

مصرف السلام
Al Salam Bank



Bahrain البحرين

Building on firm foundations. Delivering a sustainable growth.

AGM AND EGM | 2020

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| FIRSTLY

ANNUAL ORDINARY GENERAL ASSEMBLY MEETING FOR THE YEAR ENDED 31 DECEMBER 2019

Thursday, 19 March 2020

At 10 AM

Al Murjan Ballroom
Movenpick Hotel Bahrain
Kingdom of Bahrain

Annual Ordinary General Assembly Meeting Agenda for the Year Ended 31 December 2019

1. To approve the minutes of the previous Annual General Meeting held on 20 March 2019.
2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2019.
3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2019.
4. To receive the external auditor's report on the consolidated financial statements of the Bank for the year ended 31 December 2019.
5. To discuss and approve the consolidated financial statements of the Bank for the year ended 31 December 2019.
6. To approve and approve the operations and transactions carried out by the Bank during the year ended 31 December 2019 with any related parties or major shareholders of the Bank as presented in the notes (no. 30) to the consolidated financial statements.
7. To approve the recommendations of the Board of Directors with respect to the following appropriations of the net prof-it for the year ended 31 December 2019 (amounting to BD 21.1 million):
 - a. Transfer of BD 2.109 million to statutory reserves.
 - b. Distribution of 8% dividends of the paid-up share capital, equating to BD 17.727 million for the year ended 31 December 2019 to be equally distributed in cash dividends and bonus shares, to the Shareholders whose names are on the share register on 24 March 2020, as follows:
 - I. 4% cash dividends equating to BD 8.863 million excluding treasury shares; and
 - II. 4% bonus shares equating to 88.634 million shares – i.e. (1 share for each 25 shares held).

The dividends will be paid to the entitled Shareholders on 7 April 2020, the last day of trading with entitlement to dividend is 22 March 2020 and the first day of trading without entitlement to dividend is 23 March 2020.
 - c. Transfer of the remaining balance of BD 1.258 million to retained earnings.
8. To approve the Board of Directors remuneration in the aggregate amount of BD 787 thousand for the year ended 31 December 2019, subject to the approval of the Ministry of Industry, Commerce and Tourism.
9. To present and discuss the Corporate Governance report for the year ended 31 December 2019, as required by the Central Bank of Bahrain
10. To absolve the Directors of the Board from liability for their actions as directors during the year ended 31 December 2019.
11. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2020 and authorize the Board of Directors to determine their remuneration.
12. To appoint external auditors for the year ending 31 December 2020 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.
13. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.

01

TO APPROVE THE MINUTES OF
THE PREVIOUS ANNUAL GENERAL
MEETING HELD ON 20 MARCH 2019.

Minutes of the 2019 Annual Ordinary General Assembly Meeting

In the Name of Allah, the Beneficent and the Merciful

The Ordinary General Assembly Meeting was held at Al Murjan Ballroom, Movenpick Hotel Bahrain, Kingdom of Bahrain at 10 am, on Wednesday 20 March 2019.

Meeting Chairman

Mr. Khaleefa Butti Bin Omair Bin Yousif, Chairman of Al Salam Bank – Bahrain, chaired the General Assembly meeting.

Legal Quorum

Chairman announced the legal quorum was present for holding the meeting. The quorum of the shareholders, in person and by proxy, was 73.22% of the total shareholders of Al Salam Bank – Bahrain. The meeting President requested the Bahrain Clearing Company, being the Registrar of Al Salam Bank.

Meeting Rapporteur

The General Assembly was authorized General Counsel Mr. Eihab Abdullatif Ahmed, Corporate Secretary as meeting's rapporteur.

Members of the Board of Directors of Al Salam Bank - Bahrain

1. Mr. Khaleefa Butti Al Muhairi	Chairman
2. Mr. Alhur Mohammed Al Suwaidi	Member
3. Mr. Husein Mohamed Al Meeza	Member
4. Mr. Salman Saleh Al Mahmeed	Member
5. Mr. Zayed Ali Al Amin	Member
6. Mr. Salim Abdullah Al Awadi	Member
7. Mr. Matar Mohamed Al Blooshi	Member
8. Mr. Khalid Salim Al Halyan	Member

Members of the Fatwa and Shari'a Supervisory Board

1. Dr. Azzeddine Ben Zaghiba	Member
2. Dr. Mohammed Burhan Arbouna	Shari'a Board secretary

Executive Management of Al Salam Bank - Bahrain

1. Mr. Rafik Nayed	Group CEO
2. Mr. Anwar Murad	Deputy CEO
3. Mr. Eihab Ahmed	Chief Legal officer, Corporate Secretary
4. Mr. Yousif Ebrahim	CFO

Regulatory

(Representatives of the Central Bank of Bahrain)

1. Mr. Jaber AlAali
2. Ms. Nora Altajer
3. Ms. Khadeeja Ahmed
4. Ms. Noof AlBlooshi

(Representative of the Ministry of Industry, Commerce and Tourism)

1. Mr. Ali Ahmed Hussain
2. Mr. Ahmed Salman Ahmed

(Bahrain Bourse Representative)

1. Mr. Mohammed AlJabil

Minutes of the 2019 Annual Ordinary General Assembly Meeting (continued)

(Representatives of KPMG, Auditors of Al Salam Bank)

1. Mr. Jamal Fakhro
2. Mr. Mahesh Balasubramanian

(Representatives of Bahrain Clearing Company, Registrars of Al Salam Bank shares)

1. Ms. Heba Mubark
2. Ms. Huda Mohammed
3. Mr. Omar Al Sha'ar

Approved Agenda of the Ordinary General Assembly Meeting

1. To approve the minutes of the previous Annual Ordinary General Assembly Meeting held on 22 March 2018.
2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2018.
3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2018.
4. To receive the external auditor's report for the year ended 31 December 2018.
5. To discuss and approve the financial statements for the year ended 31 December 2018.
6. To approve and approve the operations and transactions carried out during the year ended 31 December 2018 with any related parties or major shareholders of the Bank as presented in the notes (no. 31) of the consolidated audited financial statements.
7. To approve the recommendations of the Board of Directors with respect to the following distributions of the net profit for the year ended 31 December 2018 (amounting to BD 18.5 million):
 - a. Transfer of BD 1.850 million to statutory reserves.
 - b. Distribution of 7% dividends of the paid-up share capital, equating to BD 14.987 million for the year ended 31 December 2018 to be equally distributed in cash dividends and bonus shares as follows:
 - I. 3.5% cash dividends equating to BD 7.493 million excluding treasury shares as of the date of approval of the dividends by the Annual Ordinary General Assembly Meeting; and
 - II. 3.5% bonus shares equating to 74.932 million shares – i.e. (1 share for each 28.6 shares held) to the shareholders registered in the share register of the Bank as of date of approval of the dividends by the Annual Ordinary General Assembly Meeting. All cash dividends shall be paid by no later than ten days from the date of the Annual Ordinary General Assembly Meeting.
 - c. Transfer of the remaining balance of BHD 1.662 million to reserves and retained earnings.
8. Approve the Board of Directors remuneration in the aggregate amount of BD 595 thousand for the year ended 31 December 2018, subject to the necessary approvals of the regulatory bodies.
9. To receive the Board of Directors' report on the Bank's compliance with the Corporate Governance requirements.
10. To absolve the Directors of the Board from liability for their actions as directors during the year ended 31 December 2018.
11. To approve the use of treasury shares for its transfer to the remaining shareholders of Bahrain Saudi Bank B.S.C.(C) (merged with Al Salam Bank – Bahrain B.S.C.), and authorize the Board of Directors to appoint an independent advisor to determine an exchange rate for this transaction subject to obtaining the Central Bank of Bahrain's approval.
12. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration.
13. To appoint external auditors for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.
14. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.

Minutes of the 2019 Annual Ordinary General Assembly Meeting (continued)

The meeting was initiated by Mr. Khalifa Butti bin Omair, Chairman of the Board of Directors welcoming the Shareholders, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse and representatives of the KPMG Fakhro bank's external auditors and representative of the bank's registrars.

1. To approve the minutes of the previous Annual Ordinary General Assembly Meeting held on 22 March 2018.

The meeting President asked the shareholders to bring up their remarks on the items of the previous meeting's minutes and the resolutions passed.

The minutes were endorsed with no remarks or amendments.

Resolution No. (1): The minutes of the previous Ordinary General Assembly Meeting held on 22 March 2018 were ratified.

2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2018.

Mr. Eihab Ahmed, Secretary of the Board, read the Board of Directors' report on the Bank's activities for the year ended 31 December 2018. The meeting President requested shareholders to make any remarks on the Board of Directors' report to the shareholders given to the General Assembly for discussion and comment.

Resolution No. (2): The Ordinary General Assembly unanimously approved the Board of Directors' report on the Bank's activities for the financial year ended 31 December 2018

3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2018.

Dr. Azzeddine Ben Zaghiba, member of Fatwa and Shari'a Supervisory Board of Al Salam Bank – Bahrain, read the report of the Fatwa and Shari'a Supervisory Board, the Shari'a Board emphasize that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Shari'a Board would like to confirm that the transactions executed by the Bank during the year, to the extent of the information and data made available to it by the Bank's Management, the observations of the Board and the response of the Bank's Management for compliance with observations, do not conflict, in general, with the rules and principles of Shari'a.

Resolution No. (3): The Ordinary General Assembly unanimously approved the report of the Fatwa and Shari'a Supervisory Board of the Bank for the year ended 31 December 2018.

4. To receive the external auditor's report for the year ended 31 December 2018.

Mr. Jamal Fakhro, on behalf of KPMG, the external auditor, read out the external auditors' report, in which he mentioned that the consolidated financial statements represent true and fair view of the financial position of the Group as at 31 December 2018 and of its consolidated results of operations, its consolidated changes in equity and its consolidated cash flows for the year ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a rules and principles set forth by the Shari'a Supervisory Board of the Bank.

Resolution No. (4): The Ordinary General Assembly unanimously approved the report of the external auditors on the financial statements for the year ended 31 December 2018.

5. To discuss and approve the financial statements for the year ended 31 December 2018.

Mr. Yousif Ebrahim, CFO, presented the financial statements for the year ended 31 December 2018. The Group posted a net profit attributable to shareholders of BD 18.5 million for the year, an increase of 2.57% compared to the previous year. During the meeting the Chairman requested the shareholders to present their comments.

One of the shareholders inquired about the provisions and dividends. The Executive Management and the External Auditors clarified that the Bank followed a conservative policy and take provision to implement the new strategy. The total provisions were BD 24 million, but the rate of recovery was high as it was BD 14 million.

One of the shareholders raised the issue of bank associates and requested that expansion should take place in this region rather than in unknown markets.

The CFO added that one of the reasons for low income is the high cost of financing, and the bank is working to exit from ineffective investments. In addition, the CFO added that the provisions will continue on an annual basis in accordance with the accounting standards.

Resolution No. (5): The Ordinary General Assembly unanimously approved the financial statements for the year ended 31 December 2018.

Minutes of the 2019 Annual Ordinary General Assembly Meeting (continued)

6. To ratify and approve the operations and transactions carried out during the year ended 31 December 2018 with any related parties or major shareholders of the Bank as presented in the notes (no. 31) of the consolidated audited financial statements.

Resolution No. (6): The Ordinary General Assembly unanimously agreed to ratify and approve the operations and transactions carried out during the year ended 31 December 2018 with any related parties or major shareholders of the Bank as presented in the notes (no. 31) of the consolidated audited financial statements.

7. To approve the recommendations of the Board of Directors with respect to the following distributions of the net profit for the year ended 31 December 2018 (amounting to BD 18.5 million):

- a. Transfer of BD 1.850 million to statutory reserves.
- b. Distribution of 7% dividends of the paid-up share capital, equating to BD 14.987 million for the year ended 31 December 2018 to be equally distributed in cash dividends and bonus shares as follows:
 - I. 3.5% cash dividends equating to BD 7.493 million excluding treasury shares as of the date of approval of the dividends by the Annual Ordinary General Assembly Meeting; and
 - II. 3.5% bonus shares equating to 74.932 million shares – i.e. (1 share for each 28.6 shares held) to the shareholders registered in the share register of the Bank as of date of approval of the dividends by the Annual Ordinary General Assembly Meeting. All cash dividends shall be paid by no later than ten days from the date of the Annual Ordinary General Assembly Meeting.
- c. Transfer of the remaining balance of BHD 1.662 million to reserves and retained earnings.

