ITHMAAR BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

ITHMAAR BANK B.S.C. (C)
Consolidated financial statements for the year ended 31 December 2019

Contents	Page

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) and subsidiaries for the Financial Year from 1 January 2019 until 31 December 2019, corresponding to the Year from 25 Rabi Al-Akher 1440 H until 5 Jumada Al-Awal 1441 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) and subsidiaries (the Bank) performed the following during the financial year ended at 31 December 2019:

1. Issued fatwas and Sharia resolutions related to Ithmaar's products and activities through Ithmaar Bank's Sharia Coordination and Implementation Department and followed its execution through Internal Sharia Audit Department while also guiding different departments towards implementing Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined the books, records and transactions and auditing some of their samples through Internal Sharia Audit Department as per established sharia auditing standards.

4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, consolidated income statement and the Bank's overall banking activities.

5. Examined and approved Sharia reports which are published by the Sharia Coordination and Implementation Department, Internal Sharia Audit Department and External Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the year ended at 31 December 2019. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us, the resolution of the Centralized Sharia Council and the regulations and instructions issued by the Central Bank of Bahrain.

The Bank's management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above, the Sharia Supervisory Board hereby resolves as follows:

I: With regard to the Bank business in general:

a. Ithmaar's overall operations and activities were conducted in full in compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board approved standard contracts.

b. Mudaraba profit and loss distribution reserve is in compliance with the principles and provisions of Islamic Sharia.

c. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) for the Financial Year from 1 January 2019 until 31 December 2019, corresponding to the Year from 25 Rabi Al-Akher 1440 H until 5 Jumada Al-Awal 1441 H.

d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares. Ithmaar Bank's accounts are consolidated under Ithmaar Holding. Thus, Zakat calculation will be included in the consolidated Financial Statements of Ithmaar Holding.

ii: What has been transferred to the Bank after reorganization:

The Sharia Supervisory Board has reviewed the structure of the Bank, its projects and its subsidiaries following the establishment of the Holding Company and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary (for commercial operations in Bahrain and Pakistan) and to ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2019 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities, according to Note 37, the Sharia Supervisory Board guides the shareholders of Bank to dispose of impermissible earnings which has been calculated, in the current years financial statements, at 6.29 Bahraini fils per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Nizam Yacooby Member	His Eminence Shaikh Mohsin Al-Asfoor Member	His Eminence Shaikh Osama Bahar Member	His Eminence Shaikh Abdulla Al Manee'a Chairman

ITHMAAR BANK B.S.C. (C)
Directors' Report for the year ended 31 December 2019

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the year ended 31 December 2019, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended.

Principal activities

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017.

The principal activities of the Group are a wide range of financial services, including retail, commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2019, together with the consolidated results for the year ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of BD1.4 million for the year ended 31 December 2019 attributable to the equity shareholders of the Group, as compared to a net profit of BD1.4 million for 2018. Total assets at 31 December 2019 amounted to BD2,979 million (31 December 2018: BD3,128 million).

The consolidated Capital adequacy ratio of the Bank as at 31 December 2019 was 13.52% (31 December 2018: 13.43%) as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 34 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2019:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Mr. Abdel Hamid Abo Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Mohammed Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Mr. Omar Abdi Ali
Dr. Amani Khaled Bouresli
Mr. Mohammed Elkhereiji
Ms. Elham Ebrahim Abdulla Hasan
Tunku Yaacob Khyra (elected 25 March 2019)
Mr. Nabeel Khalid Kanoo (resigned 7 January 2019)
Mr. Abdulshakoor Hussain Tahlak (resigned 25 March 2019)

Directors' sitting fees

Directors' sitting fees for 2019 amounted to BD119,886 (2018: BD125,541).

Dividend

No dividend has been proposed for 2019 (2018: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2020.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman

20 February 2020

Ithmaar Bank B.S.C. (c)
Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019 and the related consolidated income statement, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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Ithmaar Bank B.S.C. (c)
Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C. (c) (continued)

Report on regulatory requirements and other matters

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

(i) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

(ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;

(iii) except for the matter described below, we are not aware of any other violation of the applicable provisions of Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its consolidated financial position as at 31 December 2019:

The Bank has not complied with the requirements of the CBB's Rulebook Volume 2 – Licensing Requirements module – LR-2.5.2A which states that an Islamic retail bank licensee must maintain a minimum total shareholders' equity of BD 100 million; and

(iv) satisfactory explanations and information have been provided to us by the Bank in response to all our requests.

The Group has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board.

Partner's Registration No: 216
20 February 2020
Manama, Kingdom of Bahrain

ITHMAAR BANK B.S.C. (C)
Consolidated statement of financial position
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2019 (Audited)	At 31 December 2018 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	253,124	217,138
Commodity and other placements with banks, financial and other institutions	4	127,602	86,055
Murabaha and other financings	5	1,497,391	1,683,865
Musharaka financing		239,452	186,851
Sukuk and investment securities	6	523,702	576,171
Assets acquired for leasing	7	148,084	154,859
Other assets	8	55,544	79,085
Investment in real estate		2,398	3,359
Development Properties	9	75,838	79,296
Fixed assets	10	22,235	17,802
Intangible assets	11	33,576	43,314
Total assets		**2,978,946**	**3,127,795**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	12	572,466	561,506
Due to banks, financial and other institutions	13	501,616	603,731
Due to investors	14	589,550	639,005
Other liabilities	15	104,908	173,908
Total liabilities		**1,768,540**	**1,978,150**
Equity of unrestricted investment accountholders	16	1,063,928	994,780
Minority interest	17	67,307	69,480
Total liabilities, equity of unrestricted investment accountholders and minority interest		**2,899,775**	**3,042,410**
Share capital	18	100,000	100,000
Reserves		7,590	14,178
Accumulated losses		(28,419)	(28,793)
Total owners' equity		**79,171**	**85,385**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**2,978,946**	**3,127,795**

These consolidated financial statements were approved by the Board of Directors on 20 February 2020 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal Chairman	Elham Hasan Director	Ahmed Abdul Rahim CEO

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated income statement
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2019 (Audited)	31 December 2018 (Audited)
INCOME			
Income from unrestricted investment accounts		82,551	67,949
Less: return to unrestricted investment accounts and impairment provisions		(54,359)	(40,959)
Group's share of income from unrestricted investment accounts as a Mudarib		28,192	26,990
Income from murabaha and other financings	20	77,958	70,328
Income from other investments	21	41,854	34,729
Other income	22	23,212	19,735
Total income		**171,216**	**151,782**
Less: profit paid to banks, financial and other institutions		(87,630)	(67,967)
Operating income		**83,586**	**83,815**
EXPENSES			
Administrative and general expenses	23	(59,250)	(61,347)
Depreciation and amortization	10,11	(8,669)	(8,768)
Total expenses		**(67,919)**	**(70,115)**
Net income before provision for impairment and overseas taxation		**15,667**	**13,700**
Gain arising on acquisition of a business (net)		-	19,194
Provision for impairment (net)		(2,779)	(8,260)
Net income before overseas taxation		**12,888**	**24,634**
Overseas taxation	25	(10,408)	(10,494)
NET PROFIT FOR THE YEAR		**2,480**	**14,140**
Attributable to:			
Equity holders of the Bank		(1,352)	1,409
Minority interests	17	3,832	12,731
		2,480	**14,140**
Basic and diluted earnings per share	19	**Fils (1.35)**	**Fils 1.41**

