Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Al Salam Bank-Bahrain B.S.C.
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Salam Bank-Bahrain B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Board of Director's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the provisions of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law. 64 of 2006 (as amended), the CBB Rulebook (Volume 2, 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.

KPMG

KPMG Fakhro
Partner registration number 137
12 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Note	***2019***	*2018*
		BD '000	*BD '000*
ASSETS			
Cash and balances with banks and Central Bank	4	**219,456**	82,257
Sovereign Sukuk and placements with Central Bank	5	**340,950**	377,216
Placements with financial institutions	6	**118,615**	140,304
Corporate Sukuk	7	**21,880**	9,222
Financing assets	8	**723,198**	568,905
Finance lease assets	9	**348,488**	256,892
Non-trading investments	11	**108,991**	107,508
Investment properties	12	**72,774**	74,261
Development properties	13	**2,943**	6,290
Investment in associates	14	**10,640**	15,972
Other assets	15	**44,260**	45,581
Goodwill	16	**25,971**	25,971
TOTAL ASSETS		**2,038,166**	1,710,379
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	6	**392,014**	214,377
Placements from customers	18	**751,712**	635,741
Customers' current accounts		**289,456**	251,842
Murabaha term financing	17	**145,590**	155,543
Other liabilities	19	**41,481**	48,293
TOTAL LIABILITIES		**1,620,253**	1,305,796
EQUITY OF INVESTMENT ACCOUNTHOLDERS	20	**102,476**	99,761
OWNERS' EQUITY			
Share capital	21	**221,586**	214,093
Treasury stock	21	**(6,758)**	(3,855)
Reserves and retained earnings		**99,910**	93,901
Total owners' equity		**314,738**	304,139
Non-controlling interest		**699**	683
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		**2,038,166**	1,710,379

Khaleefa Butti Omair Al Muhairi
Chairman

H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

	Note	***2019 BD '000***	*2018 BD '000*
OPERATING INCOME			
Finance income	24	**59,712**	49,384
Income from Sukuk		**17,066**	16,767
Income from non-trading investments	25	**2,633**	(889)
(Loss) / income from properties	26	**(1,442)**	420
Fees and commission, net	27	**7,639**	9,396
Share of profit from associates	14	**1,209**	375
Other income	28	**4,889**	9,464
Total operating income		**91,706**	84,917
Finance expense on placements from financial institutions		**(6,820)**	(5,169)
Finance expense on placements from customers		**(25,442)**	(17,893)
Finance expense on Murabaha term financing		**(5,583)**	(4,515)
Return on equity of investment accountholders before Group's share as a Mudarib		**(1,904)**	(492)
Group's share as a Mudarib		**1,570**	246
Share of profit of investment accountholders	20	**(334)**	(246)
Net income		**53,527**	57,094
OPERATING EXPENSES			
Staff cost	29	**15,394**	11,861
Premises and equipment cost		**2,269**	2,019
Depreciation		**1,599**	869
Other operating expenses		**10,525**	13,164
Total operating expenses		**29,787**	27,913
PROFIT BEFORE IMPAIRMENT ALLOWANCES		**23,740**	29,181
Net impairment charge	10	**(2,610)**	(10,661)
NET PROFIT FOR THE YEAR		**21,130**	18,520
ATTRIBUTABLE TO:			
- Shareholders of the Bank		**21,093**	18,499
- Non-controlling interest		**37**	21
		21,130	18,520
Basic and diluted earnings per share (fils)	23	**9.8**	8.7

Khaleefa Butti Omair Al Muhairi
Chairman

H.E. Shaikh Khalid bin Mustahail Al Mashani
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

Amounts in BD '000s

	Attributable to shareholders of the Bank											
			Reserves and retained earnings									
	Share capital	*Treasury stock*	*Share premium*	*Statutory reserve*	*Retained earnings*	*Investment fair value reserve*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Total reserves*	*Total Equity*	*Non-controlling interest*	*Group Total Equity*
Balance as of 1 January 2019	**214,093**	**(3,855)**	**12,209**	**18,998**	**42,101**	**199**	**23,589**	**(3,195)**	**93,901**	**304,139**	**683**	**304,822**
Net profit for the year	**-**	**-**	**-**	**-**	**21,093**	**-**	**-**	**-**	**21,093**	**21,093**	**37**	**21,130**
Foreign currency re-translation	**-**	**-**	**-**	**-**	**-**	**(210)**	**-**	**(28)**	**(238)**	**(238)**	**-**	**(238)**
Total recognised income and expense	**-**	**-**	**-**	**-**	**21,093**	**(210)**	**-**	**(28)**	**20,855**	**20,855**	**37**	**20,892**
Bonus shares issued	**7,493**	**-**	**-**	**-**	**(7,493)**	**-**	**-**	**-**	**(7,493)**	**-**	**-**	**-**
Cash dividend for the year 2018	**-**	**-**	**-**	**-**	**(7,353)**	**-**	**-**	**-**	**(7,353)**	**(7,353)**	**-**	**(7,353)**
Purchase of treasury stock	**-**	**(2,903)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,903)**	**-**	**(2,903)**
Movements in non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**(21)**
Transfer to statutory reserve	**-**	**-**	**-**	**2,109**	**(2,109)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2019	**221,586**	**(6,758)**	**12,209**	**21,107**	**46,239**	**(11)**	**23,589**	**(3,223)**	**99,910**	**314,738**	**699**	**315,437**
Balance as of 1 January 2018	214,093	(1,879)	12,209	17,148	40,304	199	24,196	(3,040)	91,016	303,230	607	303,837
Net profit for the year	-	-	-	-	18,499	-	-	-	18,499	18,499	21	18,520
Net changes in fair value	-	-	-	-	-	-	(607)	-	(607)	(607)	-	(607)
Foreign currency re-translation	-	-	-	-	-	-	-	(155)	(155)	(155)	-	(155)
Total recognised income and expense	-	-	-	-	18,499	-	(607)	(155)	17,737	17,737	21	17,758
Dividend for 2017	-	-	-	-	(14,852)	-	-	-	(14,852)	(14,852)	-	(14,852)
Purchase of treasury stock	-	(1,976)	-	-	-	-	-	-	-	(1,976)	-	(1,976)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	55	55
Transfer to statutory reserve	-	-	-	1,850	(1,850)	-	-	-	-	-	-	-
Balance at 31 December 2018	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822

