the fair value of the investment securities pledged as collateral amounts to BD 135.3 million (US\$ 359.8 million) [31 December 2018: BD 119.4 million (US\$ 317.6 million)].

13 CUSTOMER DEPOSITS

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Repayable on demand or at short notice	1,129.2	3,003.2	1,181.5	3,142.4
Term deposits	964.8	2,565.9	1,009.1	2,683.7
	2,094.0	5,569.1	2,190.6	5,826.1

Notes to the Financial Statements for the year ended 31 December 2019

14 INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Interest payable	24.0	63.8	23.0	61.2
Negative fair value of derivatives	13.8	36.7	0.7	1.9
Employee benefits	9.7	25.8	10.3	27.4
Creditors and accounts payable	5.1	13.6	3.2	8.5
Lease liabilities	3.8	10.1	-	-
Deferred income	3.7	9.8	3.1	8.2
Others	3.1	8.3	3.5	9.3
	<u>63.2</u>	<u>168.1</u>	<u>43.8</u>	<u>116.5</u>

Lease liabilities relate to the right-of-use of leased property. The maturity analysis of its contractual undiscounted cash flows are as follows:

	2019	
	BD millions	US\$ millions
Less than 1 year	1.2	3.2
1 to 3 years	2.9	7.7
3 to 5 years	0.4	1.1
Total undiscounted lease liabilities	<u>4.5</u>	<u>12.0</u>
Lease liabilities included in the statement of financial position	<u>3.8</u>	<u>10.1</u>

15 NET IMPAIRMENT PROVISIONS

As at 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Loans and advances (note 7g)	5.5	14.6	9.2	24.5
Loan commitments and guarantees	0.9	2.4	(2.3)	(6.1)
Investment securities – (debt instruments)	-	-	(1.3)	(3.5)
	<u>6.4</u>	<u>17.0</u>	<u>5.6</u>	<u>14.9</u>

16 CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the potential future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counterparties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

As at 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Contingent liabilities				
Liabilities on confirmed documentary credits	36.0	95.7	27.9	74.2
Guarantees :				
Counter guaranteed by banks	34.4	91.5	39.9	106.1
Others	<u>135.0</u>	<u>359.0</u>	<u>112.0</u>	<u>297.9</u>
	<u>205.4</u>	<u>546.2</u>	<u>179.8</u>	<u>478.2</u>
Banking commitments				
Undrawn loan commitments	200.2	532.4	15.1	40.2
Forward commitments:				
Interbank placing	-	-	18.8	50.0
	<u>200.2</u>	<u>532.4</u>	<u>33.9</u>	<u>90.2</u>
	<u>405.6</u>	<u>1,078.6</u>	<u>213.7</u>	<u>568.4</u>

Notes to the Financial Statements for the year ended 31 December 2019

17 DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset / liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract / notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

In BD millions	Notional principal amount		Replacement cost		Fair value	
As at 31 December	2019	2018	2019	2018	2019	2018
Interest rate contracts						
Interest rate swaps	985.9	630.2	6.8	4.2	6.8	4.1
Foreign exchange contracts						
Outright spot and forward contracts	139.0	201.2	0.2	1.0	0.2	0.7
Swap agreements	1,552.2	1,874.1	3.1	5.0	3.0	4.7
	1,691.2	2,075.3	3.3	6.0	3.2	5.4
Total	2,677.1	2,705.5	10.1	10.2	10.0	9.5
Total in US\$ millions	7,119.9	7,195.5	26.9	27.1	26.6	25.3

Replacement costs by industry and geographical region are presented in note 32.

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

In BD millions	2019			2018		
As at 31 December	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
Interest rate contracts						
Interest rate swaps	155.4	830.5	985.9	-	630.2	630.2
Foreign exchange contracts						
Outright spot and forward contracts	129.0	10.0	139.0	191.1	10.0	201.2
Swap agreements	1,542.7	9.5	1,552.2	1,874.1	-	1,874.1
	1,671.7	19.5	1,691.2	2,065.2	10.0	2,075.3
Total	1,827.1	850.0	2,677.1	2,065.2	640.2	2,705.5
Total in US\$ millions	4,859.3	2,260.6	7,119.9	5,492.7	1,702.7	7,195.4

Notes to the Financial Statements for the year ended 31 December 2019

18 PROPERTY AND EQUIPMENT

	Leased property right-of-use BD millions	Land BD millions	Buildings BD millions	Furniture and equipment BD millions	Total BD millions	US\$ millions
Cost	5.5	0.8	22.3	30.9	59.5	158.3
Accumulated depreciation / amortisation	(1.7)	-	(15.5)	(10.5)	(27.7)	(73.7)
Net book value at 31 December 2019	3.8	0.8	6.8	20.4	31.8	84.6
Net book value at 31 December 2018	-	1.0	7.4	8.2	16.6	44.1

The depreciation charge for 2019 amounted to BD 2.9 million (US\$ 7.7 million) [2018: BD 2.0 million (US\$ 5.4 million)]. The above includes capital work in progress at cost, amounting to BD 9.5 million (US\$ 25.3 million) [2018: BD 1.4 million (US\$ 3.7 million)]

At 31 December 2019 commitments for capital expenditure amounted to BD 5.3 million (US\$ 14.1 million) [31 December 2018: BD 1.4 million (US\$ 3.7million)].