These consolidated financial statements were approved by the Board of Directors on 20 February 2020 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Elham Hasan
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of changes in owners' equity for the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share premium**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2019 (Audited)	**100,000**	**299**	**3,446**	**808**	**(30,655)**	**40,280**	**14,178**	**(28,793)**	**85,385**
Net loss for the year	-		-	-	-		**-**	(1,352)	**(1,352)**
Increase in shareholding of subsidiary	-	-	-	-	-	-	**-**	1,726	**1,726**
Movement in fair value of sukuk and investment securities	-	-	281	-	-	-	**281**	-	**281**
Foreign currency translation adjustments	-	-	13	(64)	(6,818)	-	**(6,869)**	-	**(6,869)**
At 31 December 2019 (Audited)	**100,000**	**299**	**3,740**	**744**	**(37,473)**	**40,280**	**7,590**	**(28,419)**	**79,171**

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in owners' equity for the year ended 31 December 2018

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	**Statutory reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Share premium**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2018 (Audited)	**100,000**	**158**	**3,815**	**890**	**(13,241)**	**40,280**	**31,902**	**22,701**	**154,603**
Impact of FAS 30 (note - 2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(52,762)	**(52,762)**
Adjusted balance at 1 January 2018	**100,000**	**158**	**3,815**	**890**	**(13,241)**	**40,280**	**31,902**	**(30,061)**	**101,841**
Net income for the year	-		-	-	-		**-**	1,409	**1,409**
Transfer to statutory reserve	-	141	-	-	-	-	**141**	(141)	**-**
Movement in fair value of sukuk and investment securities	-	-	(471)	-	-	-	**(471)**	-	**(471)**
Movement in fair value of investment in real estate	-	-	-	(82)	-	-	**(82)**	-	**(82)**
Foreign currency translation adjustments	-	-	102	-	(17,414)	-	**(17,312)**	-	**(17,312)**
At 31 December 2018 (Audited)	**100,000**	**299**	**3,446**	**808**	**(30,655)**	**40,280**	**14,178**	**(28,793)**	**85,385**

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)
Consolidated statement of cash flows
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2019 (Audited)	Period ended 31 December 2018 (Audited)
OPERATING ACTIVITIES			
Net income before overseas taxation		12,888	24,634
Adjustments for:			
Depreciation and amortization	10,11	8,669	8,768
Gain arising on acquisition of a business (net)		-	(19,194)
Provision for impairment (net)		2,779	8,260
Income from other investments		(41,854)	(34,729)
Loss on sale of fixed assets		287	94
Operating loss before changes in operating assets and liabilities		(17,231)	(12,167)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(19)	(178)
Changes in operating assets and liabilities:			
Murabaha and other financings		128,063	(74,565)
Musharaka financing		(73,730)	(88,632)
Other assets		17,335	(18,210)
Customers' current accounts		48,317	(21,561)
Due to banks, financial and other institutions		(53,453)	201,659
Due to investors		13,236	85,097
Other liabilities		(83,260)	46,017
(Decrease)/Increase in equity of unrestricted investment accountholders		81,535	(45,351)
Taxes paid		(10,628)	(7,002)
Net cash provided by operating activities		**50,165**	**65,107**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Assets acquired for leasing		6,774	(23,753)
Sukuk and investment securities		39,083	(67,545)
Purchase of fixed assets		(9,303)	(2,846)
Net cash provided by/(used in) investing activities		**36,554**	**(94,144)**
FINANCING ACTIVITIES			
Minority interest		(201)	(300)
Net cash used in financing activities		**(201)**	**(300)**
Foreign currency translation adjustments		(7,976)	(34,499)
Net increase/(decrease) in cash and cash equivalents		**78,542**	**(63,836)**
Cash and cash equivalents at the beginning of the year		**234,018**	**297,854**
Cash and cash equivalents at the end of the year	4	**312,560**	**234,018**

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2019

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2019	**Income / (Expenses)**	**Mudarib's Fee**	**Fair value movements**	**Net Deposits / (Redemptions)**	**At 31 December 2019**
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	2,356
European Real Estate Placements*	5,896	-	-	(563)		5,333
US Real Estate Placements*	9,514	-	-	-	-	9,514
TOTAL	17,766	-	-	(563)	-	17,203
FUNDS MANAGED ON AGENCY BASIS	23,848	-	-			23,848
	41,614	**-**	**-**	**(563)**	**-**	**41,051**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

ITHMAAR BANK B.S.C. (C)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2018

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2018	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	Movement due to acquisition of a subsidiary (note - 37)	At 31 December 2018
Dilmunia Development Fund I L.P.*	54,789	4,766	-	-	(8,125)	(51,430)	-
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	-	2,356
European Real Estate Placements*	6,184	-	-	-	(288)	-	5,896
US Real Estate Placements*	9,514	-	-	-	-	-	9,514
TOTAL	72,843	4,766	-	-	(8,413)	(51,430)	17,766
FUNDS MANAGED ON AGENCY BASIS	23,864	-	-	-	(16)	-	23,848
	96,707	**4,766**	**-**	**-**	**(8,429)**	**(51,430)**	**41,614**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 40 on pages 16 to 64 form an integral part of the consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (C) (the “Bank”) was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the “CBB”) on 14 August 2016.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust (“DMIT”), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017. Since Ithmaar remained the ultimate parent before and after this reorganization, this transaction has been accounted as a business combination under common control and the related assets and liabilities have been transferred at their book values. No financial transactions were incurred by the Bank between the date of incorporation 12 May 2016 and 1 January 2017.

Subsequent to reorganization, the transfer of the legal ownership of certain assets and liabilities from Ithmaar to the Bank are in progress.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Sharia Supervisory Board.

The Group’s activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders’ funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank’s head office, 16 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	**Economic**	**Country of Incorporation**	**Principal business activity**
Faysal Bank Limited	67	67	Pakistan	Banking
Dilmunia Development Fund I L.P.	66	66	Cayman Islands	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2019 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 36.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

<u>(ia) New accounting standard: Issued and not effective</u>

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" was issued on 31 December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The Group is in process of assessing the impact of this standard on the Group's consolidated financial statements.

FAS 34 "Financial Reporting for Sukuk-holders"

FAS 34 "Financial Reporting for Sukuk-holders" was issued on 31 December 2018. FAS 34 aims to establish the principles of accounting and financial reporting for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including Sukuk-holders. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not applicable for the Group's consolidated financial statements.

FAS 31 "Investment Agency (Al-Wakala Bi-Al – Istithmar"

FAS 31 "Investment Agency (Al-Wakala Bi-Al – Istithmar" deals with contracts under Wakala arrangement where the Bank acts as an agent of the customer. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not expected to have a material impact on the on the consolidated financial statements.

<u>(ib) New accounting standard: Issued and effective</u>

FAS 28 "Murabaha and other Deffered Payment Sale "

FAS 28 "Murabaha and other Deferred Payment Sale" deals with the accounting and reporting principles and requirement for Murabaha and deferred payment sales transactions and different elements of such transactions, excluding Tawarruq and commodity Murabaha transactions. FAS 28 supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Order" and FAS 20 "Deferred Payment Sale", where it aims at setting out the accounting rules for measurement, recognition and disclosure of the transactions of Murabaha and deferred payment sales that are carried out by Islamic banks or IFI. Also, this standard shall not apply to investments made by investment instruments e.g. equity instruments or Sukuk where the underlying asset for such instrument is a Murabaha or deferred payment sale. The Group adopted this standard and there is no material impact on the consolidated financial statements.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention as modified by the revaluation of investment securities carried at fair value through income statement and equity, derivative instruments and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements of the Bank and its Subsidiaries (the Group) are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia rules and principles as determined by the Sharia Supervisory Board of the Bank, the Bahrain Commercial Companies Law, CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Bank uses the relevant IFRS.

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Control is also presumed to exist if the Group has power to govern the financial and operating policies of a company with the objective of obtaining benefits from its operations. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. 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 owners' equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group for both subsidiaries and associates. All significant intra-group balances and transactions are eliminated.