The attached notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019	*2018*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net profit for the year	**21,130**	18,520
Adjustments:		
Depreciation	**1,599**	869
Amortisation of premium on Sukuk - net	**286**	1,033
Fair value changes on investments	**433**	(1,027)
Income from investments	**(1,624)**	1,882
Net impairment charge	**2,610**	10,661
Share of profit from associates	**(1,209)**	(375)
Development properties	**-**	158
Operating income before changes in operating assets and liabilities	**23,225**	31,721
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	**(5,938)**	3,221
Financing assets and finance lease assets	**(246,818)**	(92,083)
Other assets	**753**	5,201
Placements from financial institutions	**177,637**	26,410
Placements from customers	**115,971**	66,090
Customers' current accounts	**37,614**	(32,036)
Other liabilities	**(2,362)**	(1,075)
Equity of investment accountholders	**2,713**	(19,120)
Net cash from / (used in) operating activities	**102,795**	(11,671)
INVESTING ACTIVITIES		
Sovereign Sukuk	**12,942**	8,332
Corporate Sukuk	**(12,631)**	1,166
Non-trading investments	**(371)**	2,475
Investment in associates	**6,303**	740
Purchase of premises and equipment	**(1,649)**	(960)
Net cash from investing activities	**4,594**	11,753
FINANCING ACTIVITIES		
Murabaha term financing	**(9,953)**	58,592
Dividends paid	**(7,777)**	(15,148)
Purchase of treasury stock	**(2,903)**	(1,976)
Net movements in non-controlling interest	**(21)**	(11)
Net cash (used in) / from financing activities	**(20,654)**	41,457
NET CHANGE IN CASH AND CASH EQUIVALENTS	**86,735**	41,539
Cash and cash equivalents at 1 January	**216,561**	175,022
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**303,296**	216,561
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	**83,500**	8,372
Sovereign sukuk and placements	**-**	23,001
Balances with other banks	**101,107**	44,882
Placements with financial institutions with original maturities of less than 90 days	**118,689**	140,306
	303,296	216,561

* Cash and cash equivalents as at 31 December 2019 is gross of the expected credit loss of BD 167 thousands (2018: BD 1 thousand)

The attached notes 1 to 46 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding 2019	2018
ASB Seychelles	Seychelles	Provide Banking services	**70%**	70%
ASB Biodiesel	Hong Kong	Production of Biodiesel	**36%**	36%

The Bank and its principal banking subsidiary operates through ten branches in the Kingdom of Bahrain and one branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 12 February 2020.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, fair value through equity and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off-balance sheet financial contracts held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the guidelines of CBB and Financial Institutions Law. The matters for which no AAOIFI standards exist, the Group uses the relevant applicable International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding expected recovery or contractual settlement within twelve months after the consolidated statement of financial position date (current) and more than twelve months after the consolidated statement of financial position date (non-current) is presented in note 36.

2.1.b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. The financial statements of the subsidiaries are prepared for the same reporting year except for one subsidiary. All subsidiaries are using consistent accounting policies of the Bank.

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist when the Bank owns majority of the voting rights in the investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing or investment transaction and usually voting rights are not relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker’s delegated power does not lead to a control conclusion. Where the Group’s voluntary actions, such as finance amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group’s fiduciary assets under management is set out in note 38.

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by transaction basis to measure non-controlling interests either at

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders’ proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.1.c Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement as part of fair value changes.

Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment assessment of financial contracts subject to credit risk

In determining impairment on financial contracts subject to credit risk, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL"). Refer to notes 2.3 (d) and 33.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for five years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 16 for further details.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of fair value through equity investments
The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

Fair value of unquoted equity investment through profit or loss
The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Valuation of investments in private equity and real estate fair value through profit and loss investments involve judgment and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

Estimating net realisable value of development property
Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated / forecasted market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Judgments

Going concern

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

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control directly or

indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2.3 SIGNIFICANT ACCOUNTING POLICIES

<u>a) Financial assets and liabilities</u>

Financial assets contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Placements with Financial Institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion and other receivables. Balances relating to these contracts are stated net of allowance for credit losses.

Financial liabilities contracts consist of placement from financial instituations, placements from customers, customers' current accounts, murabaha term financing, and other payables.

All financial assets and financial liabilities are intially recognised at cost, being the FV of the instrument of origination. Subsequently, all financial assets and financial liabilities are carried at amortized cost.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Trade and settlement date accounting

The Group recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

d) Impairment assessment

Impairment of financial assets and commitments

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

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

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

Stage 3: Lifetime ECL – credit impaired

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

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

Credit-impaired financial assets and assets acquired for leasing

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

Evidence that a financial asset and finance lease asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment (continued)

Write-offs
Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;

- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and

- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

e) Cash and cash equivalents
For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions and placements with financial institutions with original maturities of 90 days or less when acquired.

f) Financing assets
Financing assets comprise of Sharia'a complaint financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka and Mudaraba contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing assets
If the terms of the financing asset are modified then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original financing asset are deemed to have expired. In this case, the original financing asset is derecognised and a new financing asset is recognised at fair value plus any eligable transaction cost.

If the modification of a financing asset measured at amortized cost or FVOCI does not result in the derecognition of the financing asset then the Group first recalculates the gross carrying amount of the financing asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

All Sharia compliant contracts are interpretted for accouting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to reflect the single economic outcome and purpose of the contracts.

f-i) Murabaha financing
Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f-ii) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

f-iii) Musharaka

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

g) Finance lease assets

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third party seller or from the customer, according to the customer’s request and promise to lease against certain rental payments for a specific lease term / periods, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependant on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairement losses, if any, are recognised in the income statement.

Modification of finance lease assets

If the terms of the finance lease assets are modified then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original finance lease assets are deemed to have expired. In this case, the original finance lease assets is derecognised and a new finance lease assets is recognised at fair value plus any eligable transaction cost.

If the modification of a finance lease assets measured at amortized cost or FVOCI does not result in the derecognition of the finance lease assets then the Group first recalculates the gross carrying amount of the finance lease assets using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

h) Placements with financial institutions

Placements with financial institutions comprise of Commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and allowance for credit losses, if any. Wakala receivables are stated at amortised cost less allowance for credit losses, if any.

i) Sovereign Sukuk and Corporate Sukuk

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed as debt type securities are classified as investments carried at amortised cost.

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.3 (k).

Liabilities under conversion:

These are remeasured at amortised cost.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTPL investments, transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising form a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the period which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

l) Investments in associates and joint ventures

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (2.3.k) are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather that rights to its assets and obligations for its liabilities.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments in associates (continued)

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

m) Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

n) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

o) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is changed on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

p) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "assets held-for-sale" and "liabilities relating to assets classified as held-for-sale" respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

q) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group’s cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is / are not larger than a segment based on either the Group’s primary or the Group’s geographic segment reporting format.

r) Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the consolidated statement of financial position when there is a religious or legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or intends to realise the asset and settle the liability simultaneously.

s) Customers’ current accounts

Customers’ current accounts Balances in current (non-investment) accounts are recognised when received by the Bank. The transaction are measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Equity of investment accountholders

Equity of investment accountholders (“IAH”) are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. The investment accountholder authorizes the Group to invest the accountholder’s funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners’ equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

u) Provisions

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

v) Employees’ end-of-service benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage of salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

w) Revenue recognition

Financing assets

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on effective yield basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

Dividend

Dividend income is recognised when the Group's right to receive the dividend is established.

Finance lease assets

Finance lease income is recognised on a time-proportionate basis over the lease term. Income related to non-performing finance lease is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.
- Other fee income: This is recognised when services are rendered.

x) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

y) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

z) Dividend on ordinary shares

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

aa) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

ab) Treasury stock

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ac) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ad) Wakala payables

The Group accepts funds from banks and customers under Wakala arrangements in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under Wakala agreement.

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

ae) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure of financial facilities that are in default. Repossessed properties that are held for immediate sale, are measured at the lower of the carrying value on closure and fair value less cost to sell. Other repossessed properties are classified as investment property.

af) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

2.4 STANDARDS ISSUED BUT NOT EFFECTIVE

FAS 31

Investment agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency instruments and related assets and obligations, as applicable for the Islamic financial institutions from both perspectives. This standard shall apply to all investment agency contracts entered into by Islamic financial institutions, either in the capacity of an agent or principal.