Right-of-use of leased property relates to IFRS 16 which has been adopted from 1 January 2019.

19 SHARE CAPITAL

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Authorised share capital				
2,500,000,000 (2018: 1,500,000,000) ordinary shares of 100 fils each	250.0	664.9	150.0	398.9
Issued and fully paid share capital				
At 1 January 1,402,993,257 ordinary shares of 100 fils each (at 1 January 2018: 1,275,448,416 shares of 100 fils each)	140.3	373.1	127.5	339.2
Bonus issue (one for ten shares held)	14.0	37.3	12.4	33.9
At 31 December 2019 1,543,292,583 ordinary shares of 100 fils each (at 31 December 2018: 1,402,993,257 shares of 100 fils each)	154.3	410.4	140.3	373.1

The shareholders annual general ordinary and extra ordinary meetings for the year 2018 held on 6 March 2019 approved the increase of the authorised share capital from 1,500 million ordinary shares to 2,500 million ordinary shares of 100 fils each, and approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held and amounted to BD 14.0 million.

additional share for every ten shares held, including the additional issuance of 4.5 million shares in 2020 as a result of the acquisition of BISB. These shares will rank pari passu with all other shares for dividends and distribution subsequent to the acquisition date of BISB. The bonus issue amounting to BD 15.5 million is proposed to be made through utilisation from retained earnings. Refer to note 44 for more details on the additional issuance of shares as a result of the acquisition of BISB.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories, is shown below:

	31 December 2019			31 December 2018		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	449,986,886	1,260	29.1%	408,928,108	1,202	29.1%
1% up to less than 5%	243,477,771	9	15.8%	221,494,305	9	15.8%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	167,932,840	1	10.9%	152,666,220	1	10.9%
20% up to less than 50%	681,895,086	1	44.2%	619,904,624	1	44.2%
	1,543,292,583	1,271	100.0%	1,402,993,257	1,213	100.0%

The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

	31 December 2019			31 December 2018		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	1,479,831,190	1,188	95.9%	1,346,956,717	1,126	96.0%
Other GCC countries	63,242,081	73	4.1%	55,734,765	73	4.0%
Others	219,312	10	-	301,775	14	-
	1,543,292,583	1,271	100.0%	1,402,993,257	1,213	100.0%

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, which is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of, and entities incorporated in, the Kingdom of Bahrain.

Employee share incentive scheme

The employee share incentive scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices regulation. As a result, 19,104,000 ordinary shares amounting to BD 1.9 million were issued in 2015 to an independent party to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the scheme are entitled to cash and stock dividend and subject to malus and clawback provisions of the scheme. As at 31 December 2019 there are 13,731,251 (2018: 15,033,197) shares unallocated. These unallocated shares under the scheme are deducted from equity.

Notes to the Financial Statements for the year ended 31 December 2019

20 RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 8.0 million from retained earnings to the statutory reserve to achieve the 50 percent threshold.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of fair value through other comprehensive income. The fair value reserve also includes the Bank's share of other comprehensive income of associates.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval, an amount is transferred from the profit for the year to this donation and charity reserve. The reserve represents the amount of donations pending utilisation.

e) Share premium

Under the employee share incentive scheme, the Bank has allocated 7,862,478 ordinary shares with a nominal value of BD 0.79 million to the employees, which has resulted in share premium of BD 6.3 million.

21 APPROPRIATIONS

The appropriations relating to the year 2018 were approved at the annual general meeting held on 6 March 2019.

22 INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Loans and advances to non banks	56.6	150.5	50.7	134.9
Loans and advances to banks	3.5	9.3	5.6	14.9
Treasury bills	17.3	46.0	15.5	41.2
Placements with banks and other financial institutions	4.4	11.7	1.4	3.7
Investment securities	56.8	151.1	51.7	137.5
Derivative assets held for risk management	5.7	15.2	1.9	5.1
	<u>144.3</u>	<u>383.8</u>	<u>126.8</u>	<u>337.3</u>

b) INTEREST EXPENSE

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Customer deposits	33.7	89.6	28.0	74.5
Due to banks and other financial institutions	9.9	26.3	8.3	22.1
Borrowings under repurchase agreements	2.8	7.5	1.7	4.5
Derivative liabilities held for risk management	4.6	12.2	1.6	4.3
	<u>51.0</u>	<u>135.6</u>	<u>39.6</u>	<u>105.4</u>

23 NET FEE AND COMMISSION INCOME

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Fees and commission on loans and advances	6.8	18.1	9.1	24.3
Commission on sale of managed funds	0.2	0.5	0.2	0.5
Other fees and commission	12.0	31.9	8.4	22.4
Less: fees and commission expenses	(5.3)	(14.1)	(5.9)	(15.7)
	<u>13.7</u>	<u>36.4</u>	<u>11.8</u>	<u>31.5</u>