The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies (for group reporting purposes).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

Functional and presentation currency
Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

For group companies, items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency does not have any impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investments carried at fair value through equity are included in investments fair value reserve.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders' equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

   In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. 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 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs where it does not exercise control. In determining whether the Group exercises control over an SPE, judgements are made about the objectives of the SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to obtain benefit from the SPE's operations by having power to govern its financial and operational policies.

3 Impairment of goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the impairment accounting policy. The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS) methods. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

4. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. In assessing impairment, the Group exercises judgment in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contracts has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL") in accordance with impairment policy.

5. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets and anticipated support from major shareholder.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Provision are made in accordance with FAS 30 in accordance with note 2 (iv) y.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Provision are made in accordance with FAS 30 in accordance with note 2 (iv) y.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

Sukuk and debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured using effective profit method at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Equity-type investments also include those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at fair value plus transaction costs. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under “Investments fair value reserve”, taking into consideration the split between the portion related to owners’ equity and the portion related to the equity of investment accountholders, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The Group assesses at the end of each reporting date whether there is any objective evidence that an investment carried at fair value through equity is impaired. Among other factors that may be considered for impairment, a significant or prolonged decline in the fair value of an equity investment below its cost is also an objective evidence of impairment.

Impairment losses on equity instruments previously recognised in the consolidated income statement are subsequently reversed directly through equity.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer’s margin. These investments are recognised on the acquisition date at fair value. At the end of each reporting period, investments are re-measured at their fair value and the difference between carrying value and fair value is recognised in the consolidated income statement. All other gains/ losses arising from these investments are recognized in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Restricted investment accounts

Investment in restricted investment accounts (equity-type) is initially recorded at cost and subsequently re-measured at fair value. These investments are subsequently re-measured at fair value at the end of each reporting period and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under "Investments fair value reserve", taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for earning periodical income or for capital appreciation purposes or both are classified as investment in real estate (held-for-use).

Investment in real estate is initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

All properties where decision is made to sell and the sale is expected to occur within 12 months of reporting date (subject to availability of identified willing buyer) are classified as Investment in real estate Held-for-sale.

Investment in real estate Held-for-sale is measured at fair value in accordance with the fair value model.

6. Development properties

Development properties represent land held by the Group for development and sale in the ordinary course of business, and include expenditure incurred in acquiring the properties and other costs incurred in bringing them to their existing condition.

Development properties are carried at lower of cost or estimated net realisable value. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure.

7. Mudaraba

Mudaraba investments are recorded at cost.

Share of the Group's profit or loss from the Mudaraba are recognized in the consolidated income statement upon distribution or deduction from Mudaraba capital (in case of losses).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

8. Fair value

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

In certain rare circumstances where the Group is unable to determine reliable measure of fair value of equity instrument on a continuing basis, the instrument is measured at cost.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

Provision are made in accordance with FAS 30 in accordance with note 2 (iv) y.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for an impairment on an annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

Negative goodwill resulting from the acquisition of a business or entity is recognised in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) Intangible assets

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits, brand and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships is determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Other acquired intangible assets with infinite lives are tested annually for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Value Added Tax (VAT)

The Bank is subject to VAT at 5% on certain financial services as applicable from 1 January 2018. The amount of VAT liability is determined by applying the VAT rate on eligible turnover, reduced by the VAT paid on eligible expenses (input VAT). The irrecoverable portion of input VAT is recognized as expense in the consolidated income statement.

(m) Deferred taxation

Deferred taxation is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(n) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

For share incentive based variable remuneration, provision is recognized in accordance with the CBB guidelines, based on the adjusted net asset value of the latest audited consolidated financial statements.

(o) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(p) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(q) Profit Equalisation Reserve (PER)

PER is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of managing rate of return risk (including displaced commercial risk).

Contribution to PER is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

Utilization/ reversal of PER is recognised when the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate.

PER is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of PER is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(r) Investment Risk Reserve (IRR)

IRR is appropriated out of the income arising from owners or equity of unrestricted investment accountholders for the purpose of creating cushion against credit, market and equity investment risk mainly pertaining to residual future probable losses (after impairment and credit losses accounted for under impairment policy).

Contribution to IRR is recognised in consolidated income statement allocated to owners' equity or unrestricted investment accountholders as appropriate.

Utilization/ reversal of IRR is recognised when the loss event occurs or the reserve is no longer needed as per management's opinion. The reversal is recognised in consolidated income statement allocated to owners or unrestricted investment accountholders as appropriate and not netted off with the respective loss.

IRR is disclosed as part of the equity of unrestricted investment accountholders or owners' equity as appropriate.

The adequacy of IRR is assessed on annual basis using quick update approach in accordance with the Bank's risk management policies.

Adjustments or transfers between PER and IRR are accounted for when the underlying event occurs.

(s) Restricted investment accounts (off-balance sheet)

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. These accounts are disclosed separately in Statement of changed in RIA.

Investment accounts are initially recognised at fair value of the consideration received at the date on which the contract becomes effective.

After initial recognition, subsequent measurement of investment acocunts takes into account undistributed profits and other reserves created specifically for the account of investment accountholders less any losses on assets attributable to investment accountholders.

(t) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(u) Statutory reserve

In accordance with the Bahrain Commercial Companies Law, 10% of the Group's consolidated net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(v) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Income from investments carried at amortised cost

All gains or losses from investments carried at amortised cost are recognised in consolidated statement of income.

7. Income from investments carried at fair value through income statement

All gains or losses from investments carried at fair value through income statement are recognised in consolidated statement of income.

8. Income from investments carried at fair value through equity

The realised gains or losses along with the amounts previously recognised in equity are recognised in the consolidated income statement.

Dividend income is recognised in the consolidated statement of income when right to receive payment is established.

9. Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(w) Profit allocation between group and investment accountholders

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, investment risk reserve, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(x) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(y) Impairment

Impairment of financial assets is assessed in accordance with FAS 30 "Impairment, credit losses & onerous commitments" as follows:

1. Financings & receivables

Financings, receivables (including off-balance sheet exposures) are measured using the Expected Credit Losses (ECL) model in accordance with the Credit Losses Approach.

FAS 30 replaces the 'incurred loss' model with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain financing commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the allowance is based on the change in the ECLs over the life of the asset. Under FAS 30, credit losses are recognized earlier than under the previous standard.

Basis of Preparation - Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance of a receivable or exposure measured with the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

• Determining the criteria for significant increase in credit risk;
• Determining the criteria for definition of default;
• Choosing appropriate models and assumptions for the measurement of ECL;
• Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
• Establishing groups of similar receivables for the purpose of measuring ECL

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

ECL – Significant increase in credit risk (SICR)

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

For the Corporate portfolio, the Group assess for significant increase in credit risk (SICR) at a counterparty level as the internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, the Group currently manages its retail portfolio at a facility level, therefore assessment for SICR on the retail portfolio is done on a facility level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

Determining whether credit risk has increased significantly

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

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

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

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

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

• Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.

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

• Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

Default

FAS 30 seeks to align accounting for impairment of financial instruments with the manner in which credit risk is internally managed within the banks. In this context, the ‘risk of default’ of a financial instrument is a key component of the expected loss model under FAS 30.

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

Non-Retail:

The Group has set out the following definition of default (as provided by the Basel document and FAS 30 guidelines):

Non-retail customers with the following characteristics:

• All or any of the facility/ies in which any instalment or part thereof is outstanding for a period of 90 days or more
• All or any of the facility/ies put on non-accrual status (i.e. profit suspended)
• All or any of the facility/ies wherein ‘specific provision’ is set aside individually

Event driven defaults such as declaration of bankruptcy, death of borrower (in absence of succession plan or professional management), and other specific events which would significantly impact the borrower’s ability the Group.