This standard impacts the presentation of income and expenses, including variable compensation from Wakala arrangements.

The standard is expected to change the classification of wakala payables from liabilities to equity of investment accountholders and requires additional disclosures on pooled assets and profit allocation. This would also improve the capital adequacy ratio of the Bank. The standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted. The Bank currently classifies BD 937 million of its Wakala contracts as liabilities.

FAS 33

Investment in Sukuk, shares and similar instruments

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institutions investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments and produces revised guidance for classification and measurement of investments to align with international practices.

The standard classifies investments into equity type, debt type and other investment instruments. Investments in equity instruments must be at fair value. In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

The Bank will re-assess classification of its sovereign and corporate sukuk based on the business model test. The standard is not expected to have a significant impact on the Bank. The standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2019			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	**219,456**	**219,456**
Sovereign Sukuk and placements with Central Bank	-	-	**340,950**	**340,950**
Placements with financial institutions	-	-	**118,615**	**118,615**
Corporate Sukuk	-	-	**21,880**	**21,880**
Financing assets	-	-	**723,198**	**723,198**
Finance lease assets	-	-	**348,488**	**348,488**
Non-trading investments	**107,438**	**1,553**	-	**108,991**
Investment properties	-	**72,774**	-	**72,774**
Development properties	-	-	**2,943**	**2,943**
Investment in associates	-	-	**10,640**	**10,640**
Other assets	-	**964**	**43,296**	**44,260**
Goodwill	-	-	**25,971**	**25,971**
	107,438	**75,291**	**1,855,437**	**2,038,166**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	**392,014**	**392,014**
Placements from customers	-	-	**751,712**	**751,712**
Customers' current accounts	-	-	**289,456**	**289,456**
Murabaha term financing	-	-	**145,590**	**145,590**
Other liabilities	-	-	**41,481**	**41,481**
Equity of investment accountholders	-	-	**102,476**	**102,476**
	-	-	**1,722,729**	**1,722,729**

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	2018			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	82,257	82,257
Sovereign Sukuk and placements with Central Bank	-	-	377,216	377,216
Placements with financial institutions	-	-	140,304	140,304
Corporate Sukuk	-	-	9,222	9,222
Financing assets	-	-	568,905	568,905
Finance lease assets	-	-	256,892	256,892
Non-trading investments	105,850	1,658	-	107,508
Investment properties	-	74,261	-	74,261
Development properties	-	-	6,290	6,290
Investment in associates	-	-	15,972	15,972
Other assets	-	1,041	44,540	45,581
Goodwill	-	-	25,971	25,971
	105,850	76,960	1,527,569	1,710,379
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	214,377	214,377
Placements from customers	-	-	635,741	635,741
Customers' current accounts	-	-	251,842	251,842
Murabaha term financing	-	-	155,543	155,543
Other liabilities	-	-	48,293	48,293
Equity of investment accountholders	-	-	99,761	99,761
	-	-	1,405,557	1,405,557

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2019 BD '000	2018 BD '000
Mandatory reserve with Central Bank*	**34,942**	29,003
Cash and other balances with Central Bank	**83,500**	8,372
Balances with other banks**	**101,014**	44,882
	219,456	82,257

* This balance is not available for use in the day-to-day operations of the Group.
** This balance is net of BD 93 thousands (2018: BD nil) amount of allowance for credit losses.

5 SOVEREIGN SUKUK AND PLACEMENTS WITH CENTRAL BANK

This includes BD 181,549 thousands (2018: BD 174,353 thousands) of sukuk which are pledged against Murabaha term financing of BD 128,625 thousands (2018: BD 138,578 thousands).

6 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements to and from financial institution in the form of Murabaha and Wakala contracts.

	2019 BD '000	2018 BD '000
Placements with financial institutions		
Wakala receivables	**56,254**	57,734
Commodity Murabaha asset	**58,648**	82,571
Syndicate Murabaha	**3,812**	-
Allowance for credit losses	**(99)**	(1)
	118,615	140,304
Placements from financial institutions		
Wakala payables	**185,352**	110,727
International Commodity Murabaha	**206,662**	103,650
	392,014	214,377

7 CORPORATE SUKUK

	2019 BD '000	2018 BD '000
Investment grade (AAA - BBB+)	**1,533**	-
Non-investment grade (< BBB-)	**7,361**	9,241
Un-rated Sukuk	**12,992**	-
Allowance for credit losses	**(6)**	(19)
	21,880	9,222

Corporate sukuk portfolio include BD 8,509 thousands (2018: BD 8,484 thousands) of sukuk which are pledged against Murabaha term financing of BD 128,625 thousands (2018: BD 138,578 thousands).

8 FINANCING ASSETS

	2019			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Murabaha financing	**138,141**	**6,924**	**6,415**	**151,480**
Mudaraba financing	**481,610**	**45,332**	**32,872**	**559,814**
Musharaka financing	**30,407**	**64**	**421**	**30,892**
Credit cards	**3,015**	**168**	**639**	**3,822**
Total financing assets	**653,173**	**52,488**	**40,347**	**746,008**
Allowance for credit losses (note 10)	**(5,896)**	**(7,118)**	**(9,796)**	**(22,810)**
	647,277	**45,370**	**30,551**	**723,198**

8 FINANCING ASSETS (continued)

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Murabaha financing	149,331	15,994	15,938	181,263
Mudaraba financing	314,640	36,287	34,986	385,913
Musharaka financing	24,267	92	469	24,828
Credit cards	3,284	116	67	3,467
Total financing assets	491,522	52,489	51,460	595,471
Allowance for credit losses (note 10)	(3,451)	(4,093)	(19,022)	(26,566)
	488,071	48,396	32,438	568,905

9 FINANCE LEASE ASSETS

This represents net investment in assets leased (land and buildings) under a finance lease arrangement. Lease documentations states that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all the obligations under the lease agreement.

	2019	*2018*
	BD '000	*BD '000*
Finance lease assets	**352,215**	263,373
Allowance for impairment	**(3,727)**	(6,481)
	348,488	256,892

Movements in finance lease assets are as follows:

	2019	*2018*
	BD '000	*BD '000*
At 1 January	**256,892**	213,238
Additions during the year - net	**99,886**	61,265
Finance lease assets depreciation	**(33,169)**	(36,138)
Allowance for impairment during the year, net	**2,754**	(1,166)
Settlements/adjustments during the year	**22,125**	19,693
At 31 December	**348,488**	256,892

The future minimum lease receivable (exluding future profits) in aggregate are as follows:

	2019	*2018*
	BD '000	*BD '000*
Due within one year	**36,841**	61,831
Due in one to five years	**63,371**	94,843
Due after five years	**248,276**	100,218
	348,488	256,892

The accumulated depreciation on finance lease assets amounted to BD 95,982 thousands (2018: BD 129,150 thousands).

	2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Finance lease assets	**281,018**	**58,296**	**12,901**	**352,215**
Allowance for impairment	**(729)**	**(169)**	**(2,829)**	**(3,727)**
	280,289	**58,127**	**10,072**	**348,488**

9 FINANCE LEASE ASSETS (continued)

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Finance lease assets	224,389	23,694	15,290	263,373
Allowance for impairment	(1,517)	(1,210)	(3,754)	(6,481)
	222,872	22,484	11,536	256,892

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit losses in the below table includes all financial assets, finance lease assets and off-balance sheet exposures in addition to financing assets.