24 OTHER INCOME

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit on trading securities, foreign exchange and derivatives	5.0	13.3	7.5	19.9
Profit on sale of FVOCI investments	4.3	11.4	-	-
Share of profit of associates	4.1	10.9	5.4	14.4
Dividend income	3.2	8.5	3.4	9.0
Gain on fair value through profit or loss investments	0.2	0.6	0.8	2.1
Other income	2.0	5.3	1.3	3.4
	<u>18.8</u>	<u>50.0</u>	<u>18.4</u>	<u>48.8</u>

Notes to the Financial Statements for the year ended 31 December 2019

25 STAFF EXPENSES

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Salaries, allowances and bonuses	21.4	56.9	20.4	54.1
Social security and gratuity	1.8	4.8	2.0	5.3
Housing and other benefits	3.5	9.3	3.0	8.0
Others	0.5	1.3	0.6	1.7
	27.2	72.3	26.0	69.1

26 OTHER OPERATING EXPENSES

For the year ended 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Premises expenses	3.3	8.8	2.7	7.2
Depreciation	2.9	7.7	2.0	5.4
Professional fees	2.1	5.6	2.3	6.1
Equipment expenses	2.0	5.3	1.5	4.0
Communication expenses	1.6	4.3	1.2	3.2
Deposit protection scheme expenses	1.4	3.7	1.4	3.7
Advertising and public relations expenses	1.4	3.7	1.4	3.7
Other expenses	3.3	8.8	3.3	8.8
	18.0	47.9	15.8	42.0

27 NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
US Dollar (long position) - unhedged	67.1	178.5	145.4	386.7
Saudi Riyal (long position) - unhedged	25.9	68.9	23.7	62.9
UAE Dirhams (long position) - unhedged	11.9	31.6	19.0	50.5

All of the above currencies have a fixed rate of exchange against the US Dollar. The Bank did not have any significant net open positions as at 31 December 2019 or 31 December 2018.

28 RELATED PARTIES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to this position. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties are as below:

The Bank qualifies as a government related entity under the definitions provided in IAS 24 as its significant shareholders is government owned. In addition to the government exposures reported below, in its normal course of business, the bank provides commercial lending, liquidity management and other banking services to, and also avails services from, various semi governmental organisations and government owned companies in the Kingdom of Bahrain.

	Major shareholder and related entities		Directors and key management personnel		Associates	
	2019 BD millions	2018 BD millions	2019 BD millions	2018 BD millions	2019 BD millions	2018 BD millions
As at 31 December						
Loans and advances	264.2	162.9	5.8	7.1	-	-
Treasury bills and investment securities	1,385.4	1,397.0	-	-	53.6	51.6
Customer deposits	122.3	186.4	18.4	43.7	6.5	9.3
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	194.1	48.6	13.7	12.2	-	-
For the year ended 31 December						
Loans advanced	265.5	98.9	2.2	1.9	-	-
Loans repaid	353.2	81.5	1.9	4.2	-	38.8
Net increase / (decrease) in overdrafts	189.0	(105.7)	1.3	5.2	-	-
Treasury bills, bonds and equities purchased	1,114.2	916.0	-	-	-	-
Treasury bills, bonds and equities matured/sold	1,125.8	872.8	-	-	-	-
Capital expenditures	3.8	-	-	-	-	-
Interest income	70.5	74.6	0.8	0.6	-	0.5
Interest expense	2.0	1.7	0.1	0.6	-	-
Share of profit of associates	-	-	-	-	4.1	5.4
Dividend Income	-	0.4	-	-	-	-
Directors remuneration and sitting fees	0.2	0.2	0.3	0.3	-	-
Short term employee benefits	-	-	4.4	3.2	-	-
Post employment retirement benefits	-	-	0.3	0.3	-	-
Other operating expenses	1.9	-	0.5	-	0.8	-

During the year, net provision reversal of BD 4.6 million (US\$ 12.2 million) [2018: BD 4.4 million provision charge (US\$ 11.7 million)] have been recorded against outstanding balances with related parties.

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2019 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions.

Notes to the Financial Statements for the year ended 31 December 2019

29 ASSETS UNDER MANAGEMENT

Assets managed on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2019, assets under management amounted to BD 131.5 million (US\$ 349.7 million) [31 December 2018: BD 138.1 million (US\$ 367.3 million)].