The Group will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

Retail:

The Group has set out the following definition of default:

All facilities in which any instalment or part thereof is outstanding for a period of 90 days or more

The Bank will not consider the 90 days past due criteria in cases of technical defaults (e.g. facilities marked as 90+DPD due to administrative reasons and not credit related concerns and there is no dispute regarding repayment).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

Measurement of ECL

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

• financial assets that are not credit-impaired at the reporting date: as the 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);

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

• financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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

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

I. Probability of default (PD);
II. Loss given default (LGD);
III. Exposure at default (EAD).

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

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

LGD is the magnitude of the likely loss if there is a default. The Group has internally estimated the LGD. The LGD in further will be computed based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount currently outstanding.

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

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

Incorporation of forward looking information

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

Macro-economic variables checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables. The macro economic variables used for FAS 30 PD modelling include, among others, GDP, population and net lending.

Generating the term structure of PD

Credit risk grades and days past due (DPD) are primary inputs into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of borrower, days past due and as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP, Net Lending and Population.

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

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

The retail portfolio is segmented based on products that exhibit distinguished behavior into the following categories:

• Auto finance;
• Mortgage finance;
• Personal Finance; and
• Credit cards.

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

The PD’s derived are adjusted with forward looking information based on macro-economic variables and calibrated to derive the final PD’s separately for Corporate and Retail portfolio.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

Impairment

The Group recognizes loss allowances for ECL on the following type of financial instruments:

• All Islamic financing and certain other assets (including Commodity and Murabaha receivables)
• Debt instruments that are measured at amortised cost or at fair value through equity.
• Financing commitments that are not measured at fair value through profit and loss (FVTPL)
• Financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL)
• Lease receivables and contract assets
• Balances with banks
• Related party balances
• Contingent liabilities

The Group measures loss allowances at an amount equal to lifetime ECL, except for the other financial instruments on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable events:

• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL in case of financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

Write-off

The Group's existing policy remains the same under FAS 30. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Group writes off financial assets, in a whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on a collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may however write-off financial assets that are still subject to enforcement activity.

2. **Investments**

Development Properties

Development properties are carried at lower of cost or estimated net realisable value in accordance with the Net realisable value approach. This includes the situation when there is a possible indication of decline in the value of such properties. Estimated net realisable value is determined using the estimated selling price in the ordinary course of business, less estimated development expenditure. Impairment losses are recognised in the consolidated income statements.

Intangible assets

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement.

Assets classified as Held for sale

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Other investments

All other investments (excluding investments carried at fair value through income statement) are assessed for impairment in accordance with the Impairment approach.

Impairment loss represents the amount by which an investment's carrying value exceeds its recoverable amount.

In case of indications of possible impairment, the recoverable amount of an investment is determined as being the higher of its fair value less costs of disposal and its value-in-use.

Impairment losses are recognised in the consolidated income statement, taking into account the split between owners and unrestricted investment accounts.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	62,643	1,112	63,755	62,403	805	63,208
Cash and balances with banks and central banks	156,993	32,376	189,369	133,028	20,902	153,930
	219,636	**33,488**	**253,124**	**195,431**	**21,707**	**217,138**

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	123,284	4,411	127,695	80,142	5,967	86,109
Less: Provision for impairment	(93)	-	(93)	(54)	-	(54)
	123,191	**4,411**	**127,602**	**80,088**	**5,967**	**86,055**

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	219,636	33,488	253,124	195,431	21,707	217,138
Commodity and other placements with banks, financial and other institutions	123,191	4,411	127,602	80,088	5,967	86,055
Less: Placement maturing after ninety days	-	(4,411)	(4,411)	-	(5,967)	(5,967)
Less: Balances with central bank relating to minimum reserve requirement	(62,643)	(1,112)	(63,755)	(62,403)	(805)	(63,208)
	280,184	**32,376**	**312,560**	**213,116**	**20,902**	**234,018**

5 MURABAHA AND OTHER FINANCINGS

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	1,137,602	490,852	1,628,454	1,287,322	540,446	1,827,768
Less: Provision for impairment	(121,026)	(10,037)	(131,063)	(131,029)	(12,874)	(143,903)
	1,016,576	**480,815**	**1,497,391**	**1,156,293**	**527,572**	**1,683,865**

Other financings represents conventional loans and advances totalling BD482.3 million (31 December 2018: BD592.4 million) made by a subsidiary of the Bank.

The movement in provision for impairment is as follows:

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	131,029	12,874	143,903	108,323	5,630	113,953
Impact of FAS 30	-	-	-	47,090	336	47,426
Transfer from Investment Risk Reserve for FAS 30 (note 16)	-	-	-	-	6,767	6,767
Charge for the year	15,283	1,030	16,313	6,068	2,490	8,558
Write back during the year	(18,386)	-	(18,386)	(11,883)	(107)	(11,990)
Utilised during the year	(554)	(3,676)	(4,230)	(147)	(2,164)	(2,311)
Reclassification	-		-	(1,061)	34	(1,027)
Exchange differences and other movements	(6,346)	(191)	(6,537)	(17,361)	(112)	(17,473)
At 31 December	**121,026**	**10,037**	**131,063**	**131,029**	**12,874**	**143,903**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Held for trading						
Debt-type instruments – unlisted	75,652	-	75,652	85,294	-	85,294
Equity-type securities – listed	222	-	222	728	-	728
	75,874	**-**	**75,874**	**86,022**	**-**	**86,022**
Investment securities at fair value through equity						
Equity-type securities – listed	21,482	-	21,482	21,993	-	21,993
Equity-type securities – unlisted	1,989	-	1,989	1,837	-	1,837
	23,471	-	23,471	23,830	-	23,830
Provision for impairment	(3,990)		(3,990)	(3,721)	-	(3,721)
	19,481	**-**	**19,481**	**20,109**	**-**	**20,109**
Investment securities carried at amortised cost						
Sukuk – unlisted	79,647	72,732	152,379	4,263	71,146	75,409
Other debt-type instruments – listed	37,256	**-**	37,256	3,160	**-**	3,160
Other debt-type instruments – unlisted	243,945	-	243,945	397,197	-	397,197
	360,848	72,732	433,580	404,620	71,146	475,766
Provision for impairment	(5,233)	-	(5,233)	(5,726)	-	(5,726)
	355,615	**72,732**	**428,347**	**398,894**	**71,146**	**470,040**
	450,970	**72,732**	**523,702**	**505,025**	**71,146**	**576,171**

Sukuk and investment securities include conventional investments totalling BD413.9 million (31 December 2018: BD502.9 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was BD428.6 million (31 December 2018: BD470.6 million).

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	9,447	-	9,447	11,608	-	11,608
Impact of FAS 30	-	-	-	42	-	42
Charge for the year	867	-	867	785	-	785
Write back during the year	(151)	-	(151)	(502)	-	(502)
Exchange differences and other movements	(940)	-	(940)	(2,486)	-	(2,486)
At 31 December	**9,223**	**-**	**9,223**	**9,447**	**-**	**9,447**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Investment securities at fair value through income statement				
Debt-type instruments	-	75,652	-	75,652
Equity-type securities – listed	222	-	-	222
Investment securities at fair value through equity				
Equity securities	19,286	195	-	19,481
	19,508	**75,847**	**-**	**95,355**

	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Investment securities at fair value through income statement				
Debt-type instruments	-	85,294	-	85,294
Equity-type securities – listed	728	-	-	728
Investment securities at fair value through equity				
Equity securities	19,893	216	-	20,109
	20,621	**85,510**	**-**	**106,131**

There was no movement between level 1 and level 2 during the year

Total gains for the year included in consolidated income statement for 31 December 2019 BD1.2 million (31 December 2018: BD0.6 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 ASSETS ACQUIRED FOR LEASING

