BAHRAIN ISLAMIC BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Dr. Esam Abdulla Fakhro, *Chairman* Khalid Yousif Abdul Rahman, *Vice Chariman* Mohamed Abdulla Nooruddin Khalid Abdulaziz Al Jassim Marwan Khaled Tabbara Mohammed Abdulla Al Jalahma Jean Christophe Durand Yaser Abduljalil Al Sharifi Dana Abdulla Buheji
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17515151, Telefax 17535808
Auditors	:	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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د. عصام عبدالله فخرو
Dr. Esam Abdulla Fakhro
Chairman رئيس مجلس الإدارة

BOARD OF DIRECTORS REPORT

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors, I am privileged to present the annual report and consolidated financial statements of Bahrain Islamic Bank for 2019.

Despite the continuing geopolitical evens, which I have mentioned over the past two years, the Bank has delivered solid results. Profit income, fees and commissions and profit before impairments have all exceeded the previous year. Furthermore, even though expenses increased by 9%, the Bank recorded a 6% growth in profit income and 10% growth in fees and commission income.

The Bank's risk management, governance and compliance policies and practices remain prudent and are constantly under review and enhancement in order to not only keep up with regulations but equally importantly, with increased external risks. Giant leaps in technology were achieved in 2019 where the Bank introduced various new-to-market services utilising smart phones and other user-experience-enhancing delivery channels.

The acquisition by the National Bank of Bahrain of additional 49.75% share in BisB was a major event, not only for both banks, but equally for the industry as a whole and for Bahrain, as well. The new partnership makes very good sense for both institutions and is expected to yield two stronger, more diversified banks in their respective market segments. So, I remain optimistic for the future of BisB, particularly after the new partnership with NBB. We expect, insha'Allah, that future results will reflect the true picture of BisB's quality earnings, which had historically been weighed down by excess legacy provisions.

On behalf of the shareholders, the Board of Directors record their grateful thanks and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa – the King of Bahrain; to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister; to His Royal Highness Shaikh Salman bin Hamad Al Khalifa – the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister.

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صندوق بريد ٥٢٤٠، المنامة
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فاكس ٥٣٥٨٠٨ ١٧ ٩٧٣+

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The Directors also express thanks to all Government ministries and authorities – in particular to the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism for their invaluable guidance, kind consideration and constant support.

The Directors are grateful for the guidance and counsel of the Bank's Sharia'a Supervisory Board. The committed dedication of BisB's management and staff is also acknowledged, as well as our loyal customers and business partners, for their trust and confidence in Bahrain Islamic Bank.

Dr. Esam Abdulla Fakhro
Chairman of the Board

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بنك البحرين الإسلامي BisB

Sharia'a Supervisory Board report

For the year ended on 31/12/2019

In The Name of Allah, most Gracious,
Most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2019, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

First: Supervision and Revision of the Bank's Business

In coordination with the Sharia Coordination and implementation, the Sharia Supervisory Board has monitored the implementation on the Bank's products and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2019 to ensure the Bank's adherence to the provisions and principles of Islamic Sharia'a.

The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.

Second: Sharia'a Audit of the Bank's Business

1) Sharia'a Internal Audit

We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.

Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the Plan and methodology approved by the Sharia'a Board.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

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The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.

The 14 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.

2) Independent External Shari'a Compliance Audit

The Sharia'a Supervisory Board reviewed the audit report provided by the Independent External Shari'a Auditor on the Bank's activities and the progress of work in the Sharia'a Departments, which demonstrated that the Bank's operations, transactions and services have been implemented based on appropriate procedures that confirms its compliance with the Islamic Shari'a rules, principles and provisions, and that they have went through the Bank's necessary administrative channels from Senior Management, Internal Audit and Shari'a Supervisory Board.

Third: Sharia Governance

The Sharia'a Supervisory Board reviewed the Bank's Management report on Sharia'a Compliance and Governance, which shows the proper functioning of the supervision procedures related to compliance structures and Sharia governance in the Bank, and the Management's assertion on the effectiveness of the mechanism and operation of supervision procedures.

The Sharia'a Supervisory Board affirms that it has fulfilled all the requirements of Sharia Governance issued by the Central Bank of Bahrain with the Sharia Coordination and Implementation Department and the Internal Sharia Audit Department.

Forth: Sharia Supervisory Board Operations

The Sharia Board and its Committees held (16) meetings during the year and issued (160) decisions and fatwas, and approved (91) contracts.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

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Fifth: Financial Statements and Zakat Calculation Methods

The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2019, the income statement, the attached notes and the Zakat calculation methods.

Based on the above, the Sharia'a Supervisoy Board decides that:

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions AAOIFI.
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the provisions and principles of Sharia'a as per Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank 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, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund 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 Organisation 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 consolidated financial position of the Group as at 31 December 2019, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated sources and uses of good faith qard fund, and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (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 No. 213
11 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**2019 BD'000**	2018 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	**61,629**	65,437
Placements with financial institutions	4	**76,068**	137,450
Financing assets	5	**574,851**	580,076
Investment securities	6	**246,213**	240,053
Ijarah Muntahia Bittamleek	8	**179,857**	165,730
Ijarah rental receivables	8	**24,546**	21,141
Investment in associates	7	**18,750**	21,643
Investment in real estate	10	**18,756**	24,284
Property and equipment	9	**13,591**	13,641
Other assets	11	**9,299**	11,062
TOTAL ASSETS		**1,223,560**	1,280,517
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**188,551**	114,744
Placements from non-financial institutions and individuals		**253,610**	36,234
Borrowings from financial institutions	12	**29,566**	96,386
Customers' current accounts		**181,692**	133,244
Other liabilities	13	**21,516**	25,148
Total Liabilities		**674,935**	405,756
Equity of Investment Accountholders	14	**427,702**	757,012
Owners' Equity			
Share capital	15	**106,406**	106,406
Treasury shares	15	**(892)**	(892)
Shares under employee share incentive scheme		**(281)**	(391)
Share premium		**180**	120
Reserves		**15,510**	12,506
Total Owners' Equity		**120,923**	117,749
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,223,560**	1,280,517

The consolidated financial statements were approved by the Board of Directors on 11 February 2020 and signed on its behalf by:

Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	*2019* BD'000	*2018* BD'000
INCOME			
Income from financing	18	**45,464**	43,110
Income from investment in Sukuk		**11,932**	10,829
Total income from jointly financed assets		**57,396**	53,939
Return on equity of investment accountholders		**(33,071)**	(40,440)
Group's share as Mudarib		**23,001**	27,223
Net return on equity of investment accountholders	14.5	**(10,070)**	(13,217)
Group's share of income from jointly financed assets (both as mudarib and investor)		**47,326**	40,722
Expense on placements from financial institutions		**(4,315)**	(2,043)
Expense on placements from non-financial institutions and individuals		**(5,944)**	(779)
Expense on borrowings from financial institutions		**(2,386)**	(4,034)
Fee and commission income, net		**5,916**	5,394
Income from investment securities	19	**613**	216
Income from investment in real estate	20	**(274)**	(556)
Share of results of associates, net	7	**(133)**	86
Other income	21	**1,491**	4,372
Total income		**42,294**	43,378
EXPENSES			
Staff costs		**14,119**	12,588
Depreciation	9	**1,353**	1,473
Other expenses	22	**9,610**	9,041
Total expenses		**25,082**	23,102
Profit before impairment allowances		**17,212**	20,276
Impairment allowance, net	23	**(10,998)**	(8,895)
PROFIT FOR THE YEAR		**6,214**	11,381
BASIC AND DILUTED EARNINGS PER SHARE (fils)	25	**5.91**	10.83