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Balance at the beginning of the year	**5,593**	**5,385**	**29,746**	**40,724**
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,042	(667)	(375)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(754)	2,812	(2,058)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(29)	(580)	609	-
Net remeasurement of loss allowance	1,811	644	3,440	5,895
Recoveries / write-backs	(472)	(299)	(2,593)	(3,364)
Allowance for credit losses	**1,598**	**1,910**	**(977)**	**2,531**
Exchange adjustments and other movements	-	-	(214)	(214)
Amounts charged off during the year	-	-	(9,620)	(9,620)
Elimination on consolidation	-	-	107	107
Balance at the end of the year	**7,191**	**7,295**	**19,042**	**33,528**

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Cash and balances with banks and Central Bank	**93**	**-**	**-**	**93**
Sovereign Sukuk	**24**	**-**	**-**	**24**
Placements with financial institutions	**99**	**-**	**-**	**99**
Corporate Sukuk	**3**	**3**	**-**	**6**
Financing assets	**5,896**	**7,118**	**9,796**	**22,810**
Finance lease assets	**729**	**169**	**2,829**	**3,727**
Loans and advances to customers				
- Assets under conversion (note 15)	**80**	**-**	**4,008**	**4,088**
Other receivables	**45**	**-**	**2,182**	**2,227**
Financing commitments and financial guarantee contracts	**222**	**5**	**227**	**454**
	7,191	**7,295**	**19,042**	**33,528**

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Balance at the beginning of the year	7,981	16,052	66,878	90,911
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,328	(485)	(843)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(664)	2,659	(1,995)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(290)	(14,938)	15,228	-
Net remeasurement of loss allowance	(2,237)	2,314	15,488	15,565
Recoveries / write-backs	(505)	(218)	(4,060)	(4,783)
Allowance for credit losses	(2,368)	(10,668)	23,818	10,782
Exchange adjustments and other movements	(20)	1	(227)	(246)
Amounts charged off during the year	-	-	(8,678)	(8,678)
Elimination on consolidation	-	-	(52,045)	(52,045)
Balance at the end of the year	5,593	5,385	29,746	40,724

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Placements with financial institutions	1	-	-	1
Corporate Sukuk	4	15	-	19
Financing assets	3,451	4,093	19,022	26,566
Finance lease assets	1,517	1,210	3,754	6,481
Loans and advances to customers				
- Assets under conversion (note 15)	27	26	4,501	4,554
Other receivables	22	1	1,946	1,969
Financing commitments and financial guarantee contracts	571	40	523	1,134
	5,593	5,385	29,746	40,724

10.1 Movements in impairment allowances for equity investments and others

	2019	*2018*
	BD '000	*BD '000*
Balance at the beginning of the year	**3,130**	3,251
Impairment during the year	**79**	-
Reversal on recoveries	**-**	(121)
Balance at the end of the year	**3,209**	3,130

11 NON-TRADING INVESTMENTS

Non-trading investments comprise of investments in equity securities and are classified as fair value through equity or fair value through profit or loss.

Fair value is an amount for which an assets could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Group has 40% stake (2018: 40%) in Manara Developments Company B.S.C.(c), a company incorporated in Bahrain and engaged in the business of property development. The investment is being fair valued through profit or loss using the fair value scope exemption of FAS 24.

12 INVESTMENT PROPERTIES

	2019	*2018*
	BD '000	*BD '000*
Land	**67,749**	66,714
Buildings	**5,025**	7,547
	72,774	74,261

The movements in fair value of investment properties classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2019	*2018*
	BD '000	*BD '000*
At 1 January	**74,261**	66,782
Fair value changes	**(1,239)**	(246)
Additions during the year*	**6,960**	8,523
Disposals during the year	**(7,034)**	(711)
Others	**(174)**	(87)
At 31 December	**72,774**	74,261

* Additions of investment properties during the year resulted from the Bank obtaining possesion of collateral held as securities against financing.

13 DEVELOPMENT PROPERTIES

Development properties represent properties acquired and held through investment vehicles exclusively for development and sale in the United Kingdom. The carrying amount include land price and related construction costs.

14 INVESTMENT IN ASSOCIATES

The Group has a 14.42% (2018: 14.42%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank exercises a significant influence on ASBA.

The Group has a 20.94% (2018: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya on August 2006, licensed by the Central Bank of Kenya.

14 INVESTMENT IN ASSOCIATES (continued)

The Group's interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA:

	2019	*2018*
	BD '000	*BD '000*
Associates' statement of financial position:		
Total assets	**413,272**	350,238
Total liabilities	**353,299**	295,194
Net assets	**59,973**	55,044
Total revenue	**29,431**	22,315
Total expenses	**16,787**	14,624
Net profit for the year	**12,644**	7,691
Group's share of associates' net profit	**1,107**	297

The following table illustrates summarised financial information of Group's investments in GAB:

	2019	*2018*
	BD '000	*BD '000*
Associates' statement of financial position:		
Total assets	**130,522**	123,438
Total liabilities	**113,462**	106,768
Net assets	**17,060**	16,670
Total revenue	**10,046**	13,233
Total expenses	**9,614**	12,475
Net profit for the year	**432**	758
Group's share of associates' net profit	**102**	78

15 OTHER ASSETS

	2019	*2018*
	BD '000	*BD '000*
Assets under conversion (a)		
Loans and advances to customers	**7,285**	10,358
Non-trading investments - fair value through equity (b)	**964**	1,041
Non-trading investments - debt	**21**	1,229
	8,270	12,628
Other receivables and advances	**12,374**	11,527
Prepayments	**924**	1,314
Premises and equipment (c)	**22,692**	20,112
	44,260	45,581

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Income derived from these assets are transferred to charity payable and as such are not recognised in the consolidated financial statements. During the year under audit, Shari'a prohibited income amounting to BD 352 thousands have been transferred to charity payable, under "Accounts payable and accruals" of note 19.

15 OTHER ASSETS (continued)

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2019	*2018*
	BD '000	*BD '000*
At 1 January	**1,041**	1,359
Recovery	**-**	119
Disposals during the year	**-**	(144)
Fair value changes	**-**	(293)
Additions during the year	**2**	-
Write down during the year	**(79)**	-
At 31 December	**964**	1,041

(c) This includes BD 19,885 thousands (2018: BD 18,317) of subsidiary's property, plant & equipment.

Loans and advances to customer - Assets under conversion

	2018			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Loans and advances to customers	**1,701**	**384**	**9,184**	**11,269**
Allowance for credit losses	**(80)**	**-**	**(4,008)**	**(4,088)**
	1,621	**384**	**5,176**	**7,181**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Loans and advances to customers	2,238	932	11,624	14,794
Allowance for credit losses	(27)	(26)	(4,501)	(4,554)
	2,211	906	7,123	10,240

16 GOODWILL

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousands (2018: BD 25,971 thousands) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors and adjusted to the requirements of IFRS extrapolated for five years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 16.9% is applied to the estimated cash flows.

The banks assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance to IAS 36 (‘impairment of non-financial assets'). As of 31 Dec 2019, there are no indication of impairment of the CGU associated with the goodwill.