One of the shareholders proposed to distribution the 5% cash instead of distributed in cash dividends and bonus shares.

Resolution No. (7): The Ordinary General Assembly unanimously agreed to appropriate part of the net profit of 2018 as follows:

- a. Transfer of BD 1.850 million to statutory reserves.
- b. Distribution of 7% dividends of the paid-up share capital, equating to BD 14.987 million for the year ended 31 December 2018 to be equally distributed in cash dividends and bonus shares as follows:
 - I. 3.5% cash dividends equating to BD 7.493 million excluding treasury shares as of the date of approval of the dividends by the Annual Ordinary General Assembly Meeting; and
 - II. 3.5% bonus shares equating to 74.932 million shares – i.e. (1 share for each 28.6 shares held) to the shareholders registered in the share register of the Bank as of date of approval of the dividends by the Annual Ordinary General Assembly Meeting.
 - III. All cash dividends shall be paid by no later than ten days from the date of the Annual Ordinary General Assembly Meeting.
- c. Transfer of the remaining balance of BHD 1.662 million to reserves and retained earnings.

8. Approve the Board of Directors remuneration in the aggregate amount of BD 595 thousand for the year ended 31 December 2018, subject to the necessary approvals of the regulatory bodies.

Resolution No. (8): The Ordinary General Assembly unanimously approved the Board of Directors remuneration in the aggregate amount of BD 595 thousand for the year ended 31 December 2018, subject to the necessary approvals of the regulatory bodies.

9. To receive the Board of Directors' report on the Bank's compliance with the Corporate Governance requirements.

The Corporate secretary presented the Corporate Governance report to the Ordinary General Assembly for discussion and comments and requested the shareholders to present their comments.

Resolution No. (9): The Ordinary General Assembly unanimously approved the corporate governance report and the Bank's compliance with the requirements of the Central Bank of Bahrain.

Minutes of the 2019 Annual Ordinary General Assembly Meeting (continued)

10. To absolve the Directors of the Board from liability for their actions as directors during the year ended 31 December 2018.

The shareholders agreed on discharging the members of the Board from liability.

Resolution No. (10): The Ordinary General Assembly unanimously agreed to absolving the members of the Board from liability for their actions as directors for the year ended 31 December 2018.

11. To approve the use of treasury shares for its transfer to the remaining shareholders of Bahrain Saudi Bank B.S.C.(C) (merged with Al Salam Bank – Bahrain B.S.C.), and authorize the Board of Directors to appoint an independent advisor to determine an exchange rate for this transaction subject to obtaining the Central Bank of Bahrain's approval

Mr. Anwar Murad noted that, in order to maintain the rights of shareholders, treasury shares will be used to transfer them to the remaining shareholders of Bahraini Saudi Bank BSC. (merged with Al Salam Bank - Bahrain BSC) and they will be listed on the Bahrain Stock Exchange.

Resolution No. (11): The Ordinary General Assembly unanimously approved the use of treasury shares for its transfer to the remaining shareholders of Bahrain Saudi Bank B.S.C.(C) (merged with Al Salam Bank – Bahrain B.S.C.) and authorize the Board of Directors to appoint an independent advisor to determine an exchange rate for this transaction subject to obtaining the Central Bank of Bahrain's approval.

12. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration.

Corporate secretary has indicated that due to practical requirements related to the difficulty of making decisions and in order to ensure efficient work and speed of completion, the Board recommended the restructuring of the members of the Shari'a Supervisory Board as Sheikh Adnan Abdulla Al Qattan, Sheikh Dr. Fareed Yaqoob Almeftah, Sheikh Dr. Nizam Yaqubi and Sheikh Dr. Osama Bahar for the year ending 31 December 2019 and requested the shareholders to present their comments.

Resolution No. (12): The Ordinary General Assembly unanimously agreed to appoint the members of the Shari'a Supervisory Board for the year ending 31 December 2019 who are:

- Sheikh Adnan Abdulla Al Qattan
- Sheikh Dr. Fareed Yaqoob Almeftah
- Sheikh Dr. Nizam Yaqubi
- Sheikh Dr. Osama Bahar

13. To appoint external auditors for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.

The Board recommended that the External Auditors, KPMG be reappointed for the audit work for the financial year ended December 31, 2019 and requested the shareholders to make any comment or suggestion.

Resolution No. (13): The Ordinary General Assembly unanimously agreed to appoint KPMG to carry out the external auditing work for the year ended 31 December 2019 and authorize the Board of Directors to determine their fees.

14. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.

No new matter was discussed under this item.

At the end of the meeting, Mr. Khaleefa Butti Al Muhairi expressed his appreciation and wished all the members success. He also extended his appreciation to the Regulatory for their continued support to the Bank.

Mr. Khaleefa Butti Bin Omair Al Muhairi
Meeting President

Mr. Eihab Abdellatif Ahmed
Meeting Rapporteur

02

TO DISCUSS AND APPROVE THE
BOARD OF DIRECTORS' REPORT ON
THE BANK'S ACTIVITIES FOR THE
YEAR ENDED 31 DECEMBER 2019.

Board of Directors' Report to the Shareholders

THE DIRECTORS OF AL SALAM BANK-BAHRAIN B.S.C. ("THE BANK") HAVE THE PLEASURE OF SUBMITTING THEIR REPORT TO THE SHAREHOLDERS ACCOMPANIED BY THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AND ITS SUBSIDIARIES ("THE GROUP") FOR THE YEAR ENDED 31 DECEMBER 2019.

Bahrain's YOY GDP growth remained steady at 1.8% in 2019. Ministry of Finance and National Economy figures show that manufacturing rose by 4.1% and the hotel and restaurant sector surged with an annual growth rate of 6.4%. These figures reflect the Kingdom's strong economic base and strong growth in the non-oil economy, which is bolstered by infrastructure investments, particularly broadband, electricity, water network expansion and the transitional phase of the King Hamad Causeway.

Further afield, the world economy rose by roughly 2.2% in 2019, which is the slowest since the global financial crisis of 2008-09. However, most of the world's major economies avoided recession in 2019 and remained stable during difficult geopolitical times. The World Bank has forecast that global economic growth will increase slightly faster in 2020, at 2.5%, with an acceleration of growth in developing markets.

Set against a backdrop of restrained global growth and geopolitical uncertainties, the Group posted a significant rise in net income from BD 18.5 million in 2018 to BD 21.1 million at 31 December 2019, representing , a YOY increase of 14%. Credit losses and impairment fell by 76% to BD 2.6 million, down from BD 10.7 million in 2018, supported by high quality assets, with significant reduction in the non-performing financing ratio from 9% in 2018 to 5.6%. These strong results are attributed to successfully capturing market share in 2019 through the implementation of the Bank's new three-year strategy of focusing on growing the core banking activities. This delivered organic growth across the business with record levels of customer deposits reaching BD 1.14 billion, up from BD 987 million in 2018 - a YOY increase of 15.8%. Financings rose by 30% on the year, reaching BD 1.07 billion compared to BD 826 million in 2018.

The Groups total assets also grew significantly from BD 1.7 billion in 2018 to BD 2.0 billion at 31 December 2019. The Group's cost-to-income ratio raised to 55.6%, from 48.9% in 2018, to mark costs incurred towards strategic initiatives that will boost the Bank to meet its targeted returns. The Bank also retained a high Capital Adequacy Ratio (CAR) of 20.9% in 2019, significantly higher than the 12.5% mandated by the Central Bank of Bahrain (CBB).

The growth in market share, net income, deposits, financing and net profit is a strong indication that the first of the Bank's three-year strategy has reaped results by enhancing the breadth and quality of products and services, to retail customers, SMEs and the affluent banking segment. Enhancements and upgrades made to the core banking IT system in 2019 helped drive efficiencies, further leaving the Bank well placed for global expansion in 2020. Earlier in 2019, Al Salam Bank-Seychelles Limited, a joint venture with The Seychelles Pension Fund, started operations as a full commercial bank, thus expanding the Al Salam Bank's network and supporting its regional business objectives.

The growth achieved across all Business Units reflect the successful implementation of the new strategy, which was also bolstered by an upgrade of the Bank's operating system and a transformation towards a corporate culture of efficiency and productivity.

Bahrain's position as a robust, diverse economy leaves it in a strong position within the GCC, whilst growth in developing economies provides Al Salam Bank with significant opportunities for geographic expansion of its core banking services as it moves forward in its second year of transition. The Board of Directors is confident that the Bank's robust liquidity levels, CAR and record-breaking assets leave it in a strong position to move steadily through a continued period of uncertainty in global markets; whilst achieving organic and non-organic growth that will see the Bank deliver a new generation of services across its core banking activities in 2020 and beyond.

The Directors take this opportunity to express their appreciation to the visionary leadership of His Majesty King Hamad bin Isa Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Salman bin Hamad Al Khalifa. The Board also wishes to express gratitude to the Ministry of Finance, the Ministry of Industry, Commerce and Tourism; the Central Bank of Bahrain, the Bahrain Bourse, Dubai Financial Market, correspondent banks, its customers, shareholders and employees for their continued support.

We look forward to sharing a productive and successful 2020 with you.



Khaleefa Butti Bin Omair Bin Yousif Al Muhairi

Chairman

12 February 2020

Manama, Kingdom of Bahrain

| 03

TO RECEIVE THE SHARI'A
SUPERVISORY BOARD'S
REPORT FOR THE YEAR ENDED
31 DECEMBER 2019.

Fatwa & Shari'a Supervisory Board Report to the Shareholders

In the name of Allah, the Beneficent and the Merciful

Praise be to Allah; Prayers and peace be upon the most ennobled messenger, our Prophet Muhammad and his companion

The Report of Shari'a Supervisory Board of Al Salam Bank-Bahrain B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2019.

First: Memorandum and Articles of Association

Al Salam Bank, B.S.C. operates as an Islamic Bank authorized by the Central Bank of Bahrain. We therefore confirm that the Memorandum and Articles of Association of the Bank are in conformity with the rules and principles of Shari'a.

Second: Activities of the Bank and Board's Guidance

The Board has supervised the activities and transactions of the Bank during the reporting year and instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board while undertaking such activities and transactions. The SSB has held five meetings during the year with the senior staff of the Bank.

Third: Contracts and Transactions

The Board studied the operational structures that have been presented to it during the year, approved their contracts and documents, and responded to the questions and inquiries that were raised in respect thereof and issued decisions and fatwas in this regard. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. It has also reviewed and studied drafts of the contacts and agreements that were presented to it in respect to sukuks (investment certificates) and syndicated financing transactions and approved them after its comments were considered.

Fourth: Access to Records

The Management of the Bank has positively cooperated with the Board and, based on its request, allowed it to access the records, information and data of the Bank that are necessary for it to perform the Sharia audit and supervision.

Fifth: Shari'a Audit

The Board has reviewed the Shari'a audit reports and pointed out its observations on the reports and requested the Management of the Bank to rectify what is required to be rectified.

Sixth: Training

The Board has taken note of the efforts of the Bank's Management in training its employees and recommended that the Management continues to conduct regular training programmes for its employees in order to raise the level of performance and Shari'a compliance.

Seventh: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing dividends to the shareholders and depositors.

The Board believes that the balance sheet, to the extent presented to it by the Bank's Management, the information supplied to it and the Bank's implementation of some observations, reasonably represent the Bank's assets and income.

Fatwa & Shari'a Supervisory Board Report To The Shareholders (continued)

Eighth: Zakat

Since the Articles of Association of the Bank do not oblige the Bank to pay zakat on the invested Shareholder's equity, the Board has calculated the Zakat, as disclosed in the balance sheet, which is payable by the shareholders and instructed the bank to notify them accordingly.

Ninth: Charity Fund

The Board has ensured that all non-Sharia compliant income and dividends are channelled to the Bank's Charity Fund, which are noted to be resulted from either the previous transactions due to merger and conversion of conventional banks into Al Salam Bank or any other reason.