Dr. Esam Abdulla Fakhro Chairman	Khalid Yousif Abdul Rahman Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	*2019* *BD'000*	*2018* *BD'000*
OPERATING ACTIVITIES			
Profit for the year		**6,214**	11,381
Adjustments for non-cash items:			
Depreciation	9	**1,353**	1,473
Impairment allowance, net	23	**10,998**	8,895
Impairment on investment in real estate	20	**484**	204
(Gain) / Loss on sale of investment in real estate	20	**(63)**	531
(Gain) / Loss on foreign exchange revaluation		**(5)**	29
Recoveries from written off accounts		**-**	(3,472)
Share of results of associates, net	7	**133**	(86)
Operating profit before changes in operating assets and liabilities		**19,114**	18,955
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**(410)**	100
Financing assets		**(2,061)**	(34,485)
Ijarah Muntahia Bittamleek		**(18,780)**	(8,359)
Other assets		**1,565**	(693)
Customers' current accounts		**48,448**	1,578
Other liabilities		**(3,744)**	11,729
Placements from financial institutions		**75,960**	44,719
Placements from non-financial institutions and individuals		**217,376**	7,255
Equity of investment accountholders		**(329,310)**	(7,765)
Net cash from operating activities		**8,158**	33,034
INVESTING ACTIVITIES			
Disposal of investment in real estate		**2,308**	3,480
Redemption of investment in associates		**887**	-
Purchase of investment securities		**(36,059)**	(75,590)
Purchase of property and equipment		**(1,303)**	(844)
Proceeds from disposal of investment securities		**29,511**	95,504
Net cash (used in) / from investing activities		**(4,656)**	22,550
FINANCING ACTIVITIES			
Purchase of treasury shares		**(121)**	-
Repayment of borrowings from financial institutions		**(66,820)**	(5,190)
Dividends paid		**(7)**	(72)
Net cash used in financing activities		**(66,948)**	(5,262)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(63,446)**	50,322
Cash and cash equivalents at 1 January		**163,116**	112,794
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**99,670**	163,116
Cash and cash equivalents comprise of:			
Cash on hand	3	**16,221**	15,318
Balances with CBB, excluding mandatory reserve deposits	3	**465**	242
Balances with banks and other financial institutions excluding restricted balances	3	**6,916**	10,106
Placements with financial institutions with original maturities less than 90 days	4	**76,068**	137,450
		99,670	163,116

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2019

	Share capital BD'000	Treasury shares BD'000	Shares under employee share incentive scheme BD'000	Share premium BD'000	Reserves: Statutory reserve BD'000	Reserves: Real estate fair value reserve BD'000	Reserves: Investment securities fair value reserve BD'000	Reserves: Retained earnings BD'000	Reserves: Total reserves BD'000	Total owners' equity BD'000
Balance at 1 January 2019	**106,406**	**(892)**	**(391)**	**120**	**4,115**	**4,830**	**718**	**2,843**	**12,506**	**117,749**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,214**	**6,214**	**6,214**
Zakah approved	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(179)**	**(179)**	**(179)**
Donations approved	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250)**	**(250)**	**(250)**
Shares allocated to staff during the year	**-**	**-**	**231**	**60**	**-**	**-**	**-**	**-**	**-**	**291**
Purchase of treasury shares	**-**	**(121)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(121)**
Transfer to shares under employee share incentive scheme	**-**	**121**	**(121)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net movement in real estate fair value reserve	**-**	**-**	**-**	**-**	**-**	**(2,781)**	**-**	**-**	**(2,781)**	**(2,781)**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**621**	**-**	**-**	**(621)**	**-**	**-**
Balance at 31 December 2019	**106,406**	**(892)**	**(281)**	**180**	**4,736**	**2,049**	**718**	**8,007**	**15,510**	**120,923**
Balance at 1 January 2018	**101,339**	**(864)**	**(498)**	**98**	**2,977**	**6,145**	**745**	**12,328**	**22,195**	**122,270**
Impact of adopting FAS 30	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,943)**	**(13,943)**	**(13,943)**
Impact of adopting FAS 30 by associate	-	-	-	-	-	-	-	**(350)**	**(350)**	**(350)**
Balance at 1 January 2018 (restated)	101,339	(864)	(498)	98	2,977	6,145	745	(1,965)	7,902	107,977
Profit for the year	-	-	-	-	-	-	-	11,381	11,381	11,381
Bonus shares declared for 2017	5,067	(28)	(34)	(35)	-	-	-	(4,970)	(4,970)	-
Zakah approved	-	-	-	-	-	-	-	(265)	(265)	(265)
Donations approved	-	-	-	-	-	-	-	(200)	(200)	(200)
Shares allocated to staff during the year	-	-	141	57	-	-	-	-	-	198
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(27)	-	(27)	(27)
Net movement in real estate fair value reserve	-	-	-	-	-	(1,315)	-	-	(1,315)	(1,315)
Transfer to statutory reserve	-	-	-	-	1,138	-	-	(1,138)	-	-
Balance at 31 December 2018	106,406	(892)	(391)	120	4,115	4,830	718	2,843	12,506	117,749

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2019

	Qard Hasan receivables BD'000	*Funds available for Qard Hasan BD'000*	*Total BD'000*
Balance at 1 January 2019	**71**	**57**	**128**
Sources of Qard Fund			
Non-Islamic income	**-**	**89**	**89**
Repayments	**(37)**	**37**	**-**
Total sources during the year	**(37)**	**126**	**89**
Uses of Qard fund			
Marriage	**14**	**(14)**	**-**
Others (Waqf)	**9**	**(9)**	**-**
Total uses during the year	**23**	**(23)**	**-**
Balance at 31 December 2019	**57**	**160**	**217**
Balance at 1 January 2018	71	57	128
Sources of Qard Fund			
Repayments	(36)	36	-
Total sources during the year	(36)	36	-
Uses of Qard fund			
Marriage	10	(10)	-
Others (Waqf)	26	(26)	-
Total uses during the year	36	(36)	-
Balance at 31 December 2018	71	57	128

	***2019* BD'000**	*2018 BD'000*
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Non-Islamic income	**89**	-
	217	128

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2019

	2019	*2018*
	BD'000	*BD'000*
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**314**	259
Non-Islamic income / late payment fee	**580**	374
Contributions by the Bank for zakah	**192**	265
Contributions by the Bank for donations	**250**	200
Total sources of zakah and charity funds during the year	**1,336**	1,098
Uses of zakah and charity funds		
Philanthropic societies	**334**	366
Aid to needy families	**527**	381
Islamic events	**-**	37
Others	**74**	-
Total uses of funds during the year	**935**	784
Undistributed zakah and charity funds at the end of the year	**401**	314

1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2018: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company SPC.

Abaad Real Estate Company SPC ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 11 February 2020.

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2. bb.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the Commercial Companies Law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

a. New standards, amendments, and interpretations

New standards, amendments, and interpretations issued and effective:

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2019 that would be expected to have a material impact on the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective

The following new standards and amendments to standards are effective for financial year beginning after 1 January 2020 with an option to early adopt. However, the Bank has not early adopted any of these standards.

i. 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 (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicable, for the Islamic financial institutions from both perspectives i.e. the principal (investor) and the agent.

Principal (Investor)
The standard requires the principal either to follow the Pass through approach (as a preferred option) or the Wakala venture approach.

Pass through approach
A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. There is a rebuttable assumption that in all investment agency arrangements, the investor takes direct exposure on the underlying assets (including a business) at the back end. As a result, the investor shall account for the assets (including the business) in its books directly, according to appropriate accounting policies applicable on such assets (or business) in line with respective FAS or the generally accepted accounting principles in absence of a specific FAS on the subject.

Wakala venture approach
Wakala venture approach can be adopted when the, if the investment agency contracts meets the conditions of the instrument being transferable and the investment is subject to frequent changes at the discretion of the agent. In case of this approach, the principal accounts for the investment in Wakala venture by applying the equity method of accounting.

Agent
The standard requires the agent either to follow the off- balance sheet approach or the on- balance sheet approach (only on exceptions by virtue of additional considerations attached to the investment agency contract.

Off-balance sheet approach
At inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach whereby, since the agent does not control the related assets / business and hence does not record the assets and related income and expenditure in its books of account. The agent shall not recognize the assets and / or liabilities owned by the investor(s) (principal(s)) in its books of account.

If the agent previously owned such assets directly or through on-balance sheet equity of investment accountholders or similar instruments, the agent shall de-recognize the assets (and liabilities) from its books of account.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective (continued)

On-balance sheet approach
An agent may maintain multi-level investment arrangements based on independent permissible transactions with the agent itself. Notwithstanding the requirements of this standard with regard to investment agency arrangements, such secondary transactions shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The agent shall consider the investment agency arrangement as a quasi-equity instrument for accounting purposes, if the investment agency instrument, by virtue of additional considerations attached to the instrument, is subordinated to all liabilities of the agent.

This standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions
An entity may opt not to apply this standard only on such transactions:
a. which were already executed before the adoption date of this standard for the entity; and
b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

The adoption of this amendment will not have a significant impact on the consolidated financial statements.

ii. 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 and will not be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". 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.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions
The standard shall be applicable on a retrospective basis. However, the cumulative effect, if any, attributable to profit and loss taking stakeholders, including investment accountholders related to previous periods, shall be adjusted with the investments fair value reserve pertaining to such class of stakeholders.

The Bank is still in the process of estimating the impact of adoption of this standard on the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective (continued)

iii. FAS 34 - Financial Reporting for Sukuk-holders

The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-holders.

This standard shall apply to Sukuk in accordance with Shari'ah principles and rules issued by an IFI or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard.

The standard classifies Sukuk as Business Sukuk and Non-business sukuk and lays down accounting treatment for Business and Non- business Sukuk.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions
An entity may opt not to apply this standard only on such transactions:
a. which were already executed before the adoption date of this standard for the entity; and
b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

The adoption of this amendment will not have a significant impact on the consolidated financial statements.

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. 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 to the date that control seizes.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

c. 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 excluding restricted balances and placements with financial institutions with original maturities of 90 days or less when acquired.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Placements with and borrowings from financial institutions

Placements with financial institutions

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

Borrowings from financial institutions

Borrowings from financial institutions comprise borrowings obtained through murabaha contract recognized on the origination date and carried at amortized cost.

e. Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka contracts. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

f. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

g. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

h. Investment securities

Investment securities comprise debt type instruments carried at amortised cost and equity type instruments carried at fair value through equity.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

Debt type instruments carried at amortised cost

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated statement of income when the instruments are de-recognised or impaired.

Equity type instruments carried at fair value through equity

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of entity after reducing all its liabilities. On initial recognition, equity-type instruments that are not designated to fair value through income statement are classified as investments at fair value through equity.

Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Measurement principles

Fair value measurement
For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

Investments classified at fair value through equity where there is no quoted price or the Group is unable to determine a reliable measure of fair value on a continuing basis are stated at cost less impairment allowances.

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

j. Investment in associates
Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from the changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated statement of income.

Accounting policies of the associates are consistent with the policies adopted by the Group.

k. Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease installments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Investment in real estate

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

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

m. Property and equipment

Property and equipment are recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

n. Equity of investment accountholders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders’ funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Group’s share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners’ equity and IAH.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

o. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

p. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

r. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

s. Dividends and board remuneration

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

t. Derecognition of financial assets and liabilities

Financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expired.

u. Treasury shares

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group’s own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue, or cancellation of own equity instruments.

v. Earnings prohibited by Shari'a

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

w. Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Income recognition

Murabaha and Wakala
Income from Murabaha and Wakala contracts is recognised on a time-apportioned basis over the period of the contract using the effective profit rate method.

Musharaka
Profit or losses in respect of the Group’s share in Musharaka financing transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Sukuk
Income from Sukuk is recognised using the effective profit rate over the term of the instrument.

Placements with financial institutions
Income on placements from financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

Dividend income
Dividend is recognised when the right to receive payment is established.

Fee and commission income
Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

y. Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

z. Impairment of exposures subject to credit risk

The Group recognizes loss allowances based ECL on the following:

(i) Bank balances and placements with banks;
(ii) Financing assets;
(iii) Ijarah Muntahia Bittamleek & rental receivables;
(iv) Investment in Sukuk - debt type securities at amortised cost;
(v) Financial guarantee contracts issued; and
(vi) Commitments to finance.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Impairment of exposures subject to credit risk (continued)

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

(i) Debt-type securities that are determined to have low credit risk at the reporting date; and

(ii) Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, 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 informed credit assessment including forward-looking information.

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposures subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or

- the financial asset is more than 90 days past due

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Exposures migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Impairment of exposures subject to credit risk (continued)

ii) Measurement of ECL

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

(i) Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
(ii) Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
(iii) Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
(iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

iii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

iv) Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the exposures have occurred.

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

(i) significant financial difficulty of the borrower or issuer;
(ii) a breach of contract such as a default;
(iii) the restructuring of a financing facility by the Group on terms that the Group would not consider
(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

v) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

vi) Write-off

Exposures subject to credit risk are written off either partially or in their entirety. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Equity investments classified at Fair Value Through Equity (FVTE)

For equity-type securities carried at fair value through equity, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment. If such evidence exists, impairment is measured as the difference between acquisition cost and current fair value, less any impairment loss previously recognised in the consolidated statement of income.

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated statement of income are subsequently reversed through equity.

For investments classified at fair value through equity but carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the carried value of the investment.

bb. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note 2. z and note 27.

- Impairment on Ijarah rental receivables: key assumptions used in estimating recoverable cash flows is set out in note 2. z.

- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 2. z and note 27.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

bb. Use of estimates and judgements in preparation of the consolidated financial statements (continued)

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

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 debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. 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 [refer note 2.h].

Impairment of equity investments
The Group determines that equity securities carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

For unquoted equity investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. In making this judgment, the Group evaluates among other factors, evidence of a deterioration in the financial health of the investee, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

cc. Trade date accounting
All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee. Employees' benefits

i. 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 as 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.

ii. Post-employment benefits

Pension and other benefits for Bahraini employees are covered by 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 Group are recognised as an expense in the consolidated statement of income when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under 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.

These benefits are in the nature of "defined benefits scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated statement of income.

The Group also operates a voluntary employee saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by the Board of trustees who are employees of the Group. The scheme is in the nature of defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated statement of income when they are due.

iii. Share based employee incentive scheme

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

ff. 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.

gg. Repossessed assets

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

hh. Statutory reserve

The Commercial Companies Law requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

ii. URIA protection scheme

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

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2019	*2018*
	BD'000	*BD'000*
Cash on hand	**16,221**	15,318
Balances with CBB, excluding mandatory reserve deposits	**465**	242
Balances with banks and other financial institutions	**9,428**	14,772
	26,114	30,332
Mandatory reserve with CBB	**35,515**	35,105
	61,629	65,437

The mandatory reserve with CBB is not available for use in the day-to-day operations.

Balances with banks and other financial institutions include an amount of BD 2,512 thousand (2018: BD 4,666 thousand) which is not available for use in the day-to-day operations.

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2019	*2018*
	BD'000	*BD'000*
Commodity Murabaha	**51,147**	54,975
Deferred profits	**(5)**	(6)
	51,142	54,969
Wakala	**24,929**	82,486
	76,071	137,455
Impairment allowance	**(3)**	(5)
	76,068	137,450

5 FINANCING ASSETS

	2019 BD'000	2018 BD'000
Murabaha (note 5.1)	**481,429**	482,735
Musharaka (note 5.2)	**93,422**	97,341
	574,851	580,076

5.1 Murabaha

	2019 BD'000	2018 BD'000
Tasheel	**243,190**	217,622
Tawarooq	**196,291**	214,778
Altamweel Almaren	**86,701**	82,128
Letters of credit refinance	**23,925**	32,819
Motor vehicles Murabaha	**5,904**	7,858
Credit cards	**20,191**	19,719
Others	**36**	46
	576,238	574,970
Qard fund	**57**	71
Gross receivables	**576,295**	575,041
Deferred profits	**(68,288)**	(65,253)
Impairment allowance	**(26,578)**	(27,053)
	481,429	482,735

Non-performing Murabaha financing outstanding as of 31 December 2019 amounted to BD 91,180 thousand (2018: BD 71,265 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2019 BD'000	2018 BD'000
Commercial	**133,671**	120,762
Financial institutions	**22,895**	26,310
Others including retail	**351,441**	362,716
	508,007	509,788

The Group exposures of Murabaha financing portfolio is concentrated in the Middle East.

5.2 Musharaka

	2019 BD'000	2018 BD'000
Musharaka in real estate	**96,314**	100,127
Provision for impairment	**(2,892)**	(2,786)
	93,422	97,341

Non-performing Musharaka financing outstanding as of 31 December 2019 amounted to BD 6,530 thousand (2018: BD 4,920 thousand).