	31 December 2019			31 December 2018		
	Cost	**Accumulated depreciation**	**Net book amount**	**Cost**	**Accumulated depreciation**	**Net book amount**
Property & Equipment	162,562	(14,478)	148,084	173,242	(18,383)	154,859

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2019	**31 December 2018**
Relating to owners	1,208	1,310
Relating to unrestricted investment accounts	146,876	153,549
	148,084	154,859

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 OTHER ASSETS

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts receivable	33,922	21,122	55,044	54,440	13,226	67,666
Due from related parties	8,209	-	8,209	12,135	-	12,135
Taxes – deferred	3,519	-	3,519	3,664	-	3,664
Taxes – current	4,589	-	4,589	9,390	20	9,410
Assets acquired against claims	3,103	-	3,103	5,019	-	5,019
	53,342	21,122	74,464	84,648	13,246	97,894
Provision for impairment	(14,340)	(4,580)	(18,920)	(14,227)	(4,582)	(18,809)
	39,002	**16,542**	**55,544**	**70,421**	**8,664**	**79,085**

The movement in provision for impairment is as follows:

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	14,227	4,582	18,809	7,887	4,620	12,507
Impact of FAS 30	-	-	-	6,450	-	6,450
Charge for the year	259	-	259	679	-	679
Write back during the year	(33)	-	(33)	(82)	(34)	(116)
Reclassification	-	-	-	(447)	-	(447)
Exchange differences and other movements	(113)	(2)	(115)	(260)	(4)	(264)
At 31 December	**14,340**	**4,580**	**18,920**	**14,227**	**4,582**	**18,809**

9 DEVELOPMENT PROPERTIES

	Relating to owners	
	31 December 2019	31 December 2018
Land	52,287	54,671
Development costs	23,551	24,625
	75,838	**79,296**

Development costs represent the infrastructure costs incurred such as roads and networks, electricity stations and design and supervision costs and the infrastructure cost. The infrastructure cost commitments are expected to be met by anticipated sale of plots. Based on this, the management has estimated that the current carrying value is lower than the net realisable value, and accordingly, no impairment has been considered necessary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 FIXED ASSETS

	Relating to owners			Relating to owners		
			31 December 2019			31 December 2018
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Land and building	14,276	(3,719)	10,557	13,396	(3,986)	9,410
Leasehold improvements	12,244	(8,007)	4,237	11,163	(7,805)	3,358
Furniture and equipment	26,498	(19,459)	7,039	24,105	(19,376)	4,729
Motor vehicles	1,015	(613)	402	915	(610)	305
	54,033	**(31,798)**	**22,235**	**49,579**	**(31,777)**	**17,802**

Depreciation charge for the year ended 31 December 2019 amounted to BD2.7 million (31 December 2018: BD2.8 million).

11 INTANGIBLE ASSETS

	Relating to owners				
					31 December 2019
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(22,809)	(4,415)	6,999
Customer relations	42,814	(27,433)	-	(5,247)	10,134
Core deposits	58,641	(39,219)	-	(7,183)	12,239
Others	16,334	(12,130)	-	-	4,204
	152,012	**(78,782)**	**(22,809)**	**(16,845)**	**33,576**

	Relating to owners				
					31 December 2018
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	34,223	-	(17,908)	(3,588)	12,727
Customer relations	42,814	(25,372)	-	(5,061)	12,381
Core deposits	58,641	(36,287)	-	(7,361)	14,993
Others	14,336	(11,123)	-	-	3,213
	150,014	**(72,782)**	**(17,908)**	**(16,010)**	**43,314**

Amortisation charge for the year ended 31 December 2019 amounted to BD6 million (31 December 2018: BD6 million).

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2019	31 December 2018
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	3,985	8,886
Faysal Bank Limited	3,014	3,841
	6,999	**12,727**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) and Fair Value Less Cost to Sell (FVLCTS). VIU calculations were determined using cash flow projections from financial budgets approved by the Group's senior management covering a three year period. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. For FVLCTS calculations, the Comparable Companies Multiple (CCM) method was used, whereby the price to book value multiple of the listed Islamic banks operating in the region was considered. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement. The impact of every 0.1 times change in P/B multiple will result in reduction of goodwill by BD6.7 million.

12 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to BD76.9 million which is subject to sanctions under US measures (31 December 2018: BD78 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	388,725	65,179	453,904	504,106	30,133	534,239
Due to financial and other institutions	47,712		47,712	69,492	-	69,492
	436,437	**65,179**	**501,616**	**573,598**	**30,133**	**603,731**

Due to banks, financial and other institutions include balances totalling BD161.4 million from two counterparties which are subject to sanctions under US measures (31 December 2018: BD161.5 million).

Due to banks, financial and other institutions include conventional deposits totalling BD112.6 million (31 December 2018: BD235.8 million), accepted by a subsidiary of the Bank.

At 31 December 2019, there were collateralized borrowings in aggregate BD86.3 million (31 December 2018: BD67.4 million).

14 DUE TO INVESTORS

	Relating to owners	
	31 December 2019	31 December 2018
Due to corporate institutions	291,881	283,143
Due to individuals	271,686	270,305
Due to financial institutions	25,983	85,557
	589,550	**639,005**

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

15 OTHER LIABILITIES

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	78,848	26,000	104,848	133,165	40,703	173,868
Due to related parties	60	-	60	40	-	40
	78,908	**26,000**	**104,908**	**133,205**	**40,703**	**173,908**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2019	31 December 2018
Cash and balances with banks and central banks	3	33,488	21,707
Commodity and other placements with banks, financial and other institutions	4	4,411	5,967
Murabaha and other financings	5	480,815	527,572
Musharaka financing		234,446	186,635
Sukuk and investment securities	6	72,732	71,146
Assets acquired for leasing	7	146,876	153,549
Other assets	8	16,542	8,664
Due from the Group (net)		299,648	172,957
		1,288,958	1,148,197
Customers' current accounts		(134,169)	(82,581)
Due to banks, financial and other institutions	13	(64,861)	(30,133)
Other liabilities	15	(26,000)	(40,703)
Equity of unrestricted investment accountholders		**1,063,928**	**994,780**

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provision amounting to BD16.9 million (31 December 2018: BD18.8 million). The movement of impairment provision relating to unrestricted investment accountholders has been disclosed in note 24.

Other liabilities include the profit equalization reserve and the movement is as follows:

	31 December 2019	31 December 2018
At 1 January	8,313	6,616
Net addition/(utilisation) during the year	(962)	1,697
At 31 December	**7,351**	**8,313**

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2019	31 December 2018
At 1 January	566	6,767
Net addition/(utilisation) during the year	(566)	566
Utilized for FAS 30	-	(6,767)
At 31 December	**-**	**566**

The average gross rate of return in respect of unrestricted investment accounts was 4.6% per annum for 2019 (2018: 4.9%) of which 3.1% per annum (2018: 2.7%) was distributed to the investors and the balance was either set aside as provision for impairment, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17 MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2019		**31 December 2018**	
	Minority %		**Minority %**	
Faysal Bank Limited	33	39,338	33	38,013
Dilmunia Development Fund I L.P.	34	26,972	43	30,263
Sakana Holistic Housing Solutions B.S.C. (C)	50	997	50	1,204
		67,307		**69,480**

Minority interest in the consolidated income statement of BD3.8 million (31 December 2018: BD12.7 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

18 SHARE CAPITAL

	Number of shares (thousands)	**Share capital**
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 1 January 2018	1,000,000	100,000
At 31 December 2018 (Audited)	**1,000,000**	**100,000**
Issued and fully paid		
Total outstanding as at 1 January 2019	1,000,000	100,000
At 31 December 2019 (Audited)	**1,000,000**	**100,000**

The Bank’s total issued and fully paid share capital at 31 December 2019 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. the Chief Executive Officer owns 1 share and remaining shares are held by Ithmaar Holding B.S.C. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2019 was 10.5 million shares (31 December 2018: 6.5 million shares) of which the unvested shadow shares amount to 6.1 million shares (31 December 2018: BD3.9 million shares).