Decision of the Board

The Board emphasizes that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Board confirms that the transactions executed by the Bank during the year, to the extent of the information and data made available to it by the Bank's Management, do not conflict, in general, with the rules and principles of Shari'a.

Allah is the guider to the right path.

The Board wishes for the Bank a continuous success and rectitude in doing things that pleases Allah.

Fatwa and Shari'a Supervisory Board



Shaikh Adnan Abdulla AlQattan
Chairman



Dr. Fareed Yaqoob Almeftah
Member



Dr. Nedham Mohamed Yaqoobi
Member



Dr. Osama Mohamed Bahar
Member

| 04

TO RECEIVE THE EXTERNAL
AUDITOR'S REPORT ON THE
CONSOLIDATED FINANCIAL
STATEMENTS OF THE BANK FOR THE
YEAR ENDED 31 DECEMBER 2019.

Independent Auditors' Report to the Shareholders

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



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C.R. No. 6220

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on Other Regulatory Requirements

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

- the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- the financial information contained in the Board of Director's report is consistent with the consolidated financial statements;
- we are not aware of any violations during the year of the provisions of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law. 64 of 2006 (as amended) , the CBB Rulebook (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro

Partner registration number 137
12 February 2020

| 05

TO DISCUSS AND APPROVE
THE CONSOLIDATED
FINANCIAL STATEMENTS OF THE
BANK FOR THE YEAR ENDED 31
DECEMBER 2019.

Consolidated Statement of Financial Position

31 December 2019

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



Khaleefa Butti Omair Al Muhairi
Chairman



Rafik Nayed
Group Chief Executive Officer



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

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

Consolidated Income Statement

Year ended 31 December 2019

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



Khaleefa Butti Omair Al Muhairi
Chairman



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



Rafik Nayed
Group Chief Executive Officer

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to shareholders of the Bank										Amounts in BD '000s		
	Reserves and retained earnings										Total Equity	Non-controlling interest	Group Total Equity
	Share capital	Treasury stock	Share premium	Statutory reserve	Retained earnings	Investment fair value reserve	Real estate fair value reserve	Foreign exchange translation reserve	Total reserves	Total Equity			
Balance as of 1 January 2019	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822	
Net profit for the year	-	-	-	-	21,093	-	-	-	21,093	21,093	37	21,130	
Foreign currency re-translation	-	-	-	-	-	(210)	-	(28)	(238)	(238)	-	(238)	
Total recognised income and expense	-	-	-	-	21,093	(210)	-	(28)	20,855	20,855	37	20,892	
Bonus shares issued	7,493	-	-	-	(7,493)	-	-	-	(7,493)	-	-	-	
Cash dividend for the year 2018	-	-	-	-	(7,353)	-	-	-	(7,353)	(7,353)	-	(7,353)	
Purchase of treasury stock	-	(2,903)	-	-	-	-	-	-	(2,903)	(2,903)	-	(2,903)	
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(21)	(21)	
Transfer to statutory reserve	-	-	-	2,109	(2,109)	-	-	-	-	-	-	-	
Balance at 31 December 2019	221,586	(6,758)	12,209	21,107	46,239	(11)	23,589	(3,223)	99,910	314,738	699	315,437	
Balance as of 1 January 2018	214,093	(1,879)	12,209	17,148	40,304	199	24,196	(3,040)	91,016	303,230	607	303,837	
Net profit for the year	-	-	-	-	18,499	-	-	-	18,499	18,499	21	18,520	
Net changes in fair value	-	-	-	-	-	-	(607)	-	(607)	(607)	-	(607)	
Foreign currency re-translation	-	-	-	-	-	-	-	(155)	(155)	(155)	-	(155)	
Total recognised income and expense	-	-	-	-	18,499	-	(607)	(155)	17,737	17,737	21	17,758	
Dividend for 2017	-	-	-	-	(14,852)	-	-	-	(14,852)	(14,852)	-	(14,852)	
Purchase of treasury stock	-	(1,976)	-	-	-	-	-	-	(1,976)	(1,976)	-	(1,976)	
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	55	55	
Transfer to statutory reserve	-	-	-	1,850	(1,850)	-	-	-	-	-	-	-	
Balance at 31 December 2018	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822	

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

Consolidated Statement of Cash Flows

Year ended 31 December 2019

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal subsidiaries are as follows:

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

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

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

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

2.1.a Statement of compliance

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

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

2.1.b Basis of consolidation

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

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

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

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

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

Transactions eliminated on consolidation

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

2.1.c Functional and presentation currency

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

Foreign currencies

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

Translation of foreign operations

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

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Impairment assessment of financial contracts subject to credit risk

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

Impairment of goodwill

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

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

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

Impairment of fair value through equity investments

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

Fair value of unquoted equity investment through profit or loss

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimating net realisable value of development property

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

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

Judgments

Going concern

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

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Classification of investments

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Trade and settlement date accounting

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

c) Derecognition

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

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

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

d) Impairment assessment

Impairment of financial assets and commitments

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

Stage 1: twelve months ECL

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

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

Stage 2: Lifetime ECL – not credit impaired

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

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

Stage 3: Lifetime ECL – credit impaired

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

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

Credit-impaired financial assets and assets acquired for leasing

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment (continued)

Write-offs

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

Presentation of allowance for credit losses in the consolidated statement of financial position

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

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

e) Cash and cash equivalents

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

f) Financing assets

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

Modification of financing assets

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

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

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

f-i) Murabaha financing

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

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

f-ii) Mudaraba financing

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financing assets (continued)

f-iii) Musharaka

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

g) Finance lease assets

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

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

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

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

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

Modification of finance lease assets

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

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

h) Placements with financial institutions

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

i) Sovereign Sukuk and Corporate Sukuk

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

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

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

Non-trading investments

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

Liabilities under conversion:

These are remeasured at amortised cost.

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Non-trading investments

Equity-type investments

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

Recognition and de-recognition

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

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

Measurement

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

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

l) Investments in associates and joint ventures

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investment properties

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

n) Development properties

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

o) Premises and equipment

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

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

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

p) Subsidiaries acquired with a view to sell

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

q) Business combinations and goodwill

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Business combinations and goodwill (continued)

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

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

r) Offsetting

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

s) Customers' current accounts

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

t) Equity of investment accountholders

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

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

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

u) Provisions

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Employees' end-of-service benefits

Short term benefits

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

Post employment benefits

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

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

w) Revenue recognition

Financing assets

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

Sukuk

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

Dividend

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

Finance lease assets

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

Fees and commission income

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

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

x) Fair value of financial assets

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Fiduciary assets

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

z) Dividend on ordinary shares

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

aa) Financial guarantees

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

ab) Treasury stock

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

ac) Zakah

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

ad) Wakala payables

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

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

ae) Repossessed assets

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

af) Earnings prohibited by Shari'a

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

2.4 STANDARDS ISSUED BUT NOT EFFECTIVE

FAS 31

Investment agency (Al-Wakala Bi Al-Istithmar)

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

2 ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

FAS 33

Investment in Sukuk, shares and similar instruments

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

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

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

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

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

Notes to the Consolidated Financial Statements

31 December 2019

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

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

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

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

* This balance is not available for use in the day-to-day operations of the Group.

** This balance is net of BD 93 thousands (2018: BD nil) amount of allowance for credit losses.

5 SOVEREIGN SUKUK AND PLACEMENTS WITH CENTRAL BANK

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

Notes to the Consolidated Financial Statements

31 December 2019

6 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

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

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

7 CORPORATE SUKUK

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

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

8 FINANCING ASSETS

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

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

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9 FINANCE LEASE ASSETS

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

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

Movements in finance lease assets are as follows:

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

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

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

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

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

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

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10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

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

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

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

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

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

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

10.1 Movements in impairment allowances for equity investments and others

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

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11 NON-TRADING INVESTMENTS

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

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

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

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

12 INVESTMENT PROPERTIES

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

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

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

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

13 DEVELOPMENT PROPERTIES

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

14 INVESTMENT IN ASSOCIATES

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

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

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

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

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

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14 INVESTMENT IN ASSOCIATES (continued)

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

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

15 OTHER ASSETS

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

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

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

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

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

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15 OTHER ASSETS (continued)

Loans and advances to customer - Assets under conversion

	2019			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Loans and advances to customers	1,701	384	9,184	11,269
Allowance for credit losses	(80)	-	(4,008)	(4,088)
	1,621	384	5,176	7,181

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

16 GOODWILL

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

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

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

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

17 MURABAHA TERM FINANCING

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

18 PLACEMENTS FROM CUSTOMERS

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

19 OTHER LIABILITIES

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

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20 EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

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

The balances of equity of investment accountholders funds consists of:

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

21 SHARE CAPITAL

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

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

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

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

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

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

21.1 Proposed appropriation

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

22 STATUTORY RESERVE

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

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23 EARNINGS PER SHARE

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

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

24 FINANCE INCOME

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

25 INCOME FROM NON-TRADING INVESTMENTS

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

26 INCOME FROM PROPERTIES

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

27 FEES AND COMMISSION, NET

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

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28 OTHER INCOME

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

29 STAFF COST

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

30 RELATED PARTY TRANSACTIONS

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

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

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

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30 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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30 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

31 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

Operating lease commitment - Group as lessee

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

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

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32 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

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

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

33 RISK MANAGEMENT

33.1 Introduction

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

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

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

Board of Directors

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

Executive Committee

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

Shari'a Supervisory Board

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

Risk Committee

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

Asset and Liability Committee

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

Information Security Committee

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

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33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Audit and Risk Committee

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

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

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

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

33.2 Credit risk

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

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

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33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

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

Credit risk grades

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

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

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

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

Type of credit risk

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Measurement of ECL

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

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

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

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

Definition of default

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

Probability of default

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

Generating the term structure PD

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

Incorporation of forward - looking information

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

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

Loss Given Default

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

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

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

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

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31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

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

Exposure At Default

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

Significant Increase in Credit Risk

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

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

Renegotiated financial assets

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

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

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

Backward transition

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

Credit Conversion Factor

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

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

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

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31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

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

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

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

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

i) Corporate Sukuk

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

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

Notes to the Consolidated Financial Statements

31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

ii) Financing assets and receivable from finance lease assets

	2019			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	885,003	83,894	1,930	970,827
Satisfactory (R5-R7)	49,188	26,890	32,036	108,114
Default (D8-D10)	-	-	19,282	19,282
Allowance for credit losses and impairment	(6,625)	(7,287)	(12,625)	(26,537)
	927,566	103,497	40,623	1,071,686

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

iii) Non trading investments - debt-type

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

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

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31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

iv) Financial contracts under other assets

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

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

v) Financing commitments and financial guarantee contracts

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Write-off policy

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

Collateral held and other credit enhancements

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

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

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

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

FTV ratio

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

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

Key drivers of credit risk and credit losses

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

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

Notes to the Consolidated Financial Statements

31 December 2019

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

The various types of credit risk are defined as follows:

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

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

33.3 Legal risk and claims

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

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

34 CONCENTRATIONS

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

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

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

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31 December 2019

34 CONCENTRATIONS (continued)

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

35 MARKET RISK

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

35.1 Equity price risk

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

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

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

Quoted:

Saudi Arabia	358	-	(358)	-
Unquoted	10,386	252	(10,386)	(252)

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

Quoted:

Saudi Arabia	358	-	(358)	-
Unquoted	10,227	270	(10,227)	(270)

Notes to the Consolidated Financial Statements

31 December 2019

35 MARKET RISK (continued)

35.2 Profit return risk

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

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

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

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

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

Profit rate benchmark reform (PBOR)

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

35.3 Currency risk

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

35 MARKET RISK (continued)

35.3 Currency risk (continued)

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

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

36 LIQUIDITY RISK

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

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

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

	2019				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and Central Bank	219,456	-	-	-	219,456
Sovereign Sukuk	5,162	20,574	165,233	149,981	340,950
Placements with financial institutions	117,346	1,269	-	-	118,615
Corporate Sukuk	10,893	3,982	7,005	-	21,880
Financing assets	51,870	192,925	337,739	140,664	723,198
Finance lease assets	39,187	19,224	119,062	171,015	348,488
Non-trading investments	-	-	108,991	-	108,991
Investment properties	-	-	72,774	-	72,774
Development properties	-	-	2,943	-	2,943
Investment in associates	-	-	10,640	-	10,640
Other assets	13,500	2,480	1,562	26,718	44,260
Goodwill	-	-	-	25,971	25,971
	457,414	240,454	825,949	514,349	2,038,166