5 FINANCING ASSETS (continued)

5.3 The movement on impairment allowances is as follows:

2019	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January 2019	**2,157**	**3,146**	**24,536**	**29,839**
Net movement between stages	**205**	**(286)**	**81**	**-**
Net charge for the year	**(747)**	**(1,303)**	**9,465**	**7,415**
Write-off	**-**	**-**	**(7,784)**	**(7,784)**
At 31 December 2019	**1,615**	**1,557**	**26,298**	**29,470**

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January 2018	2,367	9,486	15,345	27,198
Net movement between stages	1,302	(4,304)	3,002	-
Net charge for the year	(1,512)	(2,036)	9,295	5,747
Write-off	-	-	(3,106)	(3,106)
At 31 December 2018	2,157	3,146	24,536	29,839

6 INVESTMENT SECURITIES

	2019 BD'000	*2018 BD'000*
a. Debt type instruments*		
Quoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**160,727**	176,806
Acquisitions	**35,999**	41,891
Disposals and redemptions	**(6,253)**	(57,970)
Gross balance at the end of the year	**190,473**	160,727
Impairment allowance	**(7)**	(23)
Net balance at the end of the year	**190,466**	160,704
Unquoted Sukuk - carried at amortised cost		
Gross balance at beginning of the year	**58,725**	62,581
Acquisitions	**60**	33,699
Disposals and redemptions	**(23,258)**	(37,534)
Foreign currency translation changes	**7**	(21)
Gross balance at the end of the year	**35,534**	58,725
Impairment allowance	**(12,187)**	(12,196)
Net balance at the end of the year	**23,347**	46,529
b. Equity type instruments		
Unquoted shares - at cost less impairment		
Gross balance	**28,436**	28,436
Impairment allowance	**(10,204)**	(9,784)
Net balance at the end of the year	**18,232**	18,652
Unquoted managed funds - at cost less impairment		
Gross balance	**14,168**	14,168
Impairment allowance	**-**	-
Net balance at the end of the year	**14,168**	14,168
Total net investment securities	**246,213**	240,053

6 INVESTMENT SECURITIES (continued)

* As of 31 December 2019, debt type instruments includes Sukuk of BD 38,800 thousand (2018: BD 134,895 thousand) pledged against borrowings from financial institutions of BD 29,566 thousand (2018: BD 96,386 thousand). (note 12)

The movement on impairment allowances on debt type instruments (Sukuk) is as follows:

2019	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
At 1 January 2019	**52**	**-**	**12,167**	**12,219**
Net charge for the year	**(32)**	**-**	**-**	**(32)**
Foreign exchange movement	**-**	**-**	**7**	**7**
At 31 December 2019	**20**	**-**	**12,174**	**12,194**

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
At 1 January 2018	96	-	11,481	11,577
Net charge for the year	(44)	-	707	663
Foreign exchange movement	-	-	(21)	(21)
At 31 December 2018	52	-	12,167	12,219

During the year impairment of BD 419 thousand (2018: BD 1,147 thousand) was provided on equity investments.

7 INVESTMENT IN ASSOCIATES

	2019	*2018*
	BD'000	*BD'000*
At 1 January	**21,643**	23,739
Share of results of associates, net	**(133)**	86
Share of changes in investee's equity	**-**	(27)
Redemption of investment in associates	**(887)**	-
Impact of adopting FAS 30	**-**	(350)
Foreign currency translation changes	**4**	(29)
Impairment allowance	**(1,877)**	(1,776)
At 31 December	**18,750**	21,643

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2019	*2018*
	BD'000	*BD'000*
Total assets	**163,932**	196,652
Total liabilities	**46,183**	77,726
Total revenues	**3,186**	4,508
Total net loss	**(2,555)**	(1,373)

Investment in associates comprise of:

Name of associate	***Ownership %***	***Country of incorporation***	***Nature of business***
Liquidity Management Centre B.S.C. (c)	*25.00%*	*Bahrain*	*Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.*
Arabian C Real Estate Company	*19.00%*	*Kuwait*	*Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region.*
Al Dur Energy Investment Company	*29.41%*	*Bahrain*	*Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.*

8 IJARAH MUNTAHIA BITTAMLEEK

	2019			*2018*		
	Properties BD'000	***Aviation related assets BD'000***	***Total BD'000***	*Properties BD'000*	*Aviation related assets BD'000*	*Total BD'000*
Cost:						
At 1 January	**217,412**	**7,540**	**224,952**	204,063	7,540	211,603
Additions	**64,202**	**-**	**64,202**	41,541	-	41,541
Settlements / adjustments	**(39,643)**	**-**	**(39,643)**	(28,192)	-	(28,192)
At 31 December	**241,971**	**7,540**	**249,511**	217,412	7,540	224,952
Accumulated depreciation:						
At 1 January	**57,222**	**2,000**	**59,222**	46,093	1,113	47,206
Charge for the year	**24,787**	**887**	**25,674**	20,931	887	21,818
Settlements / adjustments	**(15,242)**	**-**	**(15,242)**	(9,802)	-	(9,802)
At 31 December	**66,767**	**2,887**	**69,654**	57,222	2,000	59,222
Net Book Value	**175,204**	**4,653**	**179,857**	160,190	5,540	165,730

Ijarah Muntahia Bittamleek and Ijarah rental receivable of BD 204,403 thousand (2018: BD 186,871 thousand) is net of impairment allowance of BD 14,791 thousand (2018: BD 13,543 thousand) refer note 27 (a). During the year, an impairment charge of BD 1,248 thousand (2018: release of BD 774 thousand) was provided on Ijarah rental receivable (refer note 23).

9 PROPERTY AND EQUIPMENT

	2019						
	Lands BD'000	***Buildings BD'000***	***Fixture and fitting BD'000***	***Equipment BD'000***	***Furniture BD'000***	***Work in progress BD'000***	***Total BD'000***
Cost:							
At 1 January	**5,521**	**7,651**	**4,164**	**12,312**	**894**	**186**	**30,728**
Additions / Transfers	**-**	**-**	**26**	**941**	**6**	**330**	**1,303**
At 31 December	**5,521**	**7,651**	**4,190**	**13,253**	**900**	**516**	**32,031**
Depreciation:							
At 1 January	**-**	**2,483**	**3,547**	**10,210**	**847**	**-**	**17,087**
Charge for the year	**-**	**254**	**213**	**858**	**28**	**-**	**1,353**
At 31 December	**-**	**2,737**	**3,760**	**11,068**	**875**	**-**	**18,440**
Net Book Value	**5,521**	**4,914**	**430**	**2,185**	**25**	**516**	**13,591**

	2018						
	Lands BD'000	*Buildings BD'000*	*Fixture and fitting BD'000*	*Equipment BD'000*	*Furniture BD'000*	*Work in progress BD'000*	*Total BD'000*
Cost:							
At 1 January	5,521	7,651	3,837	11,519	890	569	29,987
Additions / Transfers	-	-	401	817	10	(383)	845
Disposals	-	-	(74)	(24)	(6)	-	(104)
At 31 December	5,521	7,651	4,164	12,312	894	186	30,728
Depreciation:							
At 1 January	-	2,223	3,404	9,287	803	-	15,717
Charge for the year	-	260	217	946	50	-	1,473
Relating to disposed assets	-	-	(74)	(23)	(6)	-	(103)
At 31 December	-	2,483	3,547	10,210	847	-	17,087
Net Book Value	5,521	5,168	617	2,102	47	186	13,641

10 INVESTMENT IN REAL ESTATE

	2019	*2018*
	BD'000	*BD'000*
Land	**18,675**	23,966
Buildings	**81**	318
	18,756	24,284

	2019	*2018*
	BD'000	*BD'000*
Movement in investment in real estate:		
At 1 January	**24,284**	29,831
Disposal	**(2,263)**	(4,028)
Fair value changes	**(3,265)**	(1,519)
At 31 December	**18,756**	24,284

Investment in real estate comprises of properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of Investments in real estate is classified as category 2 of fair value hierarchy.

11 OTHER ASSETS

	2019	*2018*
	BD'000	*BD'000*
Repossessed assets*	**5,103**	5,103
Receivables**	**1,453**	3,224
Staff advances	**1,697**	1,717
Prepaid expenses	**486**	803
Other	**560**	215
	9,299	11,062

*Repossessed assets are net of impairment allowance of BD 585 thousand (2018: BD 585 thousand).