19 EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	Year ended 31 December 2019	**Year ended 31 December 2018**
Net profit attributable to shareholders (BD ’000)	(1,352)	1,409
Weighted average number of issued and fully paid up ordinary shares (’000)	1,000,000	1,000,000
Earnings per share (Basic & Diluted) - Fils	**(1.35)**	**1.41**

Earnings per share on non-sharia compliant income and expenses is included under note 36.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

20 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners Year ended 31 December 2019	Relating to owners Year ended 31 December 2018
Income from Islamic financings	10,122	11,888
Income from other financings	67,836	58,440
	77,958	**70,328**

21 INCOME FROM OTHER INVESTMENTS

	Relating to owners Year ended 31 December 2019	Relating to owners Year ended 31 December 2018
Income from investment securities at amortised cost	31,885	22,514
Income from investment securities at fair value through equity	(153)	1,135
Income from investment securities at fair value through income statement	10,097	10,455
Income from investment in real estate	25	625
	41,854	**34,729**

22 OTHER INCOME

	Relating to owners Year ended 31 December 2019	Relating to owners Year ended 31 December 2018
Income from banking services	14,412	17,113
Income from commodity placements	7,666	2,182
Foreign exchange income	847	346
Other income	287	94
	23,212	**19,735**

23 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners Year ended 31 December 2019	Relating to owners Year ended 31 December 2018
Salaries and other benefits	26,373	29,041
Office expenses	21,732	21,659
Professional fees	2,585	2,803
Other administrative expenses	8,560	7,844
	59,250	**61,347**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 PROVISION FOR IMPAIRMENT

	31 December 2019			31 December 2018		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	176,184	18,830	195,014	141,004	11,094	152,098
Impact of FAS 30	-	-	-	53,639	335	53,974
Transfer from Investment Risk Reserve (note 16)	-	-	-	-	6,767	6,767
Charge for the year	21,349	2,199	23,548	20,726	3,348	24,074
Write back during the year	(18,570)	(63)	(18,633)	(12,466)	(149)	(12,615)
Utilised during the year	(4,073)	(3,676)	(7,749)	(143)	(2,164)	(2,307)
Movement due to acquisition of subsidiary	-	-	-	(6,464)	-	(6,464)
Exchange differences	(3,092)	(376)	(3,468)	(20,112)	(401)	(20,513)
At 31 December	**171,798**	**16,914**	**188,712**	**176,184**	**18,830**	**195,014**

Provision utilised durng the year represents write-offs during the period, which pertains to stage 3.

The allocation of the provision for impairment to the respective assets is as follows:

	31 December 2019			31 December 2018		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Murabaha and other financings	121,026	10,037	131,063	131,029	12,874	143,903
Commodity and other placements with banks, financial and other institutions	93	-	93	54	-	54
Musharaka financing	-	2,297	2,297	3,519	1,374	4,893
Sukuk and investment securities	9,223	-	9,223	9,447	-	9,447
Other assets	13,782	4,580	18,362	13,459	4,582	18,041
Off-balance sheet related	558	-	558	768	-	768
Investment in real estate	4,307	-	4,307	-	-	-
Intangible assets	22,809	-	22,809	17,908	-	17,908
	171,798	**16,914**	**188,712**	**176,184**	**18,830**	**195,014**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 PROVISION FOR IMPAIRMENT (continued)

Loss allowance

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**380,819**	**-**	**-**	**380,819**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	366,113	15,680	-	381,793
Acceptable risks (4-6)	1,048,966	51,389	151	1,100,506
Watch list (7)	-	40,756	-	40,756
Non performing (8-10)	-	-	159,480	159,480
Carrying amount - Corporate	**1,415,079**	**107,825**	**159,631**	**1,682,535**
Retail (un-rated)	506,051	7,404	21,395	534,850
Carrying amount including unfunded	**1,921,130**	**115,229**	**181,026**	**2,217,385**
Sukuk and investment securities	**428,283**	**-**	**5,297**	**433,580**
Other receivables	**44,232**	**4,911**	**13,916**	**63,059**
Loss allowance	**(38,184)**	**(3,487)**	**(116,414)**	**(158,085)**
Total Financial assets carrying amount	**2,736,280**	**116,653**	**83,825**	**2,936,758**

31 December 2018

	Stage 1	Stage 2	Stage 3	Total
Financial assets - amortized cost				
Cash, Commodity and other placements with banks, financial and other institutions	**303,248**	**-**	**-**	**303,248**
Financings (Funded and unfunded exposure) Corporate				
Low risks (1-3)	353,006	30,214	-	383,220
Acceptable risks (4-6)	1,143,480	137,679	-	1,281,159
Watch list (7)	2,349	64,068	-	66,417
Non performing (8-10)	-	-	159,128	159,128
Carrying amount - Corporate	**1,498,835**	**231,961**	**159,128**	**1,889,924**
Retail (un-rated)	537,484	7,668	6,489	551,641
Carrying amount including unfunded	**2,036,319**	**239,629**	**165,617**	**2,441,565**
Sukuk and investment securities	**469,894**	**-**	**5,872**	**475,766**
Other receivables	**76,693**	**-**	**14,530**	**91,223**
Loss allowance	**(49,267)**	**(4,546)**	**(119,981)**	**(173,794)**
Total Financial assets carrying amount	**2,836,887**	**235,083**	**66,038**	**3,138,008**

Gross financings (funded) as of 31 December 2019 amounted to BD1.1 billion, BD0.3 billion and BD0.2 billion for Stage 1, Stage 2 and Stage 3 respectively (31 December 2018: BD1.2 billion, BD0.3 billion and BD0.2 billion). Collateral coverage for gross financing as of 31 December 2019 was 83%, 46% and 49% for Stage 1, Stage 2 and Stage 3 respectively (31 December 2018: 132%, 17% and 46%).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25 OVERSEAS TAXATION

	Relating to owners Year ended	
	31 December 2019	**31 December 2018**
Current taxes	12,178	6,026
Deferred taxes	(1,770)	4,468
	10,408	**10,494**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2019	**31 December 2018**
At 1 January	9,410	9,981
Charge for the year	(12,178)	(6,026)
Payments made	10,628	7,002
Exchange differences and other movements	(3,329)	(1,547)
At 31 December	**4,531**	**9,410**

Deferred tax asset/(liability)

	31 December 2019	**31 December 2018**
At 1 January	3,664	6,834
Charge for the year	1,770	(4,468)
Charges due to fair value reserve	(816)	253
Exchange differences and other movements	(1,099)	1,045
At 31 December	**3,519**	**3,664**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2019					31 December 2018				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	61,662	22,509	(360)	(225)	**83,586**	56,910	25,496	864	545	**83,815**
Total expenses	(60,879)	(4,075)	(2,965)	-	**(67,919)**	(55,387)	(11,613)	(2,849)	(266)	**(70,115)**
Net income/(loss) before provision and overseas taxation	**783**	**18,434**	**(3,325)**	**(225)**	**15,667**	**1,523**	**13,883**	**(1,985)**	**279**	**13,700**
Gain arising on acquisition of a business (net)	**-**	**-**	-	**-**	**-**	**-**	**-**	19,194	**-**	**19,194**
Provision and overseas taxation	(4,564)	(8,429)	(194)	-	**(13,187)**	(11,459)	(7,242)	(53)	-	**(18,754)**
Net income/(loss) for the year	**(3,781)**	**10,005**	**(3,519)**	**(225)**	**2,480**	**(9,936)**	**6,641**	**17,156**	**279**	**14,140**
Attributable to:										
Equity holders of the Bank	(5,556)	6,660	(2,307)	(149)	**(1,352)**	(12,687)	4,421	9,477	198	**1,409**
Minority interests	1,775	3,345	(1,212)	(76)	**3,832**	2,751	2,220	7,679	81	**12,731**
	(3,781)	**10,005**	**(3,519)**	**(225)**	**2,480**	**(9,936)**	**6,641**	**17,156**	**279**	**14,140**
Total assets	**2,329,731**	**564,766**	**82,694**	**1,755**	**2,978,946**	**2,437,207**	**589,456**	**98,860**	**2,272**	**3,127,795**
Total liabilities and equity of unrestricted investment account holders	**2,706,156**	**113,644**	**12,668**	**-**	**2,832,468**	**2,676,461**	**268,059**	**28,410**	**-**	**2,972,930**