LIABILITIES AND EQUITY OF INVESTMENT

ACCOUNTHOLDERS

Placements from financial institutions	305,146	86,868	-	-	392,014
Placements from customers	278,531	387,099	86,082	-	751,712
Customers' current accounts	289,456	-	-	-	289,456
Murabaha term financing	52,615	43,886	33,842	15,247	145,590
Other liabilities	10,936	15,014	9,805	5,726	41,481
Equity of investment accountholders	102,476	-	-	-	102,476
	1,039,160	532,867	129,729	20,973	1,722,729

Notes to the Consolidated Financial Statements

31 December 2019

36 LIQUIDITY RISK (continued)

	2018				Total BD '000
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	
ASSETS					
Cash and balances with banks and Central Bank	82,257	-	-	-	82,257
Sovereign Sukuk and placements with Central Bank	30,778	44,670	149,314	152,454	377,216
Placements with financial institutions	140,304	-	-	-	140,304
Corporate Sukuk	-	1,936	7,286	-	9,222
Financing assets	103,709	169,239	189,972	105,985	568,905
Finance lease assets	8,660	53,170	94,843	100,219	256,892
Non-trading investments	-	-	107,508	-	107,508
Investment properties	-	-	74,261	-	74,261
Development properties	-	-	6,290	-	6,290
Investment in associates	-	-	15,972	-	15,972
Other assets	9,656	1,114	8,353	26,458	45,581
Goodwill	-	-	-	25,971	25,971
	375,364	270,129	653,799	411,087	1,710,379

LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

Placements from financial institutions	153,327	57,174	3,876	-	214,377
Placements from customers	257,034	341,300	37,407	-	635,741
Customers' current accounts	251,842	-	-	-	251,842
Murabaha term financing	77,471	28,380	47,481	2,211	155,543
Other liabilities	20,540	-	27,711	42	48,293
Equity of investment accountholders	99,761	-	-	-	99,761
	859,975	426,854	116,475	2,253	1,405,557

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

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

Notes to the Consolidated Financial Statements

31 December 2019

36 LIQUIDITY RISK (continued)

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

37 SEGMENT INFORMATION

Primary segment information

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

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

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

Segment information is disclosed as follows:

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

Goodwill resulting from BMI acquisition is allocated to banking segment.

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

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

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

Notes to the Consolidated Financial Statements

31 December 2019

38 FIDUCIARY ASSETS

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

39 SHARI'A SUPERVISORY BOARD

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

40 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

41 SOCIAL RESPONSIBILITY

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

42 ZAKAH

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

43 CAPITAL ADEQUACY

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

44 FAIR VALUE HIERARCHY

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

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

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

Financial instruments measured at fair value

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2019

44 FAIR VALUE HIERARCHY (continued)

Financial instruments not measured at fair value

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

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

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

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

45 DEPOSIT PROTECTION SCHEME

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

46 COMPARATIVE FIGURES

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

06

TO APPROVE AND APPROVE THE OPERATIONS AND TRANSACTIONS CARRIED OUT BY THE BANK DURING THE YEAR ENDED 31 DECEMBER 2019 WITH ANY RELATED PARTIES OR MAJOR SHAREHOLDERS OF THE BANK AS PRESENTED IN THE NOTES (NO. 30) TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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TO APPROVE THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS WITH RESPECT TO THE FOLLOWING APPROPRIATIONS OF THE NET PROFIT FOR THE YEAR ENDED 31 DECEMBER 2019 (AMOUNTING TO BD 21.1 MILLION):

- a. Transfer of BD 2.109 million to statutory reserves.
- b. Distribution of 8% dividends of the paid-up share capital, equating to BD 17.727 million for the year ended 31 December 2019 to be equally distributed in cash dividends and bonus shares, to the Shareholders whose names are on the share register on 24 March 2020, as follows:
 - I. 4% cash dividends equating to BD 8.863 million excluding treasury shares; and
 - II. 4% bonus shares equating to 88.634 million shares – i.e. (1 share for each 25 shares held).

The dividends will be paid to the entitled Shareholders on 7 April 2020, the last day of trading with entitlement to dividend is 22 March 2020 and the first day of trading without entitlement to dividend is 23 March 2020.
- c. Transfer of the remaining balance of BD 1.258 million to retained earnings.

08

TO APPROVE THE BOARD OF DIRECTORS REMUNERATION IN THE AGGREGATE AMOUNT OF BD 787 THOUSAND FOR THE YEAR ENDED 31 DECEMBER 2019, SUBJECT TO THE APPROVAL OF THE MINISTRY OF INDUSTRY, COMMERCE AND TOURISM.

| 09

TO PRESENT AND DISCUSS THE
CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER
2019, AS REQUIRED BY THE CENTRAL
BANK OF BAHRAIN.

Corporate Governance Report

Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the code.

Shareholders

Major Shareholders as of 31 December 2019

S. No.	Investor Name	Country of Origin	No. of Shares	% Holding
1	Bank Muscat (S.O.A.G)	Oman	326,537,112	14.74
2	First Energy Bank B.S.C Closed	Bahrain	139,087,541	6.28
3	Overseas Investment S.P.C.	Bahrain	133,280,449	6.01
4	AlRushd Investment	UAE	108,675,000	4.90
5	Tasameem Real estate	UAE	105,843,876	4.78
6	Mr. Khaleefa Butti Omair Almuhairi	UAE	95,363,500	4.30
7	United International Representation of Companies	UAE	80,160,750	3.62
8	Royal Court Affairs, Sultanate of Oman	Oman	73,304,246	3.31
9	Al Salam Bank - Bahrain B.S.C	Bahrain	72,694,133	3.28
10	Sico B.S.C	Bahrain	68,628,921	3.10
11	Sayed Husain AlQatari	UAE	55,661,841	2.51
12	Alfateh Investment	Bahrain	42,111,562	1.90
13	Bond Investments L.L.C	UAE	39,640,500	1.79
14	Emirates Investment Bank	UAE	27,501,796	1.24
15	Al Suban Company	Bahrain	27,168,750	1.23
16	Global Express Co. W.L.L.	Bahrain	25,875,000	1.17
17	Musab Mondhir Tawfiq	Iraq	22,127,488	1.00

Shareholding – 31 December 2019

Category	No. of shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	778,411,876	22,459	35.130
1% to less than 5%	838,546,342	14	37.840
5% to less than 10%	272,367,990	2	12.291
10% to less than 20%	326,537,112	1	14.740
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	2,215,863,320	22,746	100.00

Corporate Governance Report (continued)

Shareholders (continued)

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	-	-
Companies	530,347,929	23.93
Individuals	179,938,863	8.12
GCC-Excluding Kingdom of Bahrain		
Government	-	-
Companies	920,892,521	41.56
Individuals	434,566,685	19.61
Other		
Companies	89,040,603	4.02
Individuals	61,076,719	2.76
Total	2,215,863,320	100.00

BOARD OF DIRECTORS

The Board of Directors provides central leadership to the Bank, establishes the Bank's objectives and develops the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders including its customers, correspondents, employees, suppliers and the local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and its stakeholders. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior management and, its external advisors and auditors.

Corporate Governance Report (continued)

Board of Directors (continued)



Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman

Non-executive

Director since: 22 March 2018

Term started: 22 March 2018

Experience: more than 17

Mr. Khaleefa Butti Bin Omair, is the founder and Chairman of KBBO Group, a leading investment group with a diverse portfolio of interests operating in the UAE and spanning across the MENA, European, and US regions. The Group's investment portfolio and operational verticals include leading companies in the field of healthcare, education, retail, financial services and technology, amongst others.

Mr. Khaleefa Butti, is a recognized UAE business leader with over 17 years of experience in entrepreneurship and financial investments. He began his career at the Abu Dhabi National Oil Company (ADNOC), where he gained extensive experience in the field of finance. In 2006, as a co-founder of Brokerage House Securities LLC, he was appointed Chairman and CEO. He later went on to found One Financial Markets, an FCA-regulated brokerage firm in the United Kingdom that offers global presence with local expertise through its wholly owned and affiliate offices throughout the Middle East, Europe, South America and Central and South-East Asia. Additional responsibilities include serving as the Chairman of Travelex Group Limited, Infinite Investment and First Energy Bank, he is also the Executive Vice Chairman of Centurion Investment.

Spending his early school years in the UK, he went on to complete his studies in the US, earning a degree in Finance from Suffolk University, Boston.



H. E. Shaikh Khalid Bin Mustahail Al Mashani
Vice Chairman

Non-executive

Director since: 5 May 2014

Term started: 22 March 2018

Experience: more than 24

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 24 years of in depth experience. He is the Chairman of the Board of Directors of Bank Muscat S.A.O.G., Director of Al Omaniya Financial Services Company, and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.

H.E. Shaikh Khalid has a BSc. in Economics, and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), from the University of London.

Corporate Governance Report (continued)

Board of Directors (continued)



Mr. Matar Mohamed Al Blooshi
Board Member

Non-executive

Director since: 22 March 2018
Term started: 22 March 2018
Experience: more than 23 years

Mr. Matar Mohamed Al Blooshi has over 23 years of experience in the financial and fund management industries. Beginning his career in 1992 with the Central Bank of the United Arab Emirates as a Dealer in the Treasury department, he joined Abu Dhabi Investment Company as a Portfolio Manager in 1995. In 1998, he joined First Gulf Bank as the Head of Treasury & Investment, moving to National Bank of Abu Dhabi in 2001 as Head of Foreign Exchange and Commodities. In February 2005, Mr. Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (a subsidiary of National Bank of Abu Dhabi) and was given the title of Senior Manager, Asset Management Group in October 2006. Mr. Al Blooshi is Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of Al Salam Bank-Bahrain, First Energy Bank in Bahrain, Etisalat Misr, Air Arabia and Chairman of Maalem Holdings in Bahrain.

Mr. Matar Al Blooshi holds a BA in Banking & Financial Management from University of Arkansas, US.



Mr. Hussein Mohammed Al Meeza
Board Member

Independent

Director since: 20 March 2012
Term started: 22 March 2018
Experience: more than 24

Mr. Hussein Mohammed Al Meeza is a respected and award-winning Banker with over 44 years of experience spanning the Islamic banking, finance and insurance sectors. His outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. His professional career began in 1975 at the Dubai Islamic Bank (DIB), where he spent 27 years developing the Bank's services. Mr. Hussein Al Meeza played a key role in the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. He is also the Chairman of Al Salam Bank-Seychelles, Chairman of Top Enterprises L.L.C., Chairman of Lycée Français Jean Mermoz L.L.C., and Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria.

He was a founding member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Mr. Hussein Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the Executive Committee of Islamic Trading company in Bahrain, Board member and Chairman of the Executive Committee in Amlak Finance – Dubai and Chairman of Emaar Financial Services Dubai, Vice Chairman of Emirates Cooperative Society – Dubai. Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies. He was also a Board Member of Emirates Society for Insurance.

Mr. Hussein Al Meeza is a graduate of the Beirut Arab University and holds an MBA degree from La Jolla University, USA.

Corporate Governance Report (continued)

Board of Directors (continued)



Mr. Salim Abdullah Al Awadi
Board Member

Independent

Director since: 22 March 2018

Term started: 22 March 2018

Experience: more than 31

Mr. Salim Abdullah Al Awadi is the Deputy CEO of Al Omaniya Financial Services S.A.O.G., Oman. He is also a Director of Al Madina Investments S.A.O.G., Oman, Director of Dhofar Cattle Feed Company S.A.O.G., Oman, Chairman of Dhofar Poultry S.A.O.G., Oman and Director of Dhofar International Development & Investment Holding S.A.O.G., Oman. He is a member of the Banking & Finance Committee at the Chamber of Commerce, Oman.

Mr. Salim Al Awadi holds a Bachelor Degree in Business Administration, a Post Graduate Diploma in Accounting from Strathclyde University, UK and an MBA from Lincoln University, UK.