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase of discount rate by 0.5% and a reduction of earnings by 0.25%, the carrying value of goodwill is greater than the reduced recoverable amount in the sensitivity analysis.

17 MURABAHA TERM FINANCING

These represent short-term to long-term financings with various financials institutions that are collateralised by corporate and sovereign sukuk of total carrying value BD 190,058 thousands (2018: BD 182,837 thousands).

18 PLACEMENTS FROM CUSTOMERS

Placement from customers represent customer funds in the form of wakala contracts (wakala capital and generated profit) payable at respective maturity dates.

19 OTHER LIABILITIES

	2019	*2018*
	BD '000	*BD '000*
Accounts payable and accruals	**28,693**	30,401
Dividend payable	**5,581**	6,005
Investment related payables	**-**	3,513
Project payables	**60**	60
Liabilities under conversion	**5,229**	6,020
End of service benefits and other employee related accruals	**1,464**	1,161
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**454**	1,133
	41,481	48,293

20 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders' fund is commingled with Group's and Wakala fund to form one general mudaraba pool. This pooled fund is used to fund and invest in assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits. On average, actual share of Mudarib's profit from the pooled fund was 82% versus a contractual of 85% for the year ended 2019.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year 2019 was 0.27% (2018: 0.17%).

The balances of equity of investment accountholders funds consists of:

	2019	*2018*
	BD '000	*BD '000*
Saving accounts	**73,939**	62,770
Margin accounts	**6,267**	21,948
Call accounts	**22,270**	15,043
	102,476	99,761

21 SHARE CAPITAL

	2019	*2018*
	BD '000	*BD '000*
Authorised:		
2,500,000,000 ordinary shares (2018: 2,500,000,000 shares) of BD 0.100 each	**250,000**	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,215,863,320 (2018: 2,140,930,752)	**221,586**	214,093

Total number of treasury stock outstanding as of 31 December 2019 was 72,694,133 shares (2018: 37,737,634 shares).

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding share as of 31 December 2019 is as follows:

Investor Name	**Nationality**	**No. of Shares**	**% of the outstanding shares**
Bank Muscat (S.A.O.G.)	Omani	326,537,112	14.74
First Energy Bank B.S.C Closed	Bahraini	139,087,541	6.28
Overseas Investment S.P.C.	Bahraini	133,280,449	6.01

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2019 is presented below:

Categories	**No.of Shares**	**No. of the shareholders**	**% of the outstanding shares**
Less than 1%	778,411,876	22,459	35
1% up to less than 5%	838,546,342	14	38
5% up to less than 10%	272,367,990	2	12
10% up to less than 20%	326,537,112	1	15
Total	**2,215,863,320**	**22,476**	**100**

21.1 Proposed appropriation

The Board of Directors proposed dividend of 8 fils per share or 8% (2018: 7 fils or 7%) of the paid up capital excluding treasury shares (this applies only to cash dividends), to be paid 50% in cash and 50% by issue of bonus shares. This amounts to BD 17,727 thousands (2018: 14,987 thousands).

22 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law followed by the approval of the CBB.

23 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Group.

	2019	*2018*
Net profit attributable to Shareholders of the Bank (BD '000)	**21,093**	18,499
Weighted average number of shares (thousands)	**2,153,821**	2,121,586
Basic and diluted earnings per share (fils)	**9.8**	8.7

24 FINANCE INCOME

	2019 BD '000	*2018 BD '000*
Murabaha financing	**8,377**	11,644
Mudaraba financing	**28,155**	19,294
Finance lease income, net	**18,259**	14,537
Musharaka	**1,713**	1,399
Placements with financial institutions	**3,208**	2,510
	59,712	49,384

25 INCOME FROM NON-TRADING INVESTMENTS

	2019 BD '000	*2018 BD '000*
Gain / (loss) on sale of investments	**196**	(106)
Fair value changes on investments	**2,145**	(1,788)
Dividend income	**292**	1,005
	2,633	(889)

26 INCOME FROM PROPERTIES

	2019 BD '000	*2018 BD '000*
Gain on sale of development properties	**-**	35
(Loss) / gain on sale of investment properties	**(302)**	528
Impairment of investment properties	**(1,140)**	(143)
	(1,442)	420

27 FEES AND COMMISSION, NET

	2019 BD '000	*2018 BD '000*
Transaction related fees and income	**2,258**	2,424
Arrangement fees	**1,555**	1,075
LC and LG commission	**1,463**	3,587
Credit and debit card income	**974**	889
Others	**1,389**	1,421
	7,639	9,396

28 OTHER INCOME

	2019 BD '000	2018 BD '000
Recoveries from pre-acqusition provisions	**2,491**	8,567
Foreign exchange gains	**299**	304
Others	**2,099**	593
	4,889	9,464

29 STAFF COST

	2019 BD '000	2018 BD '000
Salaries and short term benefits	**14,169**	10,827
Employees' social insurance expenses	**1,156**	973
Other staff expenses	**69**	61
	15,394	11,861

30 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 31 December 2019 and 31 December 2018 were as follows:

	2019				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Assets:					
Corporate Sukuk	-	-	**3,407**	-	**3,407**
Financing assets	**10,057**	**2**	**17,256**	**1,159**	**28,474**
Non trading investments	**88,814**	-	**2,187**	-	**91,001**
Investment in associates	**10,640**	-	-	-	**10,640**
Other assets	**2,938**	-	-	-	**2,938**
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	**98,010**	**5**	-	**98,015**
Placements from customers	**943**	**7,193**	**13,881**	**2,042**	**24,059**
Customers' current accounts	**1,517**	**14,712**	**1,602**	**317**	**18,148**
Equity of investment accountholders	-	**86**	**807**	**237**	**1,130**
Other liabilities	-	**526**	-	**15**	**541**
Contingent liabilities and commitments	-	**553**	**101**	-	**654**

30 RELATED PARTY TRANSACTIONS (continued)

	2018				
	Associates, and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	9,471	-	-	9,471
Corporate Sukuk	-	-	3,393	-	3,393
Financing assets	10,168	9	16,319	1,009	27,505
Non-trading investments	89,277	-	2,297	-	91,574
Investment in associates	15,972	-	-	-	15,972
Other assets	3,204	-	-	-	3,204
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	43,029	-	-	43,029
Placements from customers	858	-	12,382	2,465	15,705
Customers' current accounts	624	3,135	1,417	318	5,494
Equity of investment accountholders	-	-	24	199	223
Other liabilities	-	-	-	4	4
Contingent liabilities and commitments	-	501	100	-	601

Income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2019				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Income:					
Finance income	**696**	**37**	**1,130**	**18**	**1,881**
Income from non-trading investments	**1,909**	-	-	-	**1,909**
Share of profit from associates	**1,209**	-	-	-	**1,209**
Expenses:					
Finance expense on placements from financial institutions	-	**2,338**	-	-	**2,338**
Finance expense on placements from customers	**26**	**29**	**480**	**62**	**597**
Share of profit on equity of investment accountholders	-	**2**	**1**	**1**	**4**
Other operating expenses	-	-	**1,019**	-	**1,019**

30 RELATED PARTY TRANSACTIONS (continued)

	2018				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Income:					
Finance income	445	45	898	34	1,422
Income from non-trading investments	883	-	(73)	-	810
Share of profit from associates	375	-	-	-	375
Expenses:					
Finance expense on placements from financial institutions	-	1,093	-	-	1,093
Finance expense on placements from customers	40	-	301	69	410
Share of profit on equity of investment accountholders	-	-	-	1	1
Other operating expenses	-	-	983	-	983

Board of Directors' remuneration for the year 2019 amounted to BD 787 thousands (2018: BD 595 thousands).