**Impairment on receivables includes Stage 1 BD Nil thousand, Stage 2 BD Nil thousand and Stage 3 BD 333 thousand (2018: Stage 1 BD 5 thousand, Stage 2 BD 127 thousand and Stage 3 BD 101 thousand). During the year impairment charge of BD 202 thousand was provided (2018:BD 173 thousand) representing release of BD 5 thousand (stage 1), and charge of BD 207 thousand (stage 3) (2018: BD 5 thousand (stage 1), BD 67 thousand (stage 2) and BD 101 thousand (stage 3).

12 BORROWINGS FROM FINANCIAL INSTITUTIONS

Represents term murabaha facilities of BD 29,566 thousand (2018: BD 96,386 thousand) secured by pledge over Sukuk of BD 38,800 thousand (2018: BD 134,895 thousand) maturing within 1 month from year end. The average rate of borrowings is 3.49% (note 6).

13 OTHER LIABILITIES

	2019	*2018*
	BD'000	*BD'000*
Managers' cheques	**4,382**	3,560
Payable to vendors	**6,846**	3,874
Accrued expenses	**3,792**	3,551
Dividends payable	**921**	928
Zakah and charity fund	**401**	314
Other	**5,174**	12,921
	21,516	25,148

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment Account Holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

14.1 Equity of investment accountholders balances

	2019 ***BD'000***	*2018* *BD'000*
Type of Equity of Investment Accountholders		
Customer investment accounts		
Balances on demand	**295,096**	296,140
Contractual basis	**132,606**	460,872
	427,702	757,012

14.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

	2019 ***BD'000***	*2018* *BD'000*
Asset		
Cash and balances with banks and Central Bank	**21,564**	43,334
Financing assets, net	**235,099**	424,627
Ijarah Muntahia Bittamleek and rental receivables, net	**83,595**	137,057
Investment securities, net	**87,444**	151,994
	427,702	757,012

The Bank proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity. During the year, the Bank allocated BD 23,089 thousand of ECL (2018: ECL of BD 42,351 thousand) to the IAH.

During the year, the Bank did not charge any administration expenses to investment accounts.

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

14.3 Profit distribution by account type

Following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

	2019			2018		
Account type	**Utilization**	**Mudarib Share**	**Profit to IAH**	Utilization	Mudarib Share	Profit to IAH
Tejoori	**90%**	**97.88%**	**2.12%**	90%	97.49%	2.51%
Savings	**90%**	**97.87%**	**2.13%**	90%	97.47%	2.53%
Vevo	**90%**	**97.89%**	**2.11%**	90%	97.41%	2.59%
IQRA	**100%**	**77.46%**	**22.54%**	100%	72.99%	27.01%
Time deposits	**100%**	**50.18%**	**49.82%**	100%	45.50%	54.50%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contract.

Funds from IAH are invested in assets on a priority basis.

14.4 Equity of Investment Accountholders Reserves

	2019	*Movement*	*2018*
	BD'000	*BD'000*	*BD'000*
Profit equalisation reserve	**1,245**	-	1,245
Investment risk reserve	**-**	(1,177)	1,177

14.5 Return on equity of investment accountholders

	2019	*2018*
	BD'000	*BD'000*
Gross return to equity of investment accountholders	**31,894**	40,440
Group's share as a Mudarib	**(23,001)**	(27,223)
Utilisation of investment risk reserve	**1,177**	-
Net return on equity of investment accountholders	**10,070**	13,217

15 OWNERS' EQUITY

		2019	*2018*
		BD'000	*BD'000*
a.	Share capital		
i.	*Authorised*		
	2,000,000,000 shares (2018: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
ii.	*Issued and fully paid up*		
	1,064,058,587 shares (2018: 1,064,058,587 shares) of BD 0.100 each	**106,406**	106,406

		2019		*2018*
b.	Treasury Shares	***Number of Shares***	***BD'000***	*BD'000*
	At 31 December	**5,855,358**	**892**	892

	2019
	BD'000
Cost of treasury shares, excluding shares under employee share incentive scheme	**892**
Market value of treasury shares	**703**

The treasury shares as a percentage of total shares in issue is 0.55%

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

c. Reserves

Statutory reserve
During the year the Bank has appropriated BD 621 thousand (2018: 1,138 thousand) to the statutory reserve representing 10% of the profit for the year BD 6,214 thousand (2018: 11,381 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the profit for the year after appropriating statutory reserve.

Real estate fair value reserve
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the consolidated statement of income upon sale of the investment in real estate.

Investment fair value reserve
This represents the net unrealised gains or losses on equity investments relating to self financed investments.

15 OWNERS' EQUITY (continued)

d. Additional information on shareholding pattern

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

		2019		2018	
Names	*Nationality*	*Number of shares*	*% holding*	*Number of shares*	*% holding*
National Bank of Bahrain	Bahraini	**309,206,266**	**29.06%**	309,206,266	29.06%
Social Insurance Organisation	Bahraini	**154,604,585**	**14.53%**	154,604,585	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	**154,604,587**	**14.53%**	154,604,587	14.53%
Islamic Development Bank	Saudi	**153,423,081**	**14.42%**	153,423,081	14.42%
General Council of Kuwaiti Awqaf	Kuwaiti	**76,366,321**	**7.18%**	76,366,321	7.18%

See subsequent event note 33.

ii. The Group has only one class of shares and the holders of these shares have equal voting rights.

iii. Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2019			2018		
	Number of shares	*Number of shareholders*	*% of total outstanding shares*	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	**136,999,164**	**3,227**	**12.88%**	137,353,127	3,244	12.91%
1% and less than 5%	**92,406,481**	**5**	**8.68%**	78,854,583	4	7.41%
5% and less than 10%	**62,814,423**	**1**	**5.90%**	76,273,875	1	7.17%
10% and less than 50%	**771,838,519**	**4**	**72.54%**	771,577,002	4	72.51%
	1,064,058,587	**3,237**	**100.00%**	1,064,058,587	3,253	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2019		2018	
	No. of shares	*No. of directors*	*No. of shares*	*No. of directors*
Less than 1%	**493,443**	**2**	487,535	4

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above who are part of the management committee):

	2019		2018	
	No. of shares	*Percentage of Shareholding*	*No. of shares*	*Percentage of Shareholding*
Directors	**493,443**	**0.046%**	487,535	0.046%
Shari'a supervisory members	**187,663**	**0.018%**	190,817	0.018%
Senior management	**1,125,153**	**0.106%**	1,202,534	0.113%
	1,806,259	**0.170%**	1,880,886	0.177%

e. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 328 thousand in 2019 (2018: BD 179 thousand), charitable donations of BD 250 thousand in 2019 (2018: BD 250 thousandl) and dividends amounting to BD Nil thousand (2018: BD Nil thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

16 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2019	*2018*
	BD'000	*BD'000*
Letters of credit and acceptances	**7,448**	6,166
Guarantees	**63,324**	66,316
Credit cards	**34,638**	34,048
Altamweel Almaren	**23,113**	15,405
Operating lease commitments *	**268**	327
Commitments to finance	**39,202**	35,422
	167,993	157,684

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2019	*2018*
	BD'000	*BD'000*
Within one year	**171**	182
After one year but not more than five years	**97**	145
	268	327

17 CAPITAL ADEQUACY

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

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds.

17 CAPITAL ADEQUACY (continued)

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises on common equity as the predominant component of tier 1 capital by adding a minimum Common Equity Tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2019	*2018*
	BD'000	*BD'000*
CET 1 Capital before regulatory adjustments	**118,874**	112,919
Less: regulatory adjustments	**-**	-
CET 1 Capital after regulatory adjustments	**118,874**	112,919
T 2 Capital adjustments	**8,294**	12,559
Regulatory Capital	**127,168**	125,478

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Approach for its Market Risk. The capital requirements for these risks are as follows:

	2019	*2018*
	BD'000	*BD'000*
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**741,068**	618,293
Total Market Risk Weighted Assets	**1,263**	11,891
Total Operational Risk Weighted Assets	**114,095**	103,812
Total Regulatory Risk Weighted Assets	**856,426**	733,996
Investment risk reserve (30% only)	**-**	353
Profit equalization reserve (30% only)	**374**	374
Total Adjusted Risk Weighted Exposures	**856,052**	733,269
Capital Adequacy Ratio	**14.86%**	17.11%
Tier 1 Capital Adequacy Ratio	**13.89%**	15.40%
Minimum requirement	**12.5%**	12.5%