Mr. Alhur Mohammed Al Suwaidi
Board Member

Independent

Director since: 22 March 2018

Term started: 22 March 2018

Experience: more than 16

Mr. Alhur Mohammed Al Suwaidi is a well-rounded investment strategist with over 16 years of experience in investments, portfolio management at both listed and private equities. He currently serves as a Director in Al Salam Bank-Bahrain and a Portfolio manager in the Abu Dhabi Investment Authority (ADIA), UAE. Beginning his career in 2004, Mr. Alhur Al Suwaidi held senior positions at ADIA as a Fund manager and Investment manager. He also served in a number of Advisory Boards of General Partners and International Private Equity Firms that includes Leonard Green and Partners, The Blackstone Group, Carlyle Group, Apollo Global Management, Ares Management and Silver Lake Partners.

Mr. Alhur Al Suwaidi holds a Bachelor degree in Business Administration from Chapman University, California, USA.

Corporate Governance Report (continued)

Board of Directors (continued)



Mr. Khalid Salem Al-Halyan
Board Member

Independent

Director since: 24 February 2015

Term started: 22 March 2018

Experience: more than 37 years

Mr. Khalid Salem Al-Halyan is a business professional with over 37 years of senior level experience spanning a number of industries. Mr. Al-Halyan is currently the group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit & Risk Assessment (GIARA) function at DACC. Mr. Al-Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, and Advisor to the Amlak Real Estate Company.

Mr. Khalid Al-Halyan holds an MBA degree from Bradford University in the UK, and a BBA from the UAE University, Al Ain.



Mr. Zayed Ali Al-Amin
Board of Director

Independent

Director since: 22 March 2018

Term started: 22 March 2018

Experience: more than 21 years

Mr. Zayed Ali Al-Amin is a Bahraini Businessman has more than 21 years of experience in the finance and investment sectors, and he is currently the Executive Director of Investments of A. R. Al-Amin Group, Director of Board of MIDAD Gulf Energy, Director of Board of AL-SALAM Bank Bahrain, Director of Board of Gulf African Bank "Kenya", Director of Board of Gulf Gourmet Co. "KSA", and he was previously an Executive Director of Board of Food Storage Co. "KSA", Director of Board of TOMATO Publicity, Director of Board of RAMAKAZA Logistics "Qatar". And prior to joining Al-Amin Group he worked for National Bank of Bahrain and Towry Law International.

Mr. Zayed Al-Amin holds an Associate in Art in Business Administration from Navarro College "Texas", Postgraduate Degree in Finance and Investment from London School of Business & Finance "London", and he also attended many executive courses in Management, Finance and Investment.

Corporate Governance Report (continued)

Board of Directors (continued)



Mr. Salman Saleh Al Mahmeed
Board Member

Independent

Director since: 15 February 2010

Term started: 22 March 2018

Experience: more than 33 years

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 33 years. He is the Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and the Movenpick Hotel in Bahrain. Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, and the Investment Director of Magna Holdings.

Mr. Salman Al Mahmeed holds an MBA in Business Administration, a Masters in Hotel Management and a BSc in Management.



Mr. Khalid Shehab Eddin Madi
Board Member

Independent

Director since: 22 March 2018

Term started: 22 March 2018

Experience: more than 25 years

Mr. Khalid Shehab Eddin Madi brings over 25 years of extensive experience in all aspects of private, commercial and investment banking. He currently serves as a Director in Al Salam Bank-Bahrain and a Managing Director of Advanced Living Solutions, which was established in 2013. His professional career began with Merrill Lynch as a Senior Financial Consultant, where he spent 8 years. In 2002, Mr. Madi founded Infinity Investment Solutions, a successful financial advisory practice in the United Arab Emirates where he served as a Managing Partner. In 2005, he was one of the founding Board members and the CEO of Al Mal Capital, which was set up with three core business lines including brokerage services in Saudi Arabia, asset management in Bahrain, and proprietary trading globally with a focus on Asia.

Mr. Khalid Madi holds a bachelor's degree in Marketing & Finance from Questrom School of Business, Boston University.

Corporate Governance Report (continued)

Board Composition

The Board consists of members who possess both the required skills and expertise to govern the Bank in a manner that would achieve the objectives of all stakeholders. Furthermore, in compliance with relevant regulations, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition, the contribution of Directors and the performance of its various Committees. The appointment of Directors is subject to prior screening by the Nomination and Corporate Governance Committee and the Board of Directors, as well as the approval of both the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent" directors is as per the definitions stipulated in the Central Bank of Bahrain Rulebook.

Each Director is elected for a three-year term, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. Board Meeting attendance is as per the regulations stipulated in the Central Bank of Bahrain Rulebook.

Mandate of the Board of Directors' Roles and Responsibilities

The principal role of the Board is to oversee the implementation of the Bank's strategic initiatives in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated the responsibility of the day-to-day management of the Bank to the Group Chief Executive Officer ("Group CEO").

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes:

- Reviewing the strategic plan of the Bank;
- Performance reviews of the Senior Management (all approved persons);
- Performance assessment of the Board, Board Sub-Committees and the Shari'a Supervisory Board;
- Approving material acquisition and disposal of assets;
- Approving capital expenditure;
- Approving authority levels;
- Appointing auditors and, reviewing the financial statements and financing activities;
- Reviewing the Corporate Governance Report
- Approving the annual operating plan and budget;
- Ensuring regulatory compliance through its various committees;
- Reviewing the adequacy and integrity of the internal controls; and
- Approving all policies pertaining to the Bank's operations and functioning.

Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The company shall be administered by a Board of Directors consisting of not less than five (5) members elected by the shareholders by means of cumulative voting by secret ballot and in accordance with the provisions of the Commercial Companies Law, after obtaining the approval of the Central Bank of Bahrain for their appointment. Members of the Board of Directors shall be appointed or elected to serve for a term not exceeding three (3) years renewable. A cumulative vote shall mean that each shareholder shall have several votes equal to the number of shares he owns in the Company and shall have the right to vote for one candidate or to distribute them among his chosen candidates.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to votes shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.
3. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him. The Ministry of the Industry, Commerce and Tourism and the Central Bank of Bahrain shall be provided with a copy of the resolution electing the Chairman and the Deputy Chairman.
4. The Board of Directors shall consist of independent and non-executive members in accordance with the Central Bank of Bahrain's rules and regulations.
5. No person may be appointed or elected as a member of the Board of Directors until he has declared his acceptance to such nomination in writing, provided that the declaration includes the disclosure of any work performed that may directly or indirectly constitute competition for the company, names of the companies and entities in which he works in or in which he is a member of their board of directors.

Corporate Governance Report (continued)

Board Elections System (continued)

Article 29 of the Bank's Articles of Association covers the "Termination of Membership in the Board of Directors". Which states the following:

A Director shall lose his office on the Board in the event that he:

1. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership.
2. Resigns his office by virtue of a written request;
3. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
4. Is elected or appointed contrary to the provisions of the Law.
5. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.
6. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law.
7. If he declares bankruptcy.
8. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with this Article 44; or
9. If the Central Bank of Bahrain considers him not eligible for the position.

Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, considering all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31st December 2019, they have met all the conditions required by the various regulatory authorities to be considered independent.

In 2019, the members of the Board were:

Non-executive Members

Mr. Khaleefa Butti Omair Almuhairi	Chairman
H.E. Shaikh Khalid bin Mustahail Al Mashani	Vice Chairman
Mr. Matar Mohamed Al Blooshi	Board Member

Independent Members

Mr. Hussain Mohammed Al Meeza	Board Member
Mr. Salim Abdullah Al Awadi	Board Member
Mr. Alhur Mohammed Al Suwaidi	Board Member
Mr. Khalid Salem Al Halyan	Board Member
Mr. Zayed Ali Al-Amin	Board Member
Mr. Salman Saleh Al Mahmeed	Board Member
Mr. Khalid Shehab Eddin Madi	Board Member

All current Directors were elected for a three-year term on 22 March 2018.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2018 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information. The charter is reviewed periodically and amended as and when required.

Corporate Governance Report (continued)

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving “conflict of interest” of Directors. In the event of the Board or its Committees considering any issues involving “conflict of interest” of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the absence from voting relating to conflict of interest is made available to shareholders upon their request.

Induction and Orientation for New Directors

When new Directors are appointed, they shall be provided with an appointment letter and the Directors’ Handbook containing information relevant to the performance of their duties as members of the Board. The Handbook includes the Corporate Governance Guidelines, Charters of the Board and Committees, key policies, etc. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

Code of Conduct

The Board has an approved Code of Conduct for Directors, as follows: To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;

- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank’s business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank’s creditors;
- To treat fairly and with respect all of the Bank’s employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

Evaluation of Board Performance

The Board has adopted a ‘Performance Assessment Framework’ designed to provide Directors with an opportunity to assess their performance on an annual basis. The self-assessment consists of three categories, such as:

- Assessment of the Board as a unit;
- Assessment of the Committee as a unit; and
- Self-assessment of individual Directors.

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting. The results for this year were satisfactory.

Corporate Governance Report (continued)

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

“The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the regulatory authorities.

The Board, based upon the recommendation of the Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director compensation subject to final approval of the shareholders at the Annual General Meeting. The Remuneration Committee shall conduct an annual review of Directors' compensation.

As per the Directors Remuneration Policy approved by the Shareholders, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attended during the year.

The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Meeting.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as Directors and Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit and Risk Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2019, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2019 Annual General Meeting. The details of the Board meetings held during 2019 are as follows:

Board Meetings in 2019 - Minimum Four Meetings per Annum

Members	25 Feb	19 June	18 Sep	4 Dec
H.E. Mr. Khaleefa Butti Al Muhairi	✓	✓	✓	✓
H.E. Shaikh Khalid bin Mustahail Al Mashani	✓	✓	✓	✓
Mr. Alhur Mohammed Al Suwaidi	✓	✓	✓	✓
Mr. Husein Mohamed Al Meeza	✓	✓	✓	✓
Mr. Khaled Shehabeddin Madi	✓	✓	✓	✓
Mr. Khalid Salim Al Halyan	✓	✓	✓	✓
Mr. Matar Mohamed Al Blooshi	✓	✓	✓	✓
Mr. Salim Abdullah Al Awadi	✓	✓	✓	✓
Mr. Salman Saleh Al Mahmeed	✓	✓	✓	✓
Mr. Zayed Ali Al Amin	✓	✓	✓	✓

Corporate Governance Report (continued)

Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of shares 2019	No. of shares 2018
Mr. Mr. Khaleefa Butti Al Muhairi*	174,286,565	168,392,817
H.E. Shaikh Khalid bin Mustahail Al Mashani	0	0
Mr. Matar Mohamed Al Blooshi	0	0
Mr. Hussain Al-Meeza	479,017	462,819
Mr. Salim Abdullah Al Awadi	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0
Mr. Khalid Salem Al Halyan	10,350	10,000
Mr. Zayed Ali Al-Amin	3,500,000	100,000
Mr. Salman Saleh Al Mahmeed	0	100,000
Mr. Khalid Shehab Madi	0	0

* Mr. Khaleefa Butti Al Muhairi's total shareholding consists of his personal shareholding and accounts under his guardianship.

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 30 - related party transaction.

Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors and Senior Management During 2019

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material contracts and financing facilities involving directors and senior management during 2019 are as follows:

- BD 16.0 Million outstanding, which constitute financing extended to and Sukuk purchased from N.M.C Health Care L.L.C a public company which is related to a Director.
- BD 2.0 Million outstanding against Ali Rashid Al Amin Co., which is related to a Director.
- BD 150 thousand outstanding against Maalem Holding B.S.C which is related to two Directors.
- BD 1.6 Million outstanding against The Courtyard Residence Co SPC, which is related to a Director
- Financing Facilities provided to certain Directors of the Board with a total amount of BD 140 thousand.
- Financing Facilities provided to senior management with a total amount of BD 567 thousand.

All related party transactions are disclosed in note 30 of the consolidated financial statements for the year ending 31 December 2019, and approval was obtained from the Central Bank of Bahrain.

Directorships held by Directors on Other Boards

The High-Level Controls Module of the Central Bank of Bahrain Rulebook provides that no Director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement and are approved by the Central Bank of Bahrain.

Corporate Governance Report (continued)

Board Committees

Consistent with the industry's best practice, the Board has established four Committees with defined roles and responsibilities. The Standing Committees of the Board are Executive Committee, Audit and Risk Committee, Remuneration Committee and, Nomination and Corporate Governance Committee.