Sharia Supervisory Boards' remuneration for the year 2019 amounted to BD 72 thousands (2018: BD 34 thousands).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2019 includes salaries and other short-term benefits of BD 2,851 (2018: BD 2,605 thousands).

31 CONTINGENT LIABILITIES AND COMMITMENTS

	2019 BD '000	*2018 BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**20,860**	21,523
Letters of credit	**9,223**	13,781
Acceptances	**808**	2,195
	30,891	37,499
Irrevocable unutilised commitments		
Unutilised financing commitments	**55,230**	52,122
Unutilised non-funded commitments	**9,396**	9,262
	64,626	61,384

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2019 BD '000	*2018 BD '000*
Within 1 year	**1,238**	1,275
After one year but not more than five years	**746**	1,740
	1,984	3,015

32 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions for general management of its balance sheet to manage its exposures to foreign currency risk. The fair values of derivative instruments as at 31 December 2019 is as follows;

	2019		*2018*	
	BD '000		*BD '000*	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
FX Wa'ad instruments	**4,967**	**5,058**	22,730	22,858

33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, information security risk and market risk. It is also subject to early settlement risk.

The Group's risk function is independent of lines of business and the Group Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

Board of Directors
The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Executive Committee
The Executive Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Shari'a Supervisory Board
The Group’s Shari’a Supervisory Board is entrusted with the responsibility to ensure the Group’s adherence to Shari’a rules and principles in its transactions and activities.

Risk Committee
Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

Asset and Liability Committee
The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group’s financial position in terms of ICAAP, Stress Testing, Step-in Risk, Structure, Distribution, Risk and Return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group’s financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Information Security Committee
Information Security Committee is an advisory committee appointed by the Management Executive Committee of the Bank to develop, review and execute a comprehensive Information Security Management System for the Bank. The Committee will periodically review the information security risk exposure of the Bank.

Audit and Risk Committee
The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group’s external and internal auditors.

Internal Audit
Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems
The Group's risk management policies aim to identify, measure, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

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

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

33.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Credit risk grades

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

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Credit risk grades (continued)

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

	Gross maximum exposure 2019 BD '000	*Gross maximum exposure 2018 BD '000*
ASSETS		
Balances with other banks	**101,014**	44,882
Placements with financial institutions	**118,615**	140,304
Corporate Sukuk	**21,880**	9,222
Financing assets and finance lease assets	**1,071,686**	825,797
Non-trading investments-debt	**21**	1,229
Financing contracts under other assets	**7,285**	11,680
Total	**1,320,501**	1,033,114
Contingent liabilities and commitments	**95,063**	97,750
Total credit risk exposure	**1,415,564**	1,130,864

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Corporate Sukuk and finance lease contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabalmal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good grade, 5 to 7 represents satisfactory grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency (S&P, Moody's, Fitch & Capital Intelligence) are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

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

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

The key parameters into the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Definition of default

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

Probability of default

PDs estimates are estimated at a certain date, which are calculated based on the Bank's default experience, and assessed using rating tools tailored to the segment of counterparties and exposures. These estimations are based on internally compiled data comprising both quantitative and qualitative factors. In case of lack of default history, market data may also be used to derive the PD for selected segment of counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs credit risk estimation models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time.

Incorporation of forward - looking information

The Group uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from the expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analyzing the portfolio and impact. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices.

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

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual’s assets for the unsecured portion of the exposure.

In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

Exposure At Default

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

Significant Increase in Credit Risk

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

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or the CCF considered for capital charge.

The Bank applies regulatory CCF as defined by the Central Bank of Bahrain.

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**219,823**	**-**	**-**	**219,823**
Allowance for credit losses	**(194)**	**-**	**-**	**(194)**
	219,629	**-**	**-**	**219,629**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	162,790	-	-	162,790
Satisfactory (R5-R7)	22,397	-	-	22,397
Allowance for credit losses	(1)	-	-	(1)
	185,186	-	-	185,186

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit- BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**14,527**	**3,410**	**-**	**17,937**
Satisfactory (R5-R7)	**3,949**	**-**	**-**	**3,949**
Allowance for credit losses	**(3)**	**(3)**	**-**	**(6)**
	18,473	**3,407**	**-**	**21,880**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit- BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	-	3,408	-	3,408
Satisfactory (R5-R7)	5,833	-	-	5,833
Allowance for credit losses	(4)	(15)	-	(19)
	5,829	3,393	-	9,222

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

ii) Financing assets and receivable from finance lease assets

	2019			
	Stage 1: 12-month ECL BD '000	***Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**885,003**	**83,894**	**1,930**	**970,827**
Satisfactory (R5-R7)	**49,188**	**26,890**	**32,036**	**108,114**
Default (D8-D10)	**-**	**-**	**19,282**	**19,282**
Allowance for credit losses and impairment	**(6,625)**	**(7,287)**	**(12,625)**	**(26,537)**
	927,566	**103,497**	**40,623**	**1,071,686**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	594,079	50,780	3,424	648,283
Satisfactory (R5-R7)	121,832	25,403	28,242	175,477
Default (D8-D10)	-	-	35,084	35,084
Allowance for credit losses and impairment	(4,968)	(5,303)	(22,776)	(33,047)
	710,943	70,880	43,974	825,797

iii) Non trading investments - debt-type

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**21**	**-**	**-**	**21**
	21	**-**	**-**	**21**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	1,229	-	-	1,229
	1,229	-	-	1,229

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

iv) Financial contracts under other assets

	2019			
	Stage 1: 12-month ECL BD '000	***Stage 2: Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**1,254**	**32**	**110**	**1,396**
Satisfactory (R5-R7)	**447**	**352**	**38**	**837**
Default (D8-D10)	**-**	**-**	**9,036**	**9,036**
Allowance for credit losses	**(80)**	**-**	**(4,008)**	**(4,088)**
	1,621	**384**	**5,176**	**7,181**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	1,866	205	33	2,104
Satisfactory (R5-R7)	372	727	600	1,699
Default (D8-D10)	-	-	10,991	10,991
Allowance for credit losses	(27)	(26)	(4,501)	(4,554)
	2,211	906	7,123	10,240

v) Financing commitments and financial guarantee contracts

	2019			
	Stage 1: 12-month ECL BD '000	***Lifetime ECL not credit-impaired BD '000***	***Stage 3: Lifetime ECL credit-impaired BD '000***	***Total BD '000***
Good (R1-R4)	**81,398**	**3,439**	**-**	**84,837**
Satisfactory (R5-R7)	**6,438**	**1,450**	**305**	**8,193**
Default (D8-D10)	**-**	**-**	**2,487**	**2,487**
Allowance for credit losses	**(227)**	**(5)**	**(222)**	**(454)**
	87,609	**4,884**	**2,570**	**95,063**

	2018			
	Stage 1: 12-month ECL BD '000	*Stage 2: Lifetime ECL not credit-impaired BD '000*	*Stage 3: Lifetime ECL credit-impaired BD '000*	*Total BD '000*
Good (R1-R4)	75,060	3,220	1,083	79,363
Satisfactory (R5-R7)	13,415	2,960	429	16,804
Default (D8-D10)	-	-	2,716	2,716
Allowance for credit losses	(570)	(40)	(523)	(1,133)
	87,905	6,140	3,705	97,750

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 31 except capital commitments.