The Group constitutes of two geographical segments which are Middle East & Africa, Asia and others

	31 December 2019			31 December 2018		
	Middle East & Africa	Asia	Total	Middle East & Africa	Asia	Total
Operating income	14,520	69,066	**83,586**	13,657	70,158	**83,815**
Total expenses	(24,413)	(43,506)	**(67,919)**	(24,169)	(45,946)	**(70,115)**
Net income/(loss) before provision and overseas taxation	**(9,893)**	**25,560**	**15,667**	**(10,512)**	**24,212**	**13,700**
Gain arising on acquisition of a business (net)	-	**-**	**-**	19,194	**-**	**19,194**
Provision and overseas taxation	(2,850)	(10,337)	**(13,187)**	(9,394)	(9,360)	**(18,754)**
Net income/(loss) for the year	**(12,743)**	**15,223**	**2,480**	**(712)**	**14,852**	**14,140**
Attributable to:						
Equity holders of the Bank	(11,485)	10,133	**(1,352)**	(8,293)	9,702	**1,409**
Minority interests	(1,258)	5,090	**3,832**	7,581	5,150	**12,731**
	(12,743)	**15,223**	**2,480**	**(712)**	**14,852**	**14,140**
Total assets	**1,500,169**	**1,478,777**	**2,978,946**	**1,528,954**	**1,598,841**	**3,127,795**
Total liabilities and equity of unrestricted investment account holders	**1,483,168**	**1,349,300**	**2,832,468**	**1,501,808**	**1,471,122**	**2,972,930**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

27 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

28 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2019	31 December 2018
Acceptances and endorsements	22,257	29,436
Guarantees and irrevocable letters of credit	165,417	231,088
Customer and other claims	83,242	91,928
	270,916	**352,452**

Commitments

	31 December 2019	31 December 2018
Undrawn facilities, financing lines and other commitments to finance	**540,196**	**751,245**

29 CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD
As at 31 December 2019			
Total currency exposure	40,228	85,392	205,511
Reasonable shift	7.51%	2.23%	0.19%
Total effect on income/equity	**3,021**	**1,904**	**390**

	PKR	EUR	USD
As at 31 December 2018			
Total currency exposure	44,583	76,444	226,059
Reasonable shift	1.72%	3.36%	0.73%
Total effect on income/equity	**767**	**2,569**	**1,650**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as compared to the one year forward rate for the same period.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2019	United States Dollar	Pakistan Rupee	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	28,869	125,212	75,287	16,787	581	6,388	253,124
Commodity and other placements with banks, financial and other institutions	26,104	4,411	80,162	16,925	-	-	127,602
Murabaha and other financings	551,298	519,154	400,404	2,332	-	24,203	1,497,391
Musharaka financing	-	239,452	-	-	-	-	239,452
Sukuk and investment securities	1,324	486,613	35,765	-	-	-	523,702
Assets acquired for leasing	45	-	148,039	-	-	-	148,084
Other assets	13,579	26,036	15,708	-	-	221	55,544
Investment in real estate	-	2,398	-	-	-	-	2,398
Development Properties	-	-	75,838	-	-	-	75,838
Fixed assets	-	21,495	740	-	-	-	22,235
Intangible assets	30,199	3,377	-	-	-	-	33,576
Total assets	**651,418**	**1,428,148**	**831,943**	**36,044**	**581**	**30,812**	**2,978,946**
Customer current accounts	43,387	333,615	106,136	82,014	90	7,224	572,466
Due to banks, financial and other institutions	136,719	156,610	47,130	37,721	123,436	-	501,616
Due to investors	40,962	543,246	-	762	-	4,580	589,550
Other liabilities	2,987	45,557	54,857	939	497	71	104,908
Total liabilities	**224,055**	**1,079,028**	**208,123**	**121,436**	**124,023**	**11,875**	**1,768,540**
Equity of unrestricted investment accountholders	142,681	155,096	766,151	-	-	-	1,063,928
Total liabilities and equity of unrestricted investment accountholders	**366,736**	**1,234,124**	**974,274**	**121,436**	**124,023**	**11,875**	**2,832,468**
Contingent liabilities and commitments	265,944	475,076	22,394	20,975	1,047	25,676	**811,112**
31 December 2018							
Total assets	675,020	1,552,332	813,948	50,243	7,955	28,297	3,127,795
Total liabilities and equity of unrestricted investment accountholders	363,576	1,346,846	999,926	126,687	124,403	11,492	2,972,930
Contingent liabilities and commitments	289,499	650,988	89,515	33,948	881	38,866	1,103,697