18 INCOME FROM FINANCING

	2019	2018
	BD'000	*BD'000*
Income from Murabaha financing	**27,135**	25,755
Income from Ijarah Muntahia Bittamleek	**10,770**	9,529
Income from Musharaka financing	**5,312**	5,923
Income from placements with financial institutions	**2,247**	1,903
	45,464	43,110

19 INCOME FROM INVESTMENT SECURITIES

	2019	2018
	BD'000	*BD'000*
Dividend income	**613**	216
	613	216

20 INCOME FROM INVESTMENT IN REAL ESTATE

	2019	2018
	BD'000	*BD'000*
Gain / (loss) on sale	**63**	(531)
Rental income	**147**	179
Impairment charge	**(484)**	(204)
	(274)	(556)

21 OTHER INCOME

	2019	2018
	BD'000	*BD'000*
Recoveries from previously written off financing	**651**	4,491
Foreign exchange gain / (loss)	**138**	(123)
Others	**702**	4
	1,491	4,372

22 OTHER OPERATING EXPENSES

	2019	2018
	BD'000	*BD'000*
Marketing and advertisement expenses	**2,374**	2,224
Professional services	**2,175**	1,442
Information technology related expenses	**1,138**	1,032
Premises and equipment expenses	**857**	918
Communication expenses	**573**	662
Board remunerations	**79**	266
Board of directors sitting fees	**221**	153
Shari’a committee fees & expenses	**66**	65
Others	**2,127**	2,279
	9,610	9,041

23 IMPAIRMENT ALLOWANCE, NET

	2019	*2018*
	BD'000	*BD'000*
Financing assets (note 5.3)	**7,415**	5,747
Ijarah rental receivables (note 8)	**1,248**	(774)
Investments in Sukuk (note 6)	**(32)**	663
Investments at fair value through equity (note 6)	**419**	1,147
Investment in associate (note 7)	**1,877**	1,776
Placements with financial institutions	**(2)**	3
Other assets	**202**	758
Commitments	**(129)**	(425)
	10,998	8,895

24 ZAKAH

The total Zakah payable as of 31 December 2019 amounted to BD 2,207 thousand (2018: BD 1,961 thousand) of which the Bank has BD 328 thousand Zakah payable (2018: BD 179 thousand) based on the statutory reserve, general reserve and retained earning as at 1 January 2020. The Zakah balance amounting to BD 1,878 thousand or 1.8 fils per share (2018: BD BD 1,782 thousand or 1.7 fils per share) is due and payable by the shareholders.

25 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2019	*2018*
Profit for the year in BD'000	**6,214**	11,381
Weighted average number of shares	**1,052,254**	1,051,093
Basic and diluted earnings per share (fils)	**5.91**	10.83

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

26 RELATED PARTY TRANSACTIONS

Related parties comprise of 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 made on commercial terms.

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

	2019				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	1,261	-	1,261
Investment in associates	-	18,750	-	-	18,750
Other assets	-	-	-	266	266
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,857	390	109	2,356
Other liabilities	-	-	297	-	297
Equity of investment accountholders	-	-	959	1,159	2,118
Placements from individuals and non-financial institutions	44,930	-	50	-	44,980

	2019				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	-	103	-	103
Income from investment in real estate	-	-	-	(72)	(72)
Share of results of associates, net	-	(133)	-	-	(133)
Return on equity of investment accountholders	(1,113)	-	(1)	(51)	(1,166)
Expense on placements from non-financial institutions and individuals	(470)	-	-	-	(470)
Expenses					
Other expenses	-	-	(366)	-	(366)
Staff costs	-	-	-	(1,552)	(1,552)

26 RELATED PARTY TRANSACTIONS (continued)

	2018				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	21,643	-	-	21,643
Other assets	-	-	-	285	285
Liabilities and Equity of investment accountholders					
Borrowings from financial institutions	-	-	-	-	-
Customers' current accounts	-	177	425	77	679
Other liabilities	-	-	500	-	500
Equity of investment accountholders	48,972	-	695	980	50,647

	2018				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	-	105	-	105
Share of results of associates, net	-	86	-	-	86
Return on equity of investment accountholders	(1,512)	-	(33)	(35)	(1,580)
Expense on borrowings from financial institutions	(532)	-	-	-	(532)
Expenses					
Other expenses	-	-	(484)	-	(484)
Staff costs	-	-	-	(1,405)	(1,405)

Compensation of the key management personnel is as follows:

	2019 BD'000	*2018 BD'000*
Short term employee benefits	**1,244**	1,143
Other long term benefits	**308**	262
	1,552	1,405

Key management personnel includes staff at the grade of assistant general manager or above and part of management committee.

27 RISK MANAGEMENT

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 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 risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Bank is primarily exposed to credit risk, liquidity risk, market risk (including profit rate risk, equity price risk, and foreign exchange risks), operational risk, reputational risk, and Sharia'a-compliance risk.

Risk management objectives

The risk management philosophy of the Group is to identify, monitor, and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

Structure and Organization of the Risk Management Function

Risk management structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

i. Establishing overall policies and procedures; and
ii. Delegating authority to the Board Risk Committee, the Board Credit Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

The Board Risk Committee is comprised of three independent members of the Board of Directors. They are responsible for overseeing the Bank's risk management governance, specificially in relation to identifying, measuring, monitoring, and reporting the risks critical to the Bank's operations.

The Board Credit Committee comprises of three designated members of the Board of Directors. The Board Credit Committee has delegated authority by the Board to manage the ongoing credit activities of the Group. Decisions are taken by the Board Credit Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): The CIC oversees the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quailty of the bank's credit and investment portfolio. The purpose of CIC is to assist managment in fulfilling its oversight responsibiliites relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, and Credit Administration.

Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

27 RISK MANAGEMENT (continued)

a. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

(i) ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, the Group's assessment for significant increase in credit risk (SICR) is done at a counterparty level by assigning and reviwieing the movement in internal rating.

For the Retail portfolio, the Group assessment for SICR is done at a facility level using days past due as the primary criteria.

(ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macro economic factors used in this analysis are shortlisted from the list given below:
1. Gross domestic product, constant prices;
2. Total investments;
3. Gross national savings;
4. Inflation, average consumer prices;
5. Volume of imports of goods and services;
6. Volume of exports of goods and services (including oil);
7. Population;
8. General government revenue;
9. General government total expenditure;
10. General government net lending / borrowing; and
11. General government net debt.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:
(i) Auto finance;
(ii) Mortgage finance;
(iii) Tasheel Finance and Others; and
(iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

27 RISK MANAGEMENT (continued)

a. Credit Risk (Continued)

(iii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

Stage 1 (12 months ECL): for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1. Only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

Stage 2 (lifetime ECL not credit impaired): for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

(iv) Definition of 'Default'

The Group definition of default is aligned with regulatory guidelines and internal credit risk management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence relevant exposure or a group of exposures is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the exposure or group of exposures that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

In general, counterparties with facilities exceeding 90 days past dues are considered in default.

(v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data for eleven variables from the International Monetary Fund (IMF) database for Bahrain.

Macro-economic variables checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables.

27 RISK MANAGEMENT (continued)

a. Credit Risk (Continued)

(vi) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

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

(i) probability of default (PD);
(ii) loss given default (LGD); and
(iii) exposure at default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated based at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

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

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 amortization. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for exposures subject to credit risk for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

(vii) Modified exposures subject to credit risk

The contractual terms of exposures subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
● Its remaining lifetime PD at the reporting date based on the modified terms; with
● The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates exposures to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of exposures is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments, and amending the terms of loan covenants. Both retail and corporate financing exposures are subject to the forbearance policy.