During the year BD 66,940 thousands (2018: BD 7,720 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

33 RISK MANAGEMENT (continued)
33.2 Credit risk (continued)

Write-off policy
The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that he can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written off financing facilities amounting to BD 16,600 thousands (2018: BD 45 thousands) which were fully impaired.

Collateral held and other credit enhancements
The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

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

Type of credit exposure	*Principal type of collateral held*	***2019*** ***BD '000***	*2018* *BD '000*
Financing assets to corporates	Cash, Property, Machinery, Shares and Sukuk	**464,824**	458,660
Financing assets to retail customers	Cash, Property, Shares and Sukuk	**301,792**	201,253

FTV ratio
Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2019 ***BD '000***	*2018* *BD '000*
Less than 50%	**262,466**	249,374
51-70%	**7,690**	149,332
71-90%	**320,172**	105,287
91-100%	**69,664**	29,045
More than 100%	**106,624**	126,876

Key drivers of credit risk and credit losses
Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as "counterparties"). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:
- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

33 RISK MANAGEMENT (continued)

The various types of credit risk are defined as follows:

- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net lending , population, GDP growth and government expenditure.

33.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2019, legal suits amounting to BD 385 thousands (2018: BD 5,552 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

34 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2019			*2018*		
	Assets	***Liabilities and equity of investment account holders***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, and equity of investment account holders*	*Contingent liabilities and Commitments*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Geographic region						
GCC	**1,859,459**	**1,500,645**	**88,895**	1,549,953	1,210,244	91,014
Arab World	**19,781**	**82,865**	**5,857**	46,656	56,409	7,099
Europe	**69,832**	**72,015**	**25**	35,421	80,526	34
Asia Pacific	**24,638**	**45,544**	**740**	29,616	44,628	736
North America	**40,944**	**3,631**	**-**	17,646	475	-
Others	**23,512**	**18,029**	**-**	31,087	13,275	-
	2,038,166	**1,722,729**	**95,517**	1,710,379	1,405,557	98,883

34 CONCENTRATIONS (continued)

	2019			2018		
	Assets	***Liabilities and equity of investment account holders***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, and equity of investment account holders*	*Contingent liabilities and Commitments*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Industry sector						
Government and public sector	**424,960**	**168,098**	**2,977**	469,774	138,809	7,325
Banks and financial institutions	**511,929**	**642,339**	**8,136**	296,476	503,184	10,338
Real estate	**345,064**	**97,693**	**7,535**	364,478	109,316	35,433
Trading and manufacturing	**299,079**	**257,794**	**66,834**	117,051	44,604	18,708
Aviation	**1,203**	**-**	**-**	1,308	6	-
Individuals	**383,164**	**441,606**	**5,376**	281,475	394,975	13,185
Others	**72,767**	**115,199**	**4,659**	179,817	214,663	13,894
	2,038,166	**1,722,729**	**95,517**	1,710,379	1,405,557	98,883

35 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

35.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2019			
	10% increase		***10% decrease***	
	Effect on net profit BD '000	***Effect on equity BD '000***	***Effect on net profit BD '000***	***Effect on equity BD '000***
Quoted:				
Saudi Arabia	**358**	**-**	**(358)**	**-**
Unquoted	**10,386**	**252**	**(10,386)**	**(252)**

	2018			
	10% increase		*10% decrease*	
	Effect on net profit BD '000	*Effect on equity BD '000*	*Effect on net profit BD '000*	*Effect on equity BD '000*
Quoted:				
Saudi Arabia	358	-	(358)	-
Unquoted	10,227	270	(10,227)	(270)

35 MARKET RISK (continued)

35.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2019			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
Bahraini dinars	**0.10**	**311**	**(0.10)**	**(311)**
US dollars	**0.10**	**341**	**(0.10)**	**(341)**

	2018			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	0.10	134	(0.10)	(134)
US dollars	0.10	314	(0.10)	(314)

Profit rate benchmark reform (PBOR)

LIBOR is a benchmark rate at which banks estimate they can lend money to other banks on an unsecured basis. LIBOR was published for five different currencies and for seven different maturities. After 2021 it will not be mandatory for banks to publish LIBOR as per the Financial Conduct Authority , regulator of LIBOR. Altenatively, a Secured overnight funding rate (SOFR) will be published which will be a risk free rate and the profit rate for various currencies will be reviewed by the respective currencies regulators. The Group has contracts which are at variable profit rates based on LIBOR. The Group is still in the process of assessing the impact of transition to the risk free rate for its financing portfolio.

35.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2019 and 2018.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	Long (short) 2019 BD '000	*Long (short) 2018 BD '000*
Sterling Pounds	**4,427**	6,347
Kenyan Shilings	**2,115**	2,088
Euro	**(2,499)**	(7,172)
Others	**294**	126

Standard scenarios that are considered include a 10% increase or decrease in exchange rates other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables primarily profit rates, remain constant) is as follows:

	Change in Currency rate %	***Effect on profit 2019 BD '000***	*Change in Currency rate %*	*Effect on profit 2018 BD '000*
Sterling Pounds	**10**	**443**	10	635
Kenyan Shilings	**10**	**212**	10	209
Euro	**10**	**(250)**	10	(717)
Others	**10**	**29**	10	13
Total		**434**		140

36 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2019 is 165.09% and the simple average of the daily consolidated LCRs of the last six months is 234.35%. The NSFR as at 31 December 2019 is 105.82%.

The maturity profile of sovereign and corporate sukuk, placements with or from financial institutions, financing assets, finance lease assets and murabaha term financing has been presented using the contractual maturity period. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

	2019				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and Central Bank	**219,456**	**-**	**-**	**-**	**219,456**
Sovereign Sukuk	**5,162**	**20,574**	**165,233**	**149,981**	**340,950**
Placements with financial institutions	**117,346**	**1,269**	**-**	**-**	**118,615**
Corporate Sukuk	**10,893**	**3,982**	**7,005**	**-**	**21,880**
Financing assets	**51,870**	**192,925**	**337,739**	**140,664**	**723,198**
Finance lease assets	**39,187**	**19,224**	**119,062**	**171,015**	**348,488**
Non-trading investments	**-**	**-**	**108,991**	**-**	**108,991**
Investment properties	**-**	**-**	**72,774**	**-**	**72,774**
Development properties	**-**	**-**	**2,943**	**-**	**2,943**
Investment in associates	**-**	**-**	**10,640**	**-**	**10,640**
Other assets	**13,500**	**2,480**	**1,562**	**26,718**	**44,260**
Goodwill	**-**	**-**	**-**	**25,971**	**25,971**
	457,414	**240,454**	**825,949**	**514,349**	**2,038,166**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	**305,146**	**86,868**	**-**	**-**	**392,014**
Placements from customers	**278,531**	**387,099**	**86,082**	**-**	**751,712**
Customers' current accounts	**289,456**	**-**	**-**	**-**	**289,456**
Murabaha term financing	**52,615**	**43,886**	**33,842**	**15,247**	**145,590**
Other liabilities	**10,936**	**15,014**	**9,805**	**5,726**	**41,481**
Equity of investment accountholders	**102,476**	**-**	**-**	**-**	**102,476**
	1,039,160	**532,867**	**129,729**	**20,973**	**1,722,729**