30 GEOGRAPHICAL DISTRIBUTION

In BD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2019	2018	2019	2018	2019	2018
GCC	3,082.8	3,020.5	2,530.2	2,536.8	2,191.0	2,128.9
USA	94.5	98.2	12.8	24.8	198.5	225.0
Europe	16.8	54.9	83.1	90.7	692.8	558.1
Rest of the World	0.4	21.9	36.1	67.4	0.4	7.2
	3,194.5	3,195.5	2,662.2	2,719.7	3,082.7	2,919.2

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

31 DISTRIBUTION BY SECTOR

In BD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	2019	2018	2019	2018	2019	2018
Government / sovereign	1,461.6	1,550.2	231.6	388.3	31.1	34.8
Manufacturing / trading	234.2	147.6	123.2	186.5	141.5	107.6
Banks / financial institutions	527.2	593.2	544.2	523.0	2,804.6	2,716.3
Construction	113.3	85.2	95.2	99.3	73.3	38.4
Personal	491.1	467.7	1,376.7	1,288.1	2.8	2.3
Others	367.1	351.6	291.3	234.5	29.4	19.8
	3,194.5	3,195.5	2,662.2	2,719.7	3,082.7	2,919.2

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

32 CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By industry

In BD millions	Government / sovereign		Manufacturing/	Banks/financial				
As at 31 December 2019	Bahrain	Other countries	trading	institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	80.2	-	-	-	80.2
Treasury bills	410.1	15.2	-	-	-	-	-	425.3
Placements with banks and other financial institutions	-	9.1	-	219.7	-	-	-	228.8
Loans and advances	50.1	-	226.7	62.1	112.4	490.1	272.3	1,213.7
Investment securities - debt instruments	953.3	7.6	-	38.7	-	-	6.6	1,006.2
Interest receivable and other assets	16.1	0.1	1.5	5.5	0.1	1.0	34.7	59.0
Total assets	1,429.6	32.0	228.2	406.2	112.5	491.1	313.6	3,013.2
Contingent liabilities and banking commitments	31.1	-	121.9	147.2	73.2	2.8	29.4	405.6
Derivatives (replacement cost)	2.4	-	-	7.7	-	-	-	10.1

In BD millions	Government / sovereign		Manufacturing/	Banks/financial				
As at 31 December 2018	Bahrain	Other countries	trading	institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	80.3	-	-	-	80.3
Treasury bills	387.1	-	-	-	-	-	-	387.1
Placements with banks and other financial institutions	3.8	-	-	255.9	-	-	-	259.7
Loans and advances	114.7	-	138.0	103.3	84.2	466.8	283.1	1,190.1
Investment securities - debt instruments	1,005.8	20.8	-	39.3	-	-	11.2	1,077.1
Interest receivable and other assets	17.9	0.1	1.1	5.7	0.1	0.9	23.4	49.2
Total assets	1,529.3	20.9	139.1	484.5	84.3	467.7	317.7	3,043.5
Contingent liabilities and banking commitments	34.8	-	65.4	53.8	38.4	1.5	19.8	213.7
Derivatives (replacement cost)	2.0	-	-	7.9	-	0.3	-	10.2

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counterparties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2019:

Counterparty	Counterparty type	Total exposure
Counterparty A	Sovereign	1,404.9
Counterparty B	Central Bank	214.4
Counterparty C	Corporate	86.6

Notes to the Financial Statements for the year ended 31 December 2019

32 CONCENTRATION OF CREDIT RISK (Continued)

(b) By geographical regions:

In BD millions

As at 31 December 2019	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	80.2	-	-	-	80.2
Treasury bills	425.3	-	-	-	425.3
Placements with banks and other financial institutions	212.8	10.2	5.4	0.4	228.8
Loans and advances	1,131.2	74.7	7.7	0.1	1,213.7
Investment securities	998.5	7.7	-	-	1,006.2
Interest receivable and other assets	53.6	2.0	3.4	-	59.0
Total assets	2,901.6	94.6	16.5	0.5	3,013.2
Contingent liabilities and banking commitments	405.6	-	-	-	405.6
Derivatives (replacement cost)	3.1	-	7.0	-	10.1

In BD millions

As at 31 December 2018	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	80.3	-	-	-	80.3
Treasury bills	387.1	-	-	-	387.1
Placements with banks and other financial institutions	205.1	2.5	51.5	0.6	259.7
Loans and advances	1,099.0	83.7	-	7.4	1,190.1
Investment securities	1,053.9	9.4	-	13.8	1,077.1
Interest receivable and other assets	43.3	2.6	3.2	0.1	49.2
Total assets	2,868.7	98.2	54.7	21.9	3,043.5
Contingent liabilities and banking commitments	192.4	0.1	16.2	5.0	213.7
Derivatives (replacement cost)	5.4	0.9	3.9	-	10.2

Notes to the Financial Statements for the year ended 31 December 2019

33 INTEREST RATE RISK

Interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivative positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customer deposits for which no specific contractual maturity or repricing date exists are placed in ladders based on the Bank's judgement concerning their most likely repricing behaviour.