Certain information relating to the work of certain Board Committees during the year 2019, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

Executive Committee

The Committee operates under the delegated authority of the Board and provides direction to the executive management on business matters, as delegated by the Board, to address matters arising between the Board meetings. The Committee is responsible for reviewing business matters concerning credit and market risks, strategy review and providing recommendation to the Board.

Committee Meetings in 2019 - Minimum four meetings per annum.

Four Committee meetings were held during 2019 as follows:

Members	31 Jan	19 June	16 Sep	28 Nov
Mr. Khaleefa Butti Al Muhairi (Chairman)	✓	✓	✓	✓
Mr. Alhur Mohammed Al Suwaidi	✓	✓	✓	✓
Mr. Salim Abdullah Al Awadi	✓	✓	✓	✓
Mr. Zayed Ali Al Amin	✓	✓	✓	✓

Audit and Risk Committee

The Committee's responsibility is to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also acts as a liaison between the external auditor, internal auditor and the Board. The Committee is also charged with the responsibility of handling whistleblowing complaints and monitoring related party transactions.

Committee Meetings in 2019 - Minimum four meetings per annum.

Four Committee meetings were held during 2019 as follows:

Members	11 Feb	30 Apr	12 Sept	27 Nov
Mr. Salman Saleh Al Mahmeed (Chairman)	✓	✓	✓	✓
H.E. Shaikh Khalid bin Mustahil Al Mashani	✓	✓	✓	✓
Mr. Matar Mohamed Al Blooshi	✓	✓	✓	✓
Mr. Khaled Shehabeddin Madi	✓	✓	✓	✓
Mr. Khalid Salim Al Halyan	✓	✓	✓	✓

Remuneration Committee

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, Group Chief Executive Officer and Senior Management (approved persons and material risk takers); ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employee. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives to attract, motivate and retain key employees.

Committee Meetings in 2019 - Minimum two meetings per annum.

Four meetings were convened during 2019:

Members	11 Feb	30 April	12 Sep	27 Nov
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)	✓	✓	✓	✓
Mr. Khalid Salim Al Halyan	✓	✓	✗	✓
Mr. Khaled Shehabeddin Madi	✓	✓	✓	✓

Corporate Governance Report (continued)

Nomination and Corporate Governance Committee

The Committee's role is to evaluate and nominate candidates to the Board, as well as facilitate the assessment of the performance of the Board, Committees and individual Directors. In addition, the Committee is responsible to ensure that Directors receive adequate training during the year to be able to perform their duties on the Board and the Committees they serve on. The Committee is also charged with the responsibility of ensuring that the Corporate Governance Framework of the Bank is adequate and in compliance with the prevailing regulations. The Committee liaises with the Bank's Corporate Governance Officer to manage the governance related activities.

Committee Meetings in 2019 - Minimum two meetings per annum.

Two meetings were convened during 2019:

Members	30 Jan	3 Dec
Mr. Salim Abdullah Al Awadi (Chairman)	✓	✓
Mr. Hussein Mohamed Al Meeza	✓	✓
Mr. Matar Mohamed Al Blooshi	✓	✓

SHARI'A SUPERVISORY BOARD

The Bank is guided by a Shari'a Supervisory Board consisting of four distinguished scholars. The Shari'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a. Further, the Shari'a Supervisory Board shall review and vet the screening criteria for charitable donations/ sponsorships as well as the sponsorship contracts.

The Shari'a Supervisory Board shall also ensure that an internal Shari'a audit function is in place and is adequately performing their duties as stipulated in the Shari'a Governance Module and AAOIFI Standards.

In addition, one designated member from the Shari'a Supervisory Board shall form part of the Nomination and Corporate Governance Committee to ensure that the corporate governance related matters are in compliance with the Islamic Shari'a rules and guidelines.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

Sheikh Adnan Abdullah Al Qattan Chairman

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court – Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Fareed Yaqoub Al Meftah Member

Dr. Fareed Almeftah is the Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain, member of the Supreme Council of Islamic Affairs and a former judge of the high Shari'a Court. Dr. Fareed is the Chairman of the Shari'a Supervisory Board of Khaleeji Commercial Bank (KHCB) and a former Lecturer at the University of Bahrain and wrote a lot of research papers. Dr. Fareed holds PhD in Islamic Philosophy from University of Edinburgh – United Kingdom.

Corporate Governance Report (continued)

Dr. Nizam Mohammed Yaquby

Member

Sheikh Dr. Nizam Mohammed Yaquby is an internationally acclaimed Shari'a scholar in the Islamic banking industry. He has a background in both Traditional Islamic sciences with senior scholars from different parts of Muslim World. He holds a PhD in Islamic studies also a degree from McGill University in Canada. Sheikh Nizam has taught Islamic Subjects in Bahrain and lectured all over the world. He is a member of many International Boards: the Shari'a Council of AAOIFI, Dow Jones Islamic Index, Central bank of Bahrain Shari'a Committee and IIFM Shari'a Council. He is also a member of several local and International Shari'a Boards. Sheikh Nizam has edited several Arabic manuscripts and has more the 500 audio-visual lectures and lessons in both Arabic and English.

Dr. Osama Mohammed Bahar

Member

Sheikh Dr. Osama Mohammed Bahar is a recognized Shari'a scholar in Islamic banking and financing. He has extensive experience in the structuring of financial and Islamic products and Islamic contracts, in addition to his contributions to a number of research papers on Islamic finance and banking. Sheikh Osama Bahar holds a Bachelor's degree from Prince Abdul Qader University for Islamic Studies in Algeria and he has a Master's degree in the Islamic economy from 'Al Awzai University' in Lebanon and PhD in Islamic Financial Engineering from Islamic University of Europe. He is also a member of many Shari'a Supervisory Boards.

ANNUAL GENERAL MEETING

The Board of Directors report to the Shareholders on the performance of the Bank through the Annual General Meeting. The meeting shall be convened upon an invitation from the Chairman of Board and be convened during the three months following the end of the Bank's financial year.

All the Directors, especially the Chairs of the Board and Committees, at least one member of the Shari'a Supervisory Board and the external auditors shall be present at this meeting to answer questions from the Shareholder regarding matters within their responsibilities:

At a minimum, the Board shall report on the following to the Shareholders, for their approval, at the Annual General Meeting:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate governance report;
- Corporate social responsibility report;
- Performance assessment of the Board, Committees and individual Directors; and
- Remuneration for the Directors and the Shari'a Supervisory Board members.

EXECUTIVE MANAGEMENT

The Board delegates the authority of managing the Bank to the Group Chief Executive Officer ("Group CEO"). The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.

Corporate Governance Report (continued)

Executive Management (continued)



Mr. Rafik Nayed
Group Chief Executive Officer

Experience: more than 27 years

Mr. Rafik Nayed is a seasoned banker with over 27 years of experience. He joined Al Salam Bank-Bahrain from Deutsche Bank where he was the Vice Chairman of the MENA region, Chief Country Officer for the UAE and Senior Executive Officer of Deutsche Bank AG Dubai (DIFC). Before joining Deutsche Bank, Mr. Rafik Nayed was the Chief Executive Officer of the Libyan Investment Authority and prior to that worked for many years in the oil and gas and financial services industries in a variety of international senior positions.



Mr. Anwar Mohammed Murad
Deputy CEO

Experience: more than 26 years

Mr. Anwar Murad is a proficient Banker with over 26 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Mr. Anwar served as the Executive Vice President - Head of Private Banking at Al Salam Bank-Bahrain since May 2006. Previous to joining Al Salam Bank-Bahrain, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank - Bahrain. Mr. Anwar has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.



Mr. Eihab Abdellatif Ahmed
Chief Legal Officer, Corporate Secretary and Advisor to the Chairman

Experience: more than 24 years

Mr. Eihab Ahmed has a wide range of professional experience that spans over 24 years covering all major legal disciplines including but not limited to Investment Banking, Corporate Banking and Criminal, Labour, Public and Private International Laws. Prior to joining Al Salam Bank, he was the General Counsel - Corporate Secretary & Money Laundering Reporting Officer (MLRO) Legal & Compliance of First Energy Bank - Bahrain. He was the focal point of communication between the Board of Directors and Senior Management as well as between the Bank and its Shareholders, providing advisory and guidance on Corporate Governance principles and practices. Mr. Eihab had worked at the International Investment Bank - Bahrain (IIB) as Head of Legal and Compliance, MLRO and for Khaleej Finance & Investment as the Head of Legal, MLRO and Corporate Secretary. He also worked for a number of reputed firms in the Kingdom of Bahrain. Before coming to Bahrain 15 years ago, he served the Ministry of Justice, Sudan as a Legal Counsel.

Mr. Eihab holds L.L.B degree from the Faculty of Law - University of Khartoum, Sudan. In January 2017, he obtained his International Diploma in Governance, Risk and Compliance from the ICTA and University of Manchester, UK. He also holds the Sudanese Bar certificate from Sudan and he is a registered member of the Sudanese Advocates Association as a Proper Advocate before various Courts of Law. Mr. Eihab is a Certified Compliance Officer (CCO) from the American Academy of Financial Management - Dubai, UAE. In 2014, Mr. Eihab was awarded the GCC MLRO of the year.

Corporate Governance Report (continued)

Executive Management (continued)



Mr. Yousif Ahmed Ebrahim

Chief Financial Officer

Experience: more than 26 years

Mr. Yousif Ebrahim is a proficient banker with over 26 years of experience in the areas of finance and audit. He is primarily responsible for directing and overseeing the financial and fiscal management of the Bank and its subsidiaries that includes contributing to the Bank's strategy planning, leading and directing the budget process, maintaining appropriate accounting framework and establishing effective system of cost management and internal control. Prior to joining Al Salam Bank, he served as the Chief Financial Officer at First Energy Bank for more than 9 years. He also worked at Gulf International Bank as a Vice President of Internal Audit and he was also in the Audit & Business Assurance services at PricewaterhouseCoopers. Mr. Yousif is a Certified Public Accountant (USA) and a member of the American Institute of Certified Public Accountant.



Mr. Abdulkarim Turki

Chief Operating Officer

Experience: more than 39 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 39 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Abdulkarim worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank-Bahrain in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Abdulkarim was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Abdulkarim holds an MBA in Investment & Finance from the University of Hull, UK.



Mr. Ahmed Abdulla Saif

Head of Strategy and Planning

Experience: more than 13 years

Mr. Ahmed Saif brings over 13 years of experience in the banking sector. Prior to joining Al Salam Bank-Bahrain in 2008 as an Associate in the Investment Team, Mr. Ahmed worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Ahmed sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

Corporate Governance Report (continued)

Executive Management (continued)



Mr. Hussain Abdulhaq
Head of Treasury and Capital Markets

Experience: more than 19 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 19 years banking career as a treasury specialist has been very focused on Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Hussain joined Al Salam Bank-Bahrain in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, he was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Hussain holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).



Mr. Ahmed Jasim Murad
Head of Corporate Banking

Experience: more than 23 years

Mr. Ahmed Murad brings over 23 years of experience in the banking sector covering areas that include Retail, Commercial and Corporate Banking. Prior to joining Al Salam Bank-Bahrain BSC, he served as Head of Corporate Banking and also a member of the Credit Committee at National Bank of Bahrain BSC. Mr. Ahmed holds a Bachelor degree in Business Marketing from St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies from University of Bahrain, and Executive Diploma from University of Virginia, USA. Moreover, he attended number of banking training courses inside the Kingdom of Bahrain and abroad.



Mr. Ali Habib Qassim
Head of Private Banking

Experience: more than 20 years

Mr. Ali Habib Qassim is a banking expert with more than 20 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, Mr. Ali marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston, USA.