36 LIQUIDITY RISK (continued)

	2018				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and Central Bank	82,257	-	-	-	82,257
Sovereign Sukuk and placements with Central Bank	30,778	44,670	149,314	152,454	377,216
Placements with financial institutions	140,304	-	-	-	140,304
Corporate Sukuk	-	1,936	7,286	-	9,222
Financing assets	103,709	169,239	189,972	105,985	568,905
Finance lease assets	8,660	53,170	94,843	100,219	256,892
Non-trading investments	-	-	107,508	-	107,508
Investment properties	-	-	74,261	-	74,261
Development properties	-	-	6,290	-	6,290
Investment in associates	-	-	15,972	-	15,972
Other assets	9,656	1,114	8,353	26,458	45,581
Goodwill	-	-	-	25,971	25,971
	375,364	270,129	653,799	411,087	1,710,379
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	153,327	57,174	3,876	-	214,377
Placements from customers	257,034	341,300	37,407	-	635,741
Customers' current accounts	251,842	-	-	-	251,842
Murabaha term financing	77,471	28,380	47,481	2,211	155,543
Other liabilities	20,540	-	27,711	42	48,293
Equity of investment accountholders	99,761	-	-	-	99,761
	859,975	426,854	116,475	2,253	1,405,557

36 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted payment obligation:

	2019					
	On demand BD '000	***Up to 3 months BD '000***	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	**-**	**305,720**	**88,414**	**-**	**-**	**394,134**
Placements from customers	**-**	**279,522**	**395,601**	**92,048**	**-**	**767,171**
Customers' current accounts	**289,456**	**-**	**-**	**-**	**-**	**289,456**
Equity of investment accountholders	**102,476**	**-**	**-**	**-**	**-**	**102,476**
Murabaha term financing	**-**	**53,020**	**44,983**	**36,409**	**16,103**	**150,515**
Unutilised commitments	**-**	**32,820**	**30,020**	**1,786**	**-**	**64,626**
Contingent liabilities	**-**	**21,292**	**11,394**	**5,142**	**13**	**37,841**
Other financial liabilities	**16,982**	**-**	**-**	**-**	**-**	**16,982**
	408,914	**692,374**	**570,412**	**135,385**	**16,116**	**1,823,201**

	2018					
	On demand BD '000	*Up to 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	153,532	59,032	4,102	-	216,666
Placements from customers	-	257,941	348,721	40,407	-	647,069
Customers' current accounts	251,842	-	-	-	-	251,842
Murabaha term financing	-	77,768	29,745	47,481	2,211	157,205
Equity of investment accountholders	99,761	-	-	-	-	99,761
Unutilised commitments	-	26,597	34,738	49	-	61,384
Contingent liabilities	-	34,536	22,045	6,663	-	63,244
Other financial liabilities	11,849	-	-	-	-	11,849
	363,452	550,374	494,281	98,702	2,211	1,509,020

37 SEGMENT INFORMATION

Primary segment information

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

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	2019				
	Banking BD '000	***Treasury BD '000***	***Investments BD '000***	***Unallocated BD '000***	***Total BD '000***
Net income	**37,522**	**13,435**	**2,570**	**-**	**53,527**
Segment result	**13,750**	**8,847**	**(1,467)**	**-**	**21,130**
Segment assets	**1,111,107**	**722,623**	**201,962**	**2,474**	**2,038,166**
Segment liabilities, and equity	**1,098,663**	**617,227**	**1,256**	**321,020**	**2,038,166**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	2018				
	Banking BD '000	*Treasury BD '000*	*Investments BD '000*	*Unallocated BD '000*	*Total BD '000*
Net income	40,581	14,619	1,894	-	57,094
Segment result	8,561	13,312	(3,353)	-	18,520
Segment assets	834,508	661,932	212,457	1,482	1,710,379
Segment liabilities, and equity	964,454	423,469	11,827	310,629	1,710,379

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

38 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 162,077 thousands (2018: BD 164,314 thousands). These assets are held in a fiduciary capacity, measured at initial subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPE's, acts as an agent/custodian on behalf of certain clients to facilitate transations as per terms and instructions from their customers.

39 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently issue annual report on Bank's compliance following the review of the financial statements.

40 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Shari'a prohibited income totalling BD 182 thousands (2018: BD 251 thousands). These include income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions after deducting actual recovery expenses of these funds.

41 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 395 thousands (2018: 619 thousands) out of which BD 204 thousands (2018: BD 506 thousands) was paid from Sharia prohibited income pool.

42 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2019 has been determined by the Shari'a supervisory board as 2.3 fils (2018: 2.4 fils) per share. Under FAS 9, Zakah payble for the year ended 2019 was calculated at 2.5775% of the Zakah base of BD 189,479 thousands (2018: BD 198,339 thousands) which was determined on the Net Invested Funds method.

43 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	2019	*2018*
	BD '000	*BD '000*
Common equity Tier 1 capital	**265,251**	254,761
Additional Tier 1 capital	**16**	13
Tier 2 capital	**39,143**	35,557
Total capital	**304,410**	290,331
Credit risk-weighted exposures	**1,355,921**	1,304,492
Market risk-weighted exposures	**3,108**	2,306
Operational risk-weighted exposures	**100,639**	101,343
Total risk-weighted assets	**1,459,668**	1,408,141
Total capital adequacy ratio	**20.85%**	20.62%
Minimum requirement	**12.5%**	12.5%

44 FAIR VALUE HIERARCHY

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

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

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

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments carried at fair value in the consolidated statement of financial position:

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Financial assets at fair value through profit or loss	**3,578**	**6,480**	**97,380**	**107,438**
Financial assets at fair value through equity	**-**	**-**	**1,553**	**1,553**
	3,578	**6,480**	**98,933**	**108,991**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Financial assets at fair value through profit or loss	3,576	5,282	96,992	105,850
Financial assets at fair value through equity	-	-	1,658	1,658
	3,576	5,282	98,650	107,508

During the year, there was no transfers between the levels.

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	2019	*2018*
	BD '000	*BD '000*
At 1 January	**98,650**	99,861
Fair value changes	**(2,008)**	(1,641)
Disposals during the year	**-**	(48)
Repayments during the year	**(294)**	(274)
Additions during the year	**2,585**	752
At 31 December	**98,933**	98,650

44 FAIR VALUE HIERARCHY (continued)

Financial instruments not measured at fair value

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***	***Fair value***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Sovereign Sukuk	**340,950**	**-**	**-**	**340,950**	**343,975**
Corporate Sukuk	**10,825**	**-**	**11,055**	**21,880**	**22,004**
	351,775	**-**	**11,055**	**362,830**	**365,979**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*	*Fair value*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Sovereign Sukuk	354,215	-	-	354,215	349,087
Corporate Sukuk	9,222	-	-	9,222	9,390
	363,437	-	-	363,437	358,477

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2019 and 31 December 2018 due to their short term nature.

45 DEPOSIT PROTECTION SCHEME

Certain customers’ deposits of the Bank are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons’ (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Bank under this scheme.

46 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported profit for the year and total equity of the Group.