27 RISK MANAGEMENT (continued)

a. Credit Risk (Continued)

(vii) Modified exposures subject to credit risk (Continued)

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

Personal guarantees of the partners/promoters/directors of the borrowing entity may be obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Collateral coverage by type of credit exposure:

2019	**Properties BD'000**	**Others BD'000**	**Total BD'000**
Financing assets	**533,564**	**28,011**	**561,575**
Ijarah Muntahia Bittamleek & rental receivables	**273,044**	**27,690**	**300,734**
	806,608	**55,701**	**862,309**

2018	Properties BD'000	Others BD'000	Total BD'000
Financing assets	650,819	52,924	703,743
Ijarah Muntahia Bittamleek & rental receivables	221,745	27,647	249,392
	872,564	80,571	953,135

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2019 amounts to BD 148,855 thousand (31 December 2018: BD 192,505 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

27 RISK MANAGEMENT (continued)

a. Credit Risk (Continued)

Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	2019	*2018*
	BD'000	*BD'000*
Balances with banks and Central Bank	**45,408**	50,119
Placements with financial institutions	**76,068**	137,450
Financing assets	**574,851**	578,953
Ijarah Muntahia Bittamleek and Ijarah rental receivables	**204,403**	186,871
Investment debt securities	**213,813**	207,233
	1,114,543	1,160,626
Letters of credit, guarantees and acceptances	**70,772**	72,482

Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		*Liabilities and equity of investment accountholders*		*Commitments and contingent liabilities*	
	31 December 2019	*31 December 2018*	***31 December 2019***	*31 December 2018*	***31 December 2019***	*31 December 2018*
	BD'000	*BD'000*	***BD'000***	*BD'000*	***BD'000***	*BD'000*
Geographical region						
Middle East	**1,209,632**	1,261,461	**1,099,707**	1,154,492	**167,993**	157,684
North America	**4,591**	5,751	**2,128**	258	**-**	-
Europe	**9,315**	13,285	**165**	7,265	**-**	-
Other	**22**	20	**637**	753	**-**	-
	1,223,560	1,280,517	**1,102,637**	1,162,768	**167,993**	157,684
Industry sector						
Trading and manufacturing	**126,011**	124,846	**27,384**	46,076	**27,363**	39,771
Aviation	**-**	-	**143**	129	**-**	-
Real Estate	**154,318**	173,360	**70,571**	79,832	**37,470**	40,790
Banks and financial institutions	**136,134**	206,594	**154,377**	249,184	**2,060**	1,403
Personal / Consumer	**456,862**	431,497	**548,970**	528,079	**35,004**	34,935
Government Organization	**272,800**	273,518	**143,835**	157,989	**51,930**	20,159
Others	**77,435**	70,702	**157,357**	101,479	**14,166**	20,626
	1,223,560	1,280,517	**1,102,637**	1,162,768	**167,993**	157,684

27 RISK MANAGEMENT (Continued)

a) Credit Risk (continued)

a. The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3****	***Total***
Financing assets (Funded exposure)				
Low risks	394,602	6,010	-	400,612
Acceptable risks	78,756	23,295	-	102,051
Watch list	235	3,713	-	3,948
Non performing	-	-	97,710	97,710
Gross exposure	**473,593**	**33,018**	**97,710**	**604,321**
Less: ECL	(1,615)	(1,557)	(26,298)	(29,470)
Financing assets carrying amount	**471,978**	**31,461**	**71,412**	**574,851**
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	162,208	2,023	-	164,231
Acceptable risks	5,791	9,426	-	15,217
Watch list	-	9,384	-	9,384
Non performing	-	-	30,362	30,362
Gross exposure	**167,999**	**20,833**	**30,362**	**219,194**
Less: ECL	(208)	(2,786)	(11,797)	(14,791)
Ijarah muntahia bittamleek & Ijara rental receivables carrying amount	**167,791**	**18,047**	**18,565**	**204,403**
Investment in Sukuk				
Low risks	204,351	-	-	204,351
Acceptable risks	9,093	-	-	9,093
Watch list	-	-	-	-
Non performing	-	-	12,563	12,563
Gross exposure	**213,444**	**-**	**12,563**	**226,007**
Less: ECL	(20)	-	(12,174)	(12,194)
Investment in Sukuk carrying amount	**213,424**	**-**	**389**	**213,813**
Placements with financial institutions				
Low risks	76,071	-	-	76,071
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	**76,071**	**-**	**-**	**76,071**
Less: ECL	(3)	-	-	(3)
Placements with financial institutions carrying amount	**76,068**	**-**	**-**	**76,068**

27 RISK MANAGEMENT (Continued)

a) Credit Risk (continued)

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3****	***Total***
Balances with Banks				
Low risks	9,893	-	-	9,893
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	**9,893**	**-**	**-**	**9,893**
Less: ECL	-	-	-	-
Balances with Banks carrying amount	**9,893**	**-**	**-**	**9,893**
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	1,666	1,666
Gross exposure	**-**	**-**	**1,666**	**1,666**
Less: ECL	-	-	(333)	(333)
Other Receivables carrying amount	**-**	**-**	**1,333**	**1,333**
Total funded exposures subject to credit risk carrying amount	**939,154**	**49,508**	**91,699**	**1,080,361**
Commitments				
Gross exposure	**45,882**	**194**	**1,228**	**47,304**
ECL	(56)	(1)	-	(57)
Commitments carrying amount	**45,826**	**193**	**1,228**	**47,247**

*This includes BD 35,265 thousand of gross on-balance sheet exposures in the cooling off period.

b. The following table shows the movement in ECL in various stages:

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
At 1 January 2019	**2,789**	**5,596**	**47,639**	**56,024**
Transfer to Stage 1	**503**	**(268)**	**(235)**	**-**
Transfer to Stage 2	**(277)**	**1,314**	**(1,037)**	**-**
Transfer to Stage 3	**(119)**	**(1,315)**	**1,434**	**-**
Net movement between stages	**107**	**(269)**	**162**	**-**
Charge for the year (net)	**(994)**	**(983)**	**10,679**	**8,702**
Write-off	**-**	**-**	**(7,885)**	**(7,885)**
Foreign exchange movement	**-**	**-**	**7**	**7**
At 31 December 2019	**1,902**	**4,344**	**50,602**	**56,848**

27 RISK MANAGEMENT (Continued)

a) Credit Risk (continued)

a. The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Financing assets (Funded exposure)				
Low risks	358,750	22,913	-	381,663
Acceptable risks	113,067	31,572	-	144,639
Watch list	344	7,084	-	7,428
Non performing	-	-	76,185	76,185
Gross exposure	472,161	61,569	76,185	609,915
Less: ECL	(2,157)	(3,146)	(24,536)	(29,839)
Financing assets carrying amount	470,004	58,423	51,649	580,076
Ijarah Muntahia Bittamleek & Ijara rental receivables				
Low risks	157,789	1,469	-	159,258
Acceptable risks	11,723	927	-	12,650
Watch list	-	9,653	-	9,653
Non performing	-	-	18,853	18,853
Gross exposure	169,512	12,049	18,853	200,414
Less: ECL	(399)	(2,320)	(10,824)	(13,543)
Ijarah muntahia bittamleek & Ijara rental receivables carrying amount	169,113	9,729	8,029	186,871
Investment in Sukuk				
Low risks	199,326	-	-	199,326
Acceptable risks	7,583	-	-	7,583
Watch list	-	-	-	-
Non performing	-	-	12,543	12,543
Gross exposure	206,909	-	12,543	219,452
Less: ECL	(52)	-	(12,167)	(12,219)
Investment in Sukuk carrying amount	206,857	-	376	207,233
Placements with financial institutions				
Low risks	137,455	-	-	137,455
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	137,455	-	-	137,455
Less: ECL	(5)	-	-	(5)
Placements with financial institutions carrying amount	137,450	-	-	137,450

27 RISK MANAGEMENT (Continued)

a) Credit Risk (continued)

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3**	*Total*
Balances with Banks				
Low risks	15,014	-	-	15,014
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	15,014	-	-	15,014
Less: ECL	-	-	-	-
Balances with Banks carrying amount	15,014	-	-	15,014
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	1,423	1,802	-	3,225
Watch list	-	-	-	-
Non performing	-	-	101	101
Gross exposure	1,423	1,802	101	3,326
Less: ECL	(5)	(127)	(101)	(233)
Other Receivables carrying amount	1,418	1,675	-	3,093
Total funded exposures subject to credit risk carrying amount	999,856	69,827	60,054	1,129,737
Commitments				
Gross exposure	40,820	405	159	41,384
ECL	(171)	(3)	(11)	(185)
Commitments carrying amount	40,649	402	148	41,199

*This includes BD 37,829 thousand of gross on-balance sheet exposures in the cooling off period.

b. The following table shows the movement in ECL in various stages:

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
At 1 January 2018	3,012	11,184	39,570	53,766
Transfer to Stage 1	2,471	(1,323)	(1,148)	-
Transfer to Stage 2	(111)	2,708	(2,597)	-
Transfer to Stage 3	(27)	(4,837)	4,864	-
Net movement between stages	2,333	(3,452)	1,119	-
Charge for the year (net)	(2,556)	(2,136)	10,077	5,385
Write-off	-	-	(3,106)	(3,106)
Foreign exchange movement	-	-	(21)	(21)
At 31 December 2018	2,789	5,596	47,639	56,024

27 RISK MANAGEMENT (continued)

b. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments. The Group has leveraged part of its Sukuk portfolio by obtaining medium term financing maturing in one year.