Corporate Governance Report (continued)

Executive Management (continued)



Mr. Mohammed Yaqoob Buhijji
Head of Retail Banking

Experience: more than 18 years

Mr. Mohammed Buhijji brings to the Bank more than 18 years of consultancy and banking experience. He joined Al Salam Bank-Bahrain in 2006 when he set up the Internal Audit division and various departmental policies and procedures during the Bank's establishment. In 2009, he moved to the Bank's Retail Banking division where he supported the development of products, services, the core banking system and Retail Banking policies. He also played an essential role in the integration and conversion phases of the Bank's acquisition of the Bahraini Saudi Bank and BMI Bank; serving as a member in the Integration Steering Committee and various other management committees including IT Steering Committee and Information Security Steering Committee. Prior to joining Al Salam Bank-Bahrain, he worked with Ernst & Young in the Business Risk Services division, where he was responsible for managing the audit and consultancy services for major financial institutions and governmental bodies. He holds an MBA degree from the University of Strathclyde Business School, Glasgow and a Bachelor's degree in accounting. He has also completed Executive Management Programs in Harvard Business School in USA and Ivey Business School in Canada.



Mr. Sadiq Al Shaikh
Head of International Transaction Banking

Experience: more than 22 years

Mr. Sadiq Al Shaikh is a professional banker with over 22 years of experience in both Wholesale and Retail Banks in the Kingdom of Bahrain. Mr. Sadiq managed global markets with a focus on the GCC, MENA region, East Africa, South Asia and CIS region, where he develops Financial Institutions Group (FIG) products and structured finance. These include bilateral and syndication, correspondent and transaction banking, global trade finance instruments, export credit insurance covers and credit review of credit limits for countries and banks. Prior to joining Al Salam Bank-Bahrain in 2014, he was the Head of FIG & International banking at BMI Bank for 10 years, and held various senior positions for 7 years at the Arab Investment Company in Operations, Risk Management and the International Banking Division, covering Financial Institutions and Corporate products in overseas markets. Mr. Sadiq holds a Bachelor degree in Business Management majoring in finance and marketing from Bangalore University.



Mr. Krishnan Hariharan
Chief Risk Officer

Experience: more than 35 years

Mr. Krishnan Hariharan is a versatile Banker with over 35 years of experience in conventional and Islamic banks in the region and India. Prior to joining Al Salam Bank – Bahrain in 2019 he worked with Ithmaar Bank, Bahrain as Chief Risk Officer. Before joining Ithmaar Bank, he was part of the founding team of Alizz Islamic Bank, Sultanate of Oman. He holds twin Bachelor degrees one in Commerce and the other in Economics from Universities in India, he also holds a Master degree in Financial Management from Jamanalal Bajaj Institute of Management Studies, Mumbai – India.

Corporate Governance Report (continued)

Executive Management (continued)



Mr. Essa Abdulla Bohijji
Chief Auditor

Experience: more than 19 years

Mr. Essa Bohijji has more than 19 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank-Bahrain, Mr. Essa was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Essa has previously served as a Board and Audit Committee member of Al Salam Bank-Algeria, a non-executive Audit Committee member in Manara Developments B.S.C. (c), as a Board member of BMI Bank, as a Board and Audit Committee member of Bahraini Saudi Bank, and an interim Board member in BMIO Bank in Seychelles. Mr. Essa is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.



Ms. Muna Al Balooshi
Head of Human Resources and Administration

Experience: more than 20 years

Ms. Muna Al Balooshi is a practiced HR professional with over 20 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank-Bahrain in 2006, Ms. Muna was the Head of Human Resources at the Court of HRH the Crown Prince prior to this served as HR Associate with KPMG Bahrain. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.



Mr. Qassim Taqawi
General Counsel

Experience: more than 17 years

Mr. Qassim Taqawi is a skilled legal counsel with over 17 years of experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Qassim has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank-Bahrain, Mr. Qassim held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as General Counsel, Mr. Qassim is a member of the Bank's Investment Committee and Remedial Committee. Mr. Qassim holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

Corporate Governance Report (continued)

Executive Management (continued)



Dr. Mohammed Burhan Arbouna
Head of Shari'a Compliance

Experience: more than 22 years

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 22 years of Islamic banking experience. Prior to joining Al Salam Bank-Bahrain, Dr. Mohammed was the Shari'a Head and Shari'a Board member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Mohammed was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.



Mr. Ali Al Khaja
Head of Compliance and MLRO

Experience: more than 11 years

Mr. Ali Al Khaja brings more than 11 years of Compliance experience to the Bank. Prior to joining Al Salam Bank-Bahrain, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Bank's in the Kingdom of Bahrain. Mr. Ali holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).



Mr. Ahmed Abdulrahim Al Mahmood
Head of Internal Shari'a Audit

Experience: more than 13 years

Shaikh Ahmed Al Mahmood has over 13 years of professional experience in the field of Shari'a supervision and auditing in Islamic financial institution. Prior to joining Al Salam Bank-Bahrain, he established the Shari'a department in BMI Bank and GBCORP in addition to joining the Shari'a department of Abu Dhabi Islamic Bank (ADIB). He also played an essential role in the integration and conversion phases of the Bank's acquisition of BMI Bank; serving as a member in the Conversion Committee.

He holds an MBA degree in Islamic Finance from University of Bolton - UK, and he is currently preparing a PhD at the same university. In addition to BA in Islamic Studies from University of Bahrain. He holds various professional qualifications that includes Certified Shari'a Advisor and Auditor (CSAA) from AAOIFI along with Advanced Diploma in Islamic commercial Jurisprudence (ADICJ) from BIBF. He also provided several training workshops on the principles of Islamic banking and wrote a lot of researches and published articles about Islamic banking & products.

Corporate Governance Report (continued)

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December 2019 is as follows:

Members	Shares	
	2019	2018
Dr. Mohammed Burhan Arbouna	347	336
Mr. Essa Abdulla Bohijji	123,159	118,995
Mr. Khalid Mustafa Jalili	465,750	0
Mr. Abdulkarim Mohamed Turki	173	168
Total	589,429	119,499

Management Committees

The Chief Executive Officer is supported by several management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Management Executive Committee	Overseeing the other Management committees and assisting the CEO in various issues or topics as and when required.
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	The Committee oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
Remedial Committee	The role of the committee is to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank
Human Resources Committee	The role of the committee is to enable the bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance
Information Security Committee	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The role of the Committee is to strengthen the Information Security Department's capabilities as well.
Social Responsibility Committee	This Committee oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year. The social causes that are supported by the Bank are: <ul style="list-style-type: none"> • Medical assistance; • Care for the less fortunate; and • Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.

Corporate Governance Report (continued)

Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance of controlled functions of the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance its Compliance and Anti Money Laundering systems. The Bank has recently automated the AML monitoring process through a well-known system.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's Rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. The Bank complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Meeting held on 20 March 2019, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31 December 2019 and authorized the Board of Directors to determine their remuneration.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process. Every employee of the Bank participates in the internal control process and contributes effectively by identifying risks at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee. The latest Key Persons' Policy is posted on the Bank's website.

EMPLOYEE RELATIONS

Al Salam Bank-Bahrain is committed to promoting a diverse and inclusive environment and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being an equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree. Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so will subject the employee to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

Corporate Governance Report (continued)

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall communication goals, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications. The Bank's formal communication material is provided in both Arabic and English languages.

The annual reports and quarterly financial statements and Corporate Governance reports are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

WHISTLE BLOWING POLICY

This Policy details the procedures for a whistleblower to escalate a complaint to the designated authority and procedures that are to be followed by the Audit and Risk Committee to ensure that a valid whistleblowing complaint is investigated properly, and action taken appropriately, while protecting the whistleblower from any adverse reaction due to their complaint.

DELEGATION OF AUTHORITY LIMITS

Approving limits for the Board, Board Committees and other designated individuals are incorporated into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

DISCLOSURES

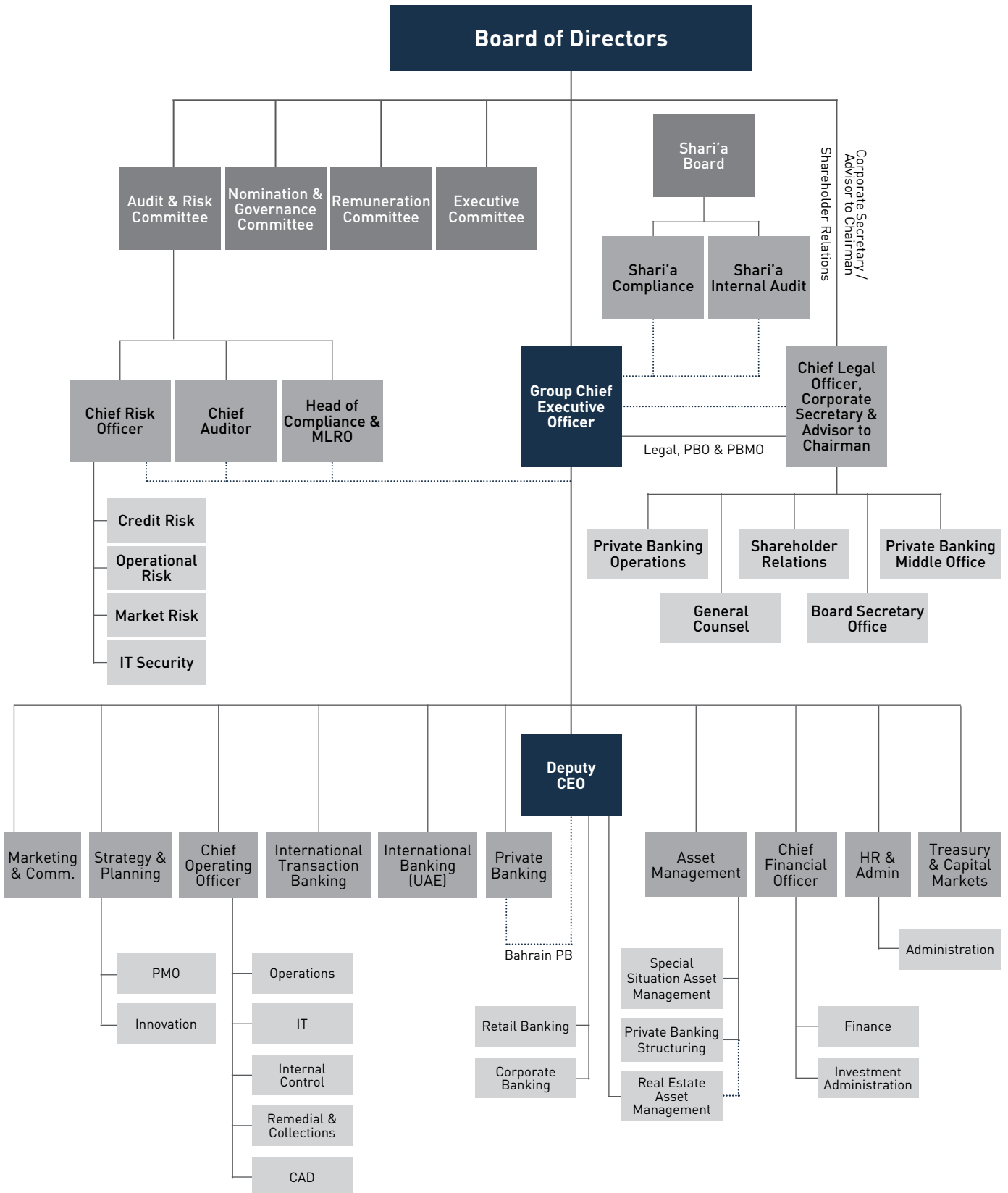
The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

HC comply or Explain:

Sr	Rule	Non-Compliance	Current Situation
1	HC-1.4.6- The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	The Chairman is not an independent Director	Given the Chairman's vast experience and business acumen, the board has seen fit to appoint him as the Chairman. The Current structure is approved by the Central Bank of Bahrain as well and the Chairman abides by the Corporate Governance code and insures all shareholders interests are met.
2	HC-5.3.2 (Remuneration Committee)-The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognises that the remuneration committee must exercise judgment free from personal career conflicts of interest.	Chairman is Non-Executive Director.	Given the remuneration committee's Chairman banking background and experience, the Board has seen fit to appoint him as the chairman of the remuneration committee. The Current structure is approved by the Central Bank of Bahrain as well and The Chairman abides by the Corporate Governance code and insures all the committees' responsibilities as per the charter are met.
3	HC-7.2.2- The Bahraini Islamic bank license should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).	Sh. Khalid Al Mashani and Mr. Khalid Madhi have not attended due to personal reasons.	All members of the board excluding the previous two (8 out of 10) were present and are able to provide any answer to any inquiry from the shareholders.