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

In BD millions	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2019								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	110.6	110.6
Treasury bills	3.2%	154.7	93.1	177.5	-	-	-	425.3
Placements with banks and other financial institutions	2.4%	206.6	-	-	3.3	-	18.9	228.8
Loans and advances	5.1%	372.7	106.3	61.1	535.2	138.4	-	1,213.7
Investment securities	5.0%	35.3	178.2	55.7	638.6	98.4	64.5	1,070.7
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	113.6	113.6
Property and equipment	-	-	-	-	-	-	31.8	31.8
Total assets		769.3	377.6	294.3	1,177.1	236.8	339.4	3,194.5
Liabilities and equity								
Due to banks and other financial institutions	2.6%	291.3	48.6	3.8	-	-	52.9	396.6
Borrowings under repurchase agreements	2.3%	108.4	-	-	-	-	-	108.4
Customer deposits	1.6%	731.5	115.7	67.0	187.1	-	992.7	2,094.0
Interest payable and other liabilities	-	-	-	-	-	-	63.2	63.2
Equity	-	-	-	-	-	-	532.3	532.3
Total liabilities and equity		1,131.2	164.3	70.8	187.1	-	1,641.1	3,194.5
On-balance sheet interest rate sensitivity gap		(361.9)	213.3	223.5	990.0	236.8	(1,301.7)	-
Off-balance sheet interest rate gap		830.5	-	-	(679.0)	(151.5)	-	-
Cumulative interest rate sensitivity gap		468.6	681.9	905.4	1,216.4	1,301.7	-	-

Notes to the Financial Statements for the year ended 31 December 2019

33 INTEREST RATE RISK (Continued)

In BD millions	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2018								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	107.3	107.3
Treasury bills	3.6%	172.0	103.4	111.7	-	-	-	387.1
Placements with banks and other financial institutions	2.5%	244.5	-	-	-	-	15.2	259.7
Loans and advances	4.4%	364.9	61.4	130.6	510.4	122.8	-	1,190.1
Investment securities	4.8%	1.9	4.3	194.5	625.9	250.5	55.1	1,132.2
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	102.5	102.5
Property and equipment	-	-	-	-	-	-	16.6	16.6
Total assets		783.3	169.1	436.8	1,136.3	373.3	296.7	3,195.5
Liabilities and equity								
Due to banks and other financial institutions	2.2%	350.1	-	0.8	-	-	30.5	381.4
Borrowings under repurchase agreements	2.4%	103.9	-	-	-	-	-	103.9
Customer deposits	1.3%	786.0	165.0	263.8	47.9	-	927.9	2,190.6
Interest payable and other liabilities	-	-	-	-	-	-	43.8	43.8
Equity	-	-	-	-	-	-	475.8	475.8
Total liabilities and equity		1,240.0	165.0	264.6	47.9	-	1,478.0	3,195.5
On-balance sheet interest rate sensitivity gap		(456.7)	4.1	172.2	1,088.4	373.3	(1,181.3)	-
Off-balance sheet interest rate gap		630.2	-	(6.3)	(408.1)	(215.8)	-	-
Cumulative interest rate sensitivity gap		173.5	177.6	343.5	1,023.8	1,181.3	-	-

34. MARKET RISK

a) The Bank uses the standardised method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk type	2019	2018
In BD millions		
Interest rate risk	2.3	4.0
Foreign exchange risk	-	-
Total minimum capital required for market risk	2.3	4.0
Multiplier	12.5	12.5
Market risk weighted exposure under the standardised method	29.2	50.2

b) The principal risk to which the Bank portfolio is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in the market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates on the Bank's balance sheet (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2019		2018	
In BD millions	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	(1.3)	1.3	5.6	(5.6)
Average for the year	(1.4)	1.4	6.2	(6.2)
Minimum for the year	(0.7)	0.7	3.6	(3.6)
Maximum for the year	(7.0)	7.0	10.4	(10.4)

c) The Bank holds investments in quoted equities as part of investment securities. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

Notes to the Financial Statements for the year ended 31 December 2019

35 SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Retail Commercial and SMEs, Corporate Institutional and Investment Banking, Overseas Branches and Treasury Capital Markets and Wealth Management. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Retail Commercial and SMEs caters to individuals and commercial enterprises, Corporate Institutional and Investment Banking caters to governments and corporates.

The Treasury, Capital Markets, and Wealth Management SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and the Overseas Branches SBU provide various banking products and services to the Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

In BD millions	Retail, Commercial, and SMEs		Corporate, Institutional, and Investment Banking		Overseas Branches		Treasury, Capital Markets, and Wealth Management		Total	
For the year ended 31 December	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Interest income	30.9	28.3	27.3	26.1	2.7	2.4	83.4	70.0	144.3	126.8
Interest expense	(23.2)	(14.8)	(10.1)	(12.9)	(0.4)	(0.2)	(17.3)	(11.7)	(51.0)	(39.6)
Inter-segment interest income / (expense)	30.6	25.7	6.6	4.7	0.3	0.2	(37.5)	(30.6)	-	-
Net interest income	38.3	39.2	23.8	17.9	2.6	2.4	28.6	27.7	93.3	87.2
Net fee and commission and other income	7.6	8.3	8.5	2.8	1.7	1.2	14.7	17.9	32.5	30.2
Operating income	45.9	47.5	32.3	20.7	4.3	3.6	43.3	45.6	125.8	117.4
Result	22.1	24.8	23.8	7.6	0.2	0.2	36.3	41.0	82.4	73.6
Unallocated corporate expenses									(8.2)	(3.6)
Profit for the year									74.2	70.0
Other information										
As at 31 December										
Segment assets	675.1	615.5	639.4	649.1	89.1	67.0	1,790.9	1,863.9	3,194.5	3,195.5
Segment liabilities and Equity	1,909.5	1,386.3	590.0	831.3	79.7	38.1	615.3	939.8	3,194.5	3,195.5
For the year ended 31 December										
Depreciation for the year	1.5	1.4	0.4	0.3	0.3	0.3	0.7	-	2.9	2.0
Provision for impaired assets	5.0	1.4	1.1	5.1	0.3	(0.8)	-	(0.2)	6.4	5.6