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2019 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS								
Cash and balances with the banks and Central Bank	**26,114**	**-**	**-**	**-**	**-**	**-**	**35,515**	**61,629**
Placements with financial institutions	**76,068**	**-**	**-**	**-**	**-**	**-**	**-**	**76,068**
Financing assets	**32,808**	**20,362**	**31,917**	**42,826**	**183,732**	**263,206**	**-**	**574,851**
Ijarah Muntahia Bittamleek and rental receivables	**10,102**	**1,681**	**2,242**	**5,219**	**23,478**	**161,681**	**-**	**204,403**
Investment securities	**-**	**-**	**11,647**	**13,377**	**29,961**	**158,828**	**32,400**	**246,213**
Investment in associates	**-**	**-**	**-**	**-**	**-**	**-**	**18,750**	**18,750**
Investment in real estate	**-**	**-**	**-**	**-**	**-**	**-**	**18,756**	**18,756**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**13,591**	**13,591**
Other assets	**102**	**748**	**692**	**173**	**539**	**514**	**6,531**	**9,299**
Total assets	**145,194**	**22,791**	**46,498**	**61,595**	**237,710**	**584,229**	**125,543**	**1,223,560**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	**84,172**	**55,576**	**18,125**	**21,528**	**9,150**	**-**	**-**	**188,551**
Placements from non-financial institutions and individuals	**36,058**	**75,170**	**68,579**	**53,748**	**20,055**	**-**	**-**	**253,610**
Borrowings from financial institutions	**29,566**	**-**	**-**	**-**	**-**	**-**	**-**	**29,566**
Customers' current accounts	**36,338**	**-**	**-**	**-**	**-**	**145,354**	**-**	**181,692**
Other liabilities	**21,516**	**-**	**-**	**-**	**-**	**-**	**-**	**21,516**
Equity of investment accountholders	**116,830**	**28,410**	**22,431**	**16,462**	**6,974**	**236,595**	**-**	**427,702**
Total liabilities and equity of investment accountholders	**324,480**	**159,156**	**109,135**	**91,738**	**36,179**	**381,949**	**-**	**1,102,637**
Liquidity gap	**(179,286)**	**(136,365)**	**(62,637)**	**(30,143)**	**201,531**	**202,280**	**125,543**	**120,923**
Cumulative liquidity gap	**(179,286)**	**(315,651)**	**(378,288)**	**(408,431)**	**(206,900)**	**(4,620)**	**120,923**	**-**

27 RISK MANAGEMENT (continued)

b. Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2018 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
ASSETS	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with the banks and Central Bank	30,332	-	-	-	-	-	35,105	65,437
Placements with financial institutions	129,809	-	-	7,641	-	-	-	137,450
Financing assets	39,662	33,252	37,585	52,871	190,771	225,935	-	580,076
Ijarah Muntahia Bittamleek and rental receivables	661	14,592	2,015	3,505	21,351	144,747	-	186,871
Investments securities	-	5,774	20,069	1,611	50,017	129,763	32,819	240,053
Investment in associates	-	-	-	-	-	-	21,643	21,643
Investment in real estate	-	-	-	-	-	-	24,284	24,284
Property and equipment	-	-	-	-	-	-	13,641	13,641
Other assets	2	771	520	595	642	1,765	6,767	11,062
Total assets	200,466	54,389	60,189	66,223	262,781	502,210	134,259	1,280,517
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	84,681	11,643	-	9,184	9,236	-	-	114,744
Placements from non-financial institutions and individuals	-	-	-	13,922	22,312	-	-	36,234
Borrowings from financial institutions	36,799	14,343	-	45,244	-	-	-	96,386
Customers' current accounts	26,648	-	-	-	-	106,596	-	133,244
Other liabilities	25,148	-	-	-	-	-	-	25,148
Equity investment accountholders	184,394	125,390	87,384	112,826	7,679	239,339	-	757,012
Total liabilities and equity of investment accountholders	357,670	151,376	87,384	181,176	39,227	345,935	-	1,162,768
Liquidity gap	(157,204)	(96,987)	(27,195)	(114,953)	223,554	156,275	134,259	117,749
Cumulative liquidity gap	(157,204)	(254,191)	(281,386)	(396,339)	(172,785)	(16,510)	117,749	-

27 RISK MANAGEMENT (continued)

b. Liquidity risk (continued)

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

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

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

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

NSFR as a percentage is calculated as “Available stable funding” divided by “Required stable funding”. Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2019 the Group had NSFR ratio of 113%.

c. Market Risk

The Group has accepted the definition of market risk as defined by CBB as “the risk of losses in on and off balance sheet positions arising from movements in market prices.

i. Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities, and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The Bank will have to assess the impact. As at 31 December 2019, the Bank is in the process of assessing the impact on its financial instruments which are maturing after the expected end date for IBOR.

27 RISK MANAGEMENT (continued)

c. Market Risk (continued)

ii. Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

As at the consolidated statement of financial position date, the Group has unquoted (equities and Sukuk) of BD 56 million (31 December 2018: BD 79 million). The impact of changes in the value of these unquoted equities and Sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

iii. Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent Long (short) 2019 BD '000	*Equivalent Long (short) 2018 BD '000*
Currency		
Pound Sterling	**98**	20
Euro	**140**	89
CAD	**5**	50
JPY	**7**	15
Kuwaiti Dinars	**(1,257)**	7,109

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposures in other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

iv. Commodity risk

Commodity risk is defined as inherent risk in financial products arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

d. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28 SEGMENTAL INFORMATION

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2019			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total net income	**10,297**	**21,252**	**10,745**	**42,294**
Total expenses	**(5,929)**	**(17,192)**	**(1,961)**	**(25,082)**
Provision for impairment	**(7,356)**	**(1,179)**	**(2,463)**	**(10,998)**
Profit for the year	**(2,988)**	**2,881**	**6,321**	**6,214**
Other information				
Segment assets	**334,932**	**510,689**	**377,939**	**1,223,560**
Segment liabilities and equity	**417,266**	**564,368**	**241,926**	**1,223,560**

	31 December 2018			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total income	10,139	21,458	11,781	43,378
Total expenses	(5,157)	(15,761)	(2,184)	(23,102)
Provision for impairment	(3,808)	(740)	(4,347)	(8,895)
Profit / (loss) for the year	1,174	4,957	5,250	11,381
Other information				
Segment assets	365,325	466,958	448,234	1,280,517
Segment liabilities and equity	410,663	545,823	324,031	1,280,517

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

29 FINANCIAL INSTRUMENTS

Fair value hierarchy

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

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. In case of financing assets and Ijarah Muntahia Bittamleek, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges, it is expected that the current value would not be materially different to fair value of these assets. None of the Group's financial instruments are at fair value.

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

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

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

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

30 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

31 SHARI'A SUPERVISORY BOARD

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

32 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

33 SUBSEQUENT EVENTS

During the year one of the significant shareholders, National Bank of Bahrain (NBB) made a voluntary offer to acquire additional issued and paid up ordinary shares of the Bank. NBB is a licensed retail bank regulated by the Central Bank of Bahrain and listed on the Bahrain Bourse.

The acquisition offer included a cash or share exchange option at the preference of each shareholder of the Bank. On 22 January 2020, this offer was closed and after settlement with the shareholders of the Bank NBB's shareholding in the Bank increased from 29.06% as reported at 31 December 2019 to 78.81%.

Following is the updated list of Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares as of 22 January 2020.

		January 2020	
Names	***Nationality***	***Number of shares***	***% holding***
National Bank of Bahrain	Bahraini	**838,630,728**	**78.81%**
Social Insurance Organisation	Bahraini	**-**	**0.00%**
Social Insurance Organisation - Military Pension Fund	Bahraini	**-**	**0.00%**
Islamic Development Bank	Saudi	**-**	**0.00%**
General Council of Kuwaiti Awqaf	Kuwaiti	**76,366,321**	**7.18%**

34 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit for the year or total owners' equity.