Corporate Governance Report (continued)

ORGANIZATIONAL STRUCTURE



Agreed-Upon Procedures Report on Related Party Transaction



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Kingdom of Bahrain

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Fax: +973 17 227443
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C.R. No. 6220

The Board of Directors
Al Salam Bank-Bahrain B.S.C.
P.O. Box 18282
Manama
Kingdom of Bahrain

We have performed the procedures enumerated below and prescribed by the Ministry of Industry, Commerce and Tourism in their letter dated 30 January 2020 on the Related Party Transactions of Al Salam Bank-Bahrain B.S.C. (the "Bank") as described in note 30 to the audited consolidated financial statements for the year ended 31 December 2019, (the "Note") and in accordance with the requirement of Article 189 of the Commercial Companies Law (the "Law").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements 4400. The procedures were performed solely for the purpose of agreeing the related party transactions and balances included in the Note to the Bank's accounting records and board of directors' approvals.

The procedures and related findings are set out below:

1. We obtained the audited consolidated financial statements for the year ended 31 December 2019 and agreed the amount of the transactions, nature of the transactions, nature of the related party relationship, and outstanding balances included in the Note to the Bank's accounting records; and
2. We traced the related parties transactions included in the Note to the Board of Directors' approvals.

We report our findings below:

- c. With respect to procedure 1, no exceptions were noted. Details of related party transactions for the year and as at 31 December 2019 described in the Note agrees to the Bank's accounting records; and
- d. With respect to procedure 2, no exceptions were noted.

Because these procedures do not constitute either an audit or a review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any audit or review assurance on the Bank's compliance with the Law. Had we performed additional procedures or had we performed an audit or review in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is only for the information of the Bank. This report should not be used for any other purpose or be distributed in whole or in part to any other parties. This report relates only to the related party transactions described in the Note and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

KPMG Fakhro

Partner registration number 137
12 February 2020

10

TO ABSOLVE THE DIRECTORS OF THE BOARD FROM LIABILITY FOR THEIR ACTIONS AS DIRECTORS DURING THE YEAR ENDED 31 DECEMBER 2019.

11

TO APPOINT OR REAPPOINT THE SHARI'A SUPERVISORY BOARD FOR THE YEAR ENDING 31 DECEMBER 2020 AND AUTHORIZE THE BOARD OF DIRECTORS TO DETERMINE THEIR REMUNERATION.

12

TO APPOINT EXTERNAL AUDITORS FOR THE YEAR ENDING 31 DECEMBER 2020 AND AUTHORIZE THE BOARD OF DIRECTORS TO DETERMINE THEIR REMUNERATION, SUBJECT TO THE APPROVAL OF THE CENTRAL BANK OF BAHRAIN.

13

TO DISCUSS AND APPROVE ANY
OTHER MATTERS THAT MAY ARISE
AS PER ARTICLE 207 OF THE
COMMERCIAL COMPANIES' LAW.

SECONDLY

EXTRAORDINARY GENERAL ASSEMBLY MEETING

Thursday, 19 March 2020
At 11 AM

Al Murjan Ballroom
Movenpick Hotel Bahrain
Kingdom of Bahrain

Extraordinary General Assembly Meeting 2020 Agenda

1. To approve the previous minutes of Extraordinary General Meeting held on 20 March 2019.
2. To approve the amendment to Article 5 (Company's Capital) of the Memorandum and Articles of Association of the Bank to reflect the increase in the Bank's paid up share capital from BD 221,586,332 to BD 230,449,785 and issued shares from 2,215,863,320 shares to 2,304,497,853, resulted from the bonus shares of 88,634,533 shares as per the resolutions of the Annual General Meeting of the Bank on 19 March 2020.
3. To adopt an Amended and Restated Memorandum and Articles of Association for the Bank and to re-place the Memorandum and Articles of Association of the Bank on incorporation and all amendments thereafter, to reflect items No. (2) above for amendment to Article 5 (Company's Capital), and to reflect the provisions of the Bahraini Commercial Companies Law and its amendments, and the Central Bank of Bahrain Law and its Implementation Regulations, subject to the approval of the Central Bank of Bahrain.
4. To authorize the Chairman of the Board of Directors, His Excellency Khaleefa Butti Bin Omair Bin Yousif Al Muhairi and/ or the Bank's Group Chief Executive Officer, Rafik Nayed and/ or Keypoint Business Services W.L.L. individually to sign the Amended and Restated Memorandum and Articles of Association of the Bank before the Notary Public in the Kingdom of Bahrain and submit the relevant documents related to the above mentioned resolutions to the concerned authorities.

01

TO APPROVE THE PREVIOUS MINUTES
OF EXTRAORDINARY GENERAL MEETING
HELD ON 20 MARCH 2019.

Minutes of the Extraordinary General Assembly Meeting 2019

In the Name of Allah, the Beneficent and the Merciful

The Extraordinary General Assembly Meeting was held at Al Sarr Ballroom, Jumeirah Royal Saray Bahrain, Kingdom of Bahrain at 10 am, on Wednesday 20 March 2019.

Chairman:

Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi - Chairman of the Board of Directors, chaired the Extraordinary General Assembly Meeting.

Quorum

Chairman announced the legal quorum was present for holding the meeting. The quorum of the shareholders, in person and by proxy, was %73.22 of the total shareholders of Al Salam Bank – Bahrain. The meeting President requested the Bahrain Clearing Company, being the Registrar of Al Salam Bank.

Meeting rapporteur

The General Assembly was authorized General Counsel Mr. Eihab Abdullatif Ahmed, Corporate Secretary as meeting's rapporteur.

Directors Present:

1. Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi	Chairman
2. Mr. Alhur Mohammed Al Suwaidi	Member
3. Mr. Hussein Mohammed Al Meeza	Member
4. Mr. Salman Saleh Al Mahmeed	Member
5. Mr. Zayed Ali Al- Amin	Member
6. Mr. Salim Abdulla Al Awadi	Member
7. Mr. Matar Mohammed Al Blooshi	Member
8. Mr. Khalid Salim Al Halyan	Member

Executive Management of Al Salam Bank-Bahrain:

1. Mr. Rafik Nayed	Group CEO
2. Mr. Anwar Murad	Deputy CEO
3. Mr. Eihab Ahmed	Chief Legal Officer, Corporate Secretary
4. Mr. Yousif Ebrahim	CFO

Regulatory

(Representatives of the Central Bank of Bahrain)

1. Mr. Jaber AlAali
2. Ms. Nora Altajer
3. Ms. Khadeeja Ahmed
4. Ms. Noof AlBlooshi

(Representative of the Ministry of Industry, Commerce and Tourism)

1. Mr. Ali Ahmed Hussain
2. Mr. Ahmed Salman Ahmed

(Bahrain Bourse Representative)

1. Mr. Mohammed AlJabil

(Representatives of KPMG, Auditors of Al Salam Bank)

1. Mr. Jamal Fakhro
2. Mr. Mahesh Balasubramanian

Minutes of the Extraordinary General Assembly Meeting 2019 (continued)

(Representatives of Bahrain Clearing Company, Registrars of Al Salam Bank shares)

1. Ms. Heba Mubark
2. Ms. Huda Mohammed
3. Mr. Omar Al Sha'ar

Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, Chairman, inaugurated the meeting, welcomed and thanked the shareholders for being present. He also welcomed the representatives of Central Bank of Bahrain, Bahrain Bourse, KPMG (the Bank Auditors) and the bank share registrars.

1. To approve the minutes of Extraordinary General Assembly Meeting which was held on 25 June 2018.

Mr. Butti stated that a copy of the mentioned minutes has been sent to all the shareholders and that no comments nor inquiries have been received. He requested the shareholders present to either bring up any necessary comments or approve the minutes as it is.

There were no comments received then:

Resolution No. (1): The minutes of Extraordinary General Assembly Meeting held on 25 June 2018 were ratified.

2. To approve the amendment of Article 5 (Company's Capital) of the Memorandum and Articles of Association of the Bank to reflect the increase in the Bank's share capital from BD 214,093,075 to BD 221,586,332 and issued shares from 2,140,930,752 shares to 2,215,863,320 shares following the distribution of the bonus shares, subject to regulatory authorities' approval.

Resolution No. (2): The Ordinary General Assembly unanimously approved the amendment of Article 5 (Company's Capital) of the Memorandum and Articles of Association of the Bank to reflect the increase in the Bank's share capital from BD 214,093,075 to BD 221,586,332 and issued shares from 2,140,930,752 shares to 2,215,863,320 shares following the distribution of the bonus shares, subject to regulatory authorities approval.

3. To amend Article 31 (Quorum of the Board of Directors Meeting) of the Articles of Association with respect to the Board resolutions by circulation by requiring the approval of "majority" of members of the Board instead of "all", subject to regulatory authorities' approval.

Resolution No. (3): The Ordinary General Assembly unanimously approved the amendment of Article 31 (Quorum of the Board of Directors Meeting) of the Articles of Association with respect to the Board resolutions by circulation by requiring the approval of "majority" of members of the Board instead of "all", subject to regulatory authorities approval.

4. To authorize the Chairman of the Board of Directors, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi and/or the Bank's Group Chief Executive Officer, Rafik Nayed to individually sign the amendment to the Bank's Memorandum and Articles of Association before the notary public and any relevant documents related to official authorities, and undertake all procedures required to complete this process.

Resolution No. (4): The Ordinary General Assembly unanimously authorized the Chairman of the Board of Directors, Mr. Khaleefa Butti Bin Omair Bin Yousif and/ or the Bank's Group Chief Executive Officer, Rafik Nayed to individually sign the amendment to the Bank's Memorandum and Articles of Association before the notary public and any relevant documents related to official authorities, and undertake all procedures required to complete this process.

Since there were no other items to discuss on the agenda of the Extraordinary General Assembly; therefore, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, Chairman of the Board of Directors and Chairman of the Extraordinary General Assembly thanked all the shareholders, representatives of the official authorities and the Executive Management for their effective contribution to the Extraordinary General Assembly success. The Extraordinary General Assembly was then adjourned.

Extraordinary General Assembly was adjourned at 11:30 AM.



Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman of the Board of Directors
Meeting President



Eihab Abdullatif Ahmed
General Counsel
Meeting Rapporteur

| 02

TO APPROVE THE AMENDMENT TO ARTICLE 5 (COMPANY'S CAPITAL) OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE BANK TO REFLECT THE INCREASE IN THE BANK'S PAID UP SHARE CAPITAL FROM BD 221,586,332 TO BD 230,449,785 AND ISSUED SHARES FROM 2,215,863,320 SHARES TO 2,304,497,853, RESULTED FROM THE BONUS SHARES OF 88,634,533 SHARES AS PER THE RESOLUTIONS OF THE ANNUAL GENERAL MEETING OF THE BANK ON 19 MARCH 2020.

03

TO ADOPT AN AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION FOR THE BANK AND TO RE-PLACE THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE BANK ON INCORPORATION AND ALL AMENDMENTS THEREAFTER, TO REFLECT ITEMS NO. (2) ABOVE FOR AMENDMENT TO ARTICLE 5 (COMPANY'S CAPITAL), AND TO REFLECT THE PREVISIONS OF THE BAHRAINI COMMERCIAL COMPANIES LAW AND ITS AMENDMENTS, AND THE CENTRAL BANK OF BAHRAIN LAW AND ITS IMPLEMENTATION REGULATIONS, SUBJECT TO THE APPROVAL OF THE CENTRAL BANK OF BAHRAIN.

04

TO AUTHORIZE THE CHAIRMAN OF THE BOARD OF DIRECTORS, HIS EXCELLENCY KHALEEFA BUTTI BIN OMAIR BIN YOUSIF AL MUHAIRI AND/ OR THE BANK'S GROUP CHIEF EXECUTIVE OFFICER, RAFIK NAYED AND/ OR KEYPOINT BUSINESS SERVICES W.L.L. INDIVIDUALLY TO SIGN THE AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE BANK BEFORE THE NOTARY PUBLIC IN THE KINGDOM OF BAHRAIN AND SUBMIT THE RELEVANT DOCUMENTS RELATED TO THE ABOVE MENTIONED RESOLUTIONS TO THE CONCERNED AUTHORITIES.

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