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed across the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are transferred by all the other business segments to Treasury, Capital Markets & Wealth Management. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

Notes to the Financial Statements for the year ended 31 December 2019

36. MATURITY PROFILE AND LIQUIDITY RISK

a) MATURITY PROFILE

The table below shows the maturity profile of total assets and liabilities based on contractual terms.

In BD millions									
As at 31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	110.6	-	-	-	-	-	-	-	110.6
Treasury bills	154.7	93.1	177.5	-	-	-	-	-	425.3
Placements with banks and other financial institutions	225.6	-	-	3.2	-	-	-	-	228.8
Loans and advances	266.5	105.2	69.7	329.9	271.9	147.2	21.2	2.1	1,213.7
Investment securities	35.2	178.2	55.7	436.2	202.5	98.4	-	64.5	1,070.7
Investment in associates, Interest receivable, other assets and property & equipment	4.8	2.2	1.0	13.4	2.9	1.9	-	119.2	145.4
Total assets	797.4	378.7	303.9	782.7	477.3	247.5	21.2	185.8	3,194.5
Liabilities and equity									
Due to banks and other financial institutions	344.2	48.7	3.7	-	-	-	-	-	396.6
Borrowings under repurchase agreements	108.4	-	-	-	-	-	-	-	108.4
Customer deposits	1,723.3	115.9	67.5	187.3	-	-	-	-	2,094.0
Interest payable & other liabilities	49.1	1.7	0.6	11.8	-	-	-	-	63.2
Equity	-	-	-	-	-	-	-	532.3	532.3
Total liabilities and equity	2,225.0	166.3	71.8	199.1	-	-	-	532.3	3,194.5

In BD millions									
As at 31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	107.3	-	-	-	-	-	-	-	107.3
Treasury bills	172.0	103.4	111.7	-	-	-	-	-	387.1
Placements with banks and other financial institutions	259.7	-	-	-	-	-	-	-	259.7
Loans and advances	267.8	57.9	152.3	284.7	272.1	129.2	23.7	2.4	1,190.1
Investment securities	1.8	4.3	194.4	493.4	206.9	176.3	-	55.1	1,132.2
Investment in associates, Interest receivable, other assets and property & equipment	5.7	0.2	2.3	12.9	4.6	3.5	-	89.9	119.1
Total assets	814.3	165.8	460.7	791.0	483.6	309.0	23.7	147.4	3,195.5
Liabilities and equity									
Due to banks and other financial institutions	380.6	-	0.8	-	-	-	-	-	381.4
Borrowings under repurchase agreements	103.9	-	-	-	-	-	-	-	103.9
Customer deposits	1,713.0	165.3	263.9	48.4	-	-	-	-	2,190.6
Interest payable & other liabilities	25.1	2.3	1.3	15.1	-	-	-	-	43.8
Equity	-	-	-	-	-	-	-	475.8	475.8
Total liabilities and equity	2,222.6	167.6	266.0	63.5	-	-	-	475.8	3,195.5

b) LIQUIDITY RISK

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

In BD millions		Gross nominal	Less than 3				More than 5
As 31 December 2019	Carrying amount	inflow / (outflow)	months	3 to 6 months	6 to 12 months	1 to 5 years	years
Non derivative liabilities							
Due to banks and other financial institutions	396.6	399.8	308.1	39.8	46.0	5.9	-
Borrowings under repurchase agreements	108.4	109.0	109.0	-	-	-	-
Customer deposits	2,094.0	2,110.8	1,750.8	100.3	66.8	192.9	-
Total non derivative liabilities	2,599.0	2,619.6	2,167.9	140.1	112.8	198.8	-
Derivative liabilities							
Trading: outflow	-	1,691.2	688.1	387.1	596.5	19.5	-
Trading: inflow	3.2	1,681.0	680.1	386.4	595.2	19.3	-
Total derivative liabilities	3.2	3,372.2	1,368.2	773.5	1,191.7	38.8	-
Banking commitments	-	-	(200.2)	-	-	-	200.2
Financial guarantees	-	(20.8)	(1.6)	(0.3)	(0.2)	(18.7)	-

The Bank's Net Stable Funding Ratio (NSFR) as of 31 December 2019 is 152%. The minimum NSFR required by the Central Bank of Bahrain is 100%.

Notes to the Financial Statements for the year ended 31 December 2019

b) LIQUIDITY RISK (Continued)

In BD millions	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
As 31 December 2018							
Non derivative liabilities							
Due to banks and other financial institutions	381.4	382.0	380.9	-	1.1	-	-
Borrowings under repurchase agreements	103.9	104.1	-	-	-	-	-
Customer deposits	2,190.6	2,213.5	1,717.3	168.9	273.8	53.5	-
Total non derivative liabilities	2,675.9	2,699.6	2,098.2	168.9	274.9	53.5	-
Derivative liabilities							
Trading: outflow	-	2,075.5	878.4	483.0	704.3	9.9	-
Trading: inflow	5.4	2,080.4	879.7	485.0	705.7	10.0	-
Total derivative liabilities	5.4	4,155.9	1,758.1	968.0	1,410.0	19.9	-
Banking commitments	-	-	(18.1)	-	-	-	18.1
Financial guarantees	-	(32.0)	(7.9)	(0.2)	(0.3)	(23.6)	-

37 RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognised as an expense in the statement of profit or loss. The Bank's contribution for 2019 amounted to BD 1.3 million (US\$ 3.5 million) [2018: BD 1.1 million (US\$ 2.9 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year was as follows:

Provision for leaving indemnities

Movements during the year	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
At 1 January	2.6	6.8	2.3	6.0
Charge for the year	0.6	1.6	0.9	2.4
Paid during the year	(0.9)	(2.4)	(0.6)	(1.6)
At 31 December	2.3	6.0	2.6	6.8

The Bank has a voluntary staff savings scheme for eligible employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2019 amounted to BD 1.1 million (US\$ 2.9 million) [2018: BD 1.0 million (US\$ 2.7 million)]. As at 31 December 2019, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 11.6 million (US\$ 30.9 million) [31 December 2018: BD 10.3 million (US\$ 27.4 million)].

38 LEGAL CLAIMS

As at 31 December 2019, legal claims pending against the Bank aggregated to BD 1.5 million (US\$ 4.0 million) [31 December 2018: BD 1.4 million (US\$ 3.7 million)]. Based on the opinion of the Bank's legal advisors about final judgement on these claims, adequate provision as assessed by management is maintained.

39 EARNINGS AND DIVIDEND PER SHARE

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	74.2	197.4	70.0	186.1
Dividend proposed at 25% (2018: 25%)	38.7	102.9	35.1	93.4
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2019	1,403.0	1,403.0	1,403.0	1,403.0
Effect of bonus shares issued during 2019 for 2018	140.3	140.3	140.3	140.3
Less unallocated employee shares	(13.7)	(13.7)	(15.0)	(15.0)
Weighted average number of ordinary shares (millions) as at 31 December	1,529.6	1,529.6	1,528.3	1,528.3
Earnings per share	49 fils	13 cents	46 fils	12 cents
Dividend per share	25 fils	7 cents	25 fils	7 cents
Bonus / stock dividend per share	10 fils	3 cents	10 fils	3 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

From January 2020, the BISB holding will be transitioned from an investment in an associate to an investment in a subsidiary. The consideration settled on 22 January 2020 included issuance of 4.5 million additional NBB shares. Refer to note 44 for more details.

Notes to the Financial Statements for the year ended 31 December 2019

40 ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

In BD millions As at 31 December 2019	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount
Cash and balances at central banks	-	110.6	-	110.6
Treasury bills	-	425.3	-	425.3
Placements with banks and other financial institutions	-	228.8	-	228.8
Loans and advances	-	1,213.7	-	1,213.7
Investment securities	1.2	767.4	302.1	1,070.7
Interest receivable & other assets	-	145.4	-	145.4
Total assets	1.2	2,891.2	302.1	3,194.5
Due to banks and other financial institutions	-	396.6	-	396.6
Borrowings under repurchase agreements	-	108.4	-	108.4
Customer deposits	-	2,094.0	-	2,094.0
Interest payable & other liabilities	-	63.2	-	63.2
Total liabilities	-	2,662.2	-	2,662.2

In BD millions As at 31 December 2018				
Cash and balances at central banks	-	107.3	-	107.3
Treasury bills	-	387.1	-	387.1
Placements with banks and other financial institutions	-	259.7	-	259.7
Loans and advances	-	1,190.1	-	1,190.1
Investment securities	0.4	775.5	356.3	1,132.2
Interest receivable & other assets	-	119.1	-	119.1
Total assets	0.4	2,838.8	356.3	3,195.5
Due to banks and other financial institutions	-	381.4	-	381.4
Borrowings under repurchase agreements	-	103.9	-	103.9
Customer deposits	-	2,190.6	-	2,190.6
Interest payable & other liabilities	-	43.8	-	43.8
Total liabilities	-	2,719.7	-	2,719.7

b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in the table below are classified as level 2.

(i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.

(ii) Customer deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

Notes to the Financial Statements for the year ended 31 December 2019

40 b) Fair value hierarchy (Continued)

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

In BD millions	2019				2018			
At 31 December	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:								
Equity instruments/Managed funds	-	1.2	-	1.2	-	0.4	-	0.4
Fair value through other comprehensive income:								
Debt instruments	238.8	-	-	238.8	301.6	-	-	301.6
Equity instruments	52.2	-	11.1	63.3	43.6	-	11.1	54.7
Derivative financial assets	-	10.1	-	10.1	-	10.2	-	10.2
Total	291.0	11.3	11.1	313.4	345.2	10.6	11.1	366.9
Derivative financial liabilities	-	0.1	-	0.1	-	0.7	-	0.7

The following table analyses the movement in level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

Investment securities		
In BD millions	2019	2018
At 1 January	11.1	10.9
Total gains in other comprehensive income	-	0.2
At 31 December	11.1	11.1

Total gain for the year included in the statement of profit or loss for assets / liabilities classified as level 3 at 31 December 2019 is nil (2018: nil).

Level 3 comprises unquoted equity investments classified as fair value through other comprehensive income which are measured at their estimated fair value based on the latest financial information by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

41 AVERAGE BALANCES

The following are average daily balances for the year :

	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Total assets	3,186.8	8,475.5	3,037.8	8,079.3
Total liabilities	2,692.3	7,160.4	2,575.2	6,848.9
Total equity	494.5	1,315.2	462.6	1,230.4
Contingent liabilities and undrawn loan commitments	245.0	651.6	211.5	562.4

Notes to the Financial Statements for the year ended 31 December 2019

42 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the standardised approach for computing credit risk. Operational risk is computed using the basic indicator approach. Market risk is computed using the standardised method.

The details of the Bank's capital adequacy calculations are shown below:

As at 31 December	2019		2018	
	BD millions	US\$ millions	BD millions	US\$ millions
Common equity (CET1)	514.4	1,368.1	461.3	1,226.9
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	514.4	1,368.1	461.3	1,226.9
Tier 2	13.4	35.6	13.6	36.2
Total capital base	527.8	1,403.7	474.9	1,263.0
Risk weighted exposure:				
Credit risk	1,176.8	3,129.8	1,163.8	3,095.3
Market risk	29.2	77.7	50.2	133.5
Operational risk	209.9	558.2	192.5	512.0
Total risk weighted exposure	1,415.9	3,765.7	1,406.5	3,740.8
CET 1 ratio	36.3%		32.8%	
Total capital adequacy ratio	37.3%		33.8%	

Conventional banks are required to maintain a minimum total capital adequacy ratio of 12.5%.

43 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting deposits and unrestricted investment accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

44 SUBSEQUENT EVENT

Increase in stake in an associate

Subsequent to 31 December 2019, the Bank concluded a voluntary offer to acquire additional issued and paid up ordinary shares of Bahrain Islamic Bank B.S.C. (BISB). BISB is a licensed Islamic retail bank regulated by the Central Bank of Bahrain and has played a pivotal role in developing the Islamic banking sector in the country. BISB was the first Islamic bank registered in Bahrain and the fourth Islamic bank incorporated in the GCC region. BISB shares are listed on the Bahrain Bourse.

The acquisition offer included a cash or share exchange option at the preference of each shareholder of BISB. The offer closed successfully in January 2020 and, as such, the Bank's shareholding in BISB increased from 29.1% as reported at 31 December 2019 to 78.8% upon settlement on 22 January 2020.

The acquisition will enable the enlarged NBB Group to position itself at the forefront of the regional Shariah-compliant banking sector in addition to its current leading conventional banking role. The two brands will continue to operate independently but asset, revenue, cost and other operational synergies will provide customers and shareholders with enhanced services and returns.

From January 2020, the existing BISB holding as an investment in an associate will be derecognised and an investment in a subsidiary will be accounted for by the Bank. Subsequent financial reporting will consolidate BISB as part of the NBB Group. The consideration settled on 22 January 2020 included a cash element of BD 58.8 million and the issuance of 4.5 million additional NBB shares at a value of BD 3.1 million.

The total purchase consideration on the date of acquisition was BD 99.0 million inclusive of the fair value of the existing holding of 29.1% of BISB. The assets acquired were reported by BISB at 31 December 2019 as totalling BD 1,223.6 million and liabilities assumed amounted to BD 1,102.6 million. The Bank's share of BD 121.0 million of BISB's net assets is approximately BD 95.4 million. The determination of the fair values of assets acquired and liabilities assumed and the related accounting for the acquisition of BISB will be determined and reflected in the interim financial statements of 31 March 2020, being the first published results post acquisition. As allowed by accounting standards, the Bank will be able to adjust these amounts within one year of the date of acquisition if new information becomes available about facts and circumstances that existed at the date of acquisition. NBB expects that a valuation for the intangible assets acquired and the quantification of goodwill will be derived through the fair value assessment process during the year ending 31 December 2020.