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30 MATURITY PROFILE

The contractual maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	252,248	876	-	-	-	253,124
Commodity and other placements with banks, financial and other institutions	121,343	1,848	-	4,411	-	127,602
Murabaha and other financings	241,080	64,090	152,615	838,604	201,002	1,497,391
Musharaka financing	42,787	6,133	56,118	77,269	57,145	239,452
Sukuk and investment securities	3,106	304,988	43,156	8,418	164,034	523,702
Assets acquired for leasing	103	76	227	2,081	145,597	148,084
Other assets	34,724	4,448	12,284	4,088	-	55,544
Investment in real estate	-	-	2,398	-	-	2,398
Development Properties	-	-	-	75,838	-	75,838
Fixed assets	-	-	-	10,888	11,347	22,235
Intangible assets	-	-	-	-	33,576	33,576
Total assets	**695,391**	**382,459**	**266,798**	**1,021,597**	**612,701**	**2,978,946**
Customer current accounts	572,466	-	-	-	-	572,466
Due to banks, financial and other institutions	347,328	33,997	31,903	88,388	-	501,616
Due to investors	390,995	66,305	127,704	4,546	-	589,550
Other liabilities	87,449	146	2,862	14,451	-	104,908
Total liabilities	**1,398,238**	**100,448**	**162,469**	**107,385**	**-**	**1,768,540**
Equity of unrestricted investment accountholders	187,470	364,686	358,348	153,424	-	1,063,928
Total liabilities and equity of unrestricted investment accountholders	**1,585,708**	**465,134**	**520,817**	**260,809**	**-**	**2,832,468**
Net position	**(890,317)**	**(82,675)**	**(254,019)**	**760,788**	**612,701**	**146,478**
Contingent liabilities and commitments	450,883	143,485	102,711	111,852	2,181	**811,112**
31 December 2018						
Total assets	**747,724**	**438,049**	**329,994**	**1,117,655**	**494,373**	**3,127,795**
Total liabilities and equity of unrestricted investment accountholders	**2,019,158**	**295,541**	**432,908**	**200,764**	**24,559**	**2,972,930**
Contingent liabilities and commitments	**655,751**	**114,140**	**180,111**	**126,621**	**27,074**	**1,103,697**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2019	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	individuals	Textile	Other	Total
Cash and balances with banks and central banks	253,124	-	-	-	-	-	-	253,124
Commodity and other placements with banks, financial and other institutions	127,602	-	-	-	-	-	-	127,602
Murabaha and other financings	592,793	299,020	33,713	181,292	314,961	26,222	49,390	1,497,391
Musharaka financing	424	130,858	3,098	42,042	52,370	1,240	9,420	239,452
Sukuk and investment securities	341,576	6,252	647	175,133	-	-	94	523,702
Assets acquired for leasing	1,163	14,850	-	76	131,995	-	-	148,084
Other assets	25,176	183	13,053	4,448	11,900	-	784	55,544
Investment in real estate	-	-	2,398	-	-	-	-	2,398
Development Properties	-	-	75,838	-	-	-	-	75,838
Fixed assets	21,495	-	740	-	-	-	-	22,235
Intangible assets	33,576	-	-	-	-	-	-	33,576
Total assets	**1,396,929**	**451,163**	**129,487**	**402,991**	**511,226**	**27,462**	**59,688**	**2,978,946**
Customer current accounts	6,792	166,407	40,834	61,979	142,752	3,061	150,641	572,466
Due to banks, financial and other institutions	478,440	-	-	23,176	-	-	-	501,616
Due to investors	25,983	149,323	16,115	113,156	152,622	4,014	128,337	589,550
Other liabilities	21,744	19,888	12,720	-	4,671	-	45,885	104,908
Total liabilities	**532,959**	**335,618**	**69,669**	**198,311**	**300,045**	**7,075**	**324,863**	**1,768,540**
Equity of unrestricted investment accountholders	41,062	260,813	31,116	152,231	518,511	845	59,350	1,063,928
Total liabilities and equity of unrestricted investment accountholders	**574,021**	**596,431**	**100,785**	**350,542**	**818,556**	**7,920**	**384,213**	**2,832,468**
Contingent liabilities and commitments	**233,389**	**328,597**	**13,637**	**59,372**	**7,330**	**44,210**	**124,577**	**811,112**
31 December 2018								
Total assets	**1,714,077**	**450,974**	**146,604**	**96,307**	**576,988**	**66,230**	**76,615**	**3,127,795**
Total liabilities and equity of unrestricted investment accountholders	**822,161**	**369,489**	**64,644**	**300,325**	**1,005,103**	**23**	**411,185**	**2,972,930**
Contingent liabilities and commitments	**411,683**	**330,349**	**14,729**	**148,314**	**2,845**	**13,117**	**182,660**	**1,103,697**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2019	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	153,732	78,138	19,147	2,107	253,124
Commodity and other placements with banks, financial and other institutions	4,547	123,055	-	-	127,602
Murabaha and other financings	539,829	945,810	9,468	2,284	1,497,391
Musharaka financing	239,452	-	-	-	239,452
Sukuk and investment securities	486,613	37,089	-	-	523,702
Assets acquired for leasing	-	148,084	-	-	148,084
Other assets	26,191	29,353	-	-	55,544
Investment in real estate	2,398	-	-	-	2,398
Development Properties	-	75,838	-	-	75,838
Fixed assets	21,495	740	-	-	22,235
Intangible assets	4,520	29,056	-	-	33,576
Total assets	**1,478,777**	**1,467,163**	**28,615**	**4,391**	**2,978,946**
Customer current accounts	375,443	117,226	77,200	2,597	572,466
Due to banks, financial and other institutions	177,756	321,742	1,847	271	501,616
Due to investors	589,550	-	-	-	589,550
Other liabilities	48,544	56,364	-	-	104,908
Total liabilities	**1,191,293**	**495,332**	**79,047**	**2,868**	**1,768,540**
Equity of unrestricted investment accountholders	158,007	905,921	-	-	1,063,928
Total liabilities and equity of unrestricted investment accountholders	**1,349,300**	**1,401,253**	**79,047**	**2,868**	**2,832,468**
Contingent liabilities and commitments	**779,283**	**31,829**	**-**	**-**	**811,112**
31 December 2018					
Total assets	**1,598,841**	**1,478,838**	**32,428**	**17,688**	**3,127,795**
Total liabilities and equity of unrestricted investment accountholders	**1,471,122**	**1,411,014**	**86,453**	**4,341**	**2,972,930**
Contingent liabilities and commitments	**1,008,263**	**95,396**	**-**	**38**	**1,103,697**

32 RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank’s financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk, market risk, reputational risk and operational risk. Market risk includes currency risk, profit rate risk, and price risk.

Credit Risk

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

Credit Risk Mitigation

Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral. While the existence of collateral is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collateral valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Bank’s credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Bank prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

Collateral Valuation

Collateral when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, real estate properties are valued at least once in two years’ intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collateral are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty’s parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional. If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee. Further, the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

Collateral Concentration

Bank has established internal limits to avoid over concentration on certain class of collateral. Prudent maximum limits have been set for the acceptance of collateral as credit risk mitigation.

Liquidity risk

Liquidity risk is the risk that Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Asset and Liability Management Committee (ALCO). Group's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The CBB has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019. The Bank maintains LCR of 160.73% and NSFR of 113% which are above regulatory minimum of 100%.The 90 day average LCR as of 31 December 2019 is 145%.

Market risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

Management of market risk is the responsibility of the relevant business units with the group companies with oversight by the Asset-Liability Committee (ALCO).

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Through a control framework and by monitoring and responding to potential risks, Bank is able to manage the operational risks to an acceptable level.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

Credit risk

The significant concentration of credit risk at 31 December 2019 is set out in note 33.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	50,413	36,400	86,813	67,870	45,011	112,881
Non performing financing exposures	92,060	88,358	180,418	97,034	64,823	161,857
	142,473	**124,758**	**267,231**	**164,904**	**109,834**	**274,738**
Fair value of collateral						
Past due but performing financing exposures	43,610	36,311	79,921	79,725	87,431	167,156
Non performing financing exposures	21,352	67,257	88,609	22,845	51,718	74,563
	64,962	**103,568**	**168,530**	**102,570**	**139,149**	**241,719**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2019			31 December 2018		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	670	2,530	**3,200**	3,452	4,196	**7,648**

Financings restructured from non-performing portfolio and being classified as watchlist for a 12-month period from date of restructuing (cooling period) as of 31 December 2019 amounted to BD4.7 million (31 December 2018: BD5.1 million)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2019	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	-	-	-	-	-	253,124	253,124
Commodity and other placements with banks, financial and other institutions	123,055	-	-	4,547	-	-	127,602
Murabaha and other financings	300,813	33,581	704,532	322,717	135,748	-	1,497,391
Musharaka financing	162	3,712	7,018	116,221	112,339	-	239,452
Sukuk and investment securities	126,946	115,710	99,221	28,796	133,548	19,481	523,702
Assets acquired for leasing	-	-	149	2,377	145,558	-	148,084
Other assets	-	-	-	-	-	55,544	55,544
Total financial assets	**550,976**	**153,003**	**810,920**	**474,658**	**527,193**	**328,149**	**2,844,899**
Customer current accounts	-	-	-	-	-	572,466	572,466
Due to banks, financial and other institutions	348,298	97,883	44,495	4,774	6,166		501,616
Due to investors	352,718	75,943	149,694	11,195	-	-	589,550
Other liabilities	-	-	-	-	-	104,908	104,908
Total financial liabilities	**701,016**	**173,826**	**194,189**	**15,969**	**6,166**	**677,374**	**1,768,540**
Equity of unrestricted investment accountholders	451,653	135,242	352,275	124,758	-	-	1,063,928
Total financial liabilities and equity of unrestricted investment accountholders	**1,152,669**	**309,068**	**546,464**	**140,727**	**6,166**	**677,374**	**2,832,468**
Total repricing gap	**(601,693)**	**(156,065)**	**264,456**	**333,931**	**521,027**	**(349,225)**	**12,431**
31 December 2018							
Total financial assets	**534,997**	**343,868**	**978,175**	**464,787**	**353,818**	**308,379**	**2,984,024**
Total financial liabilities and equity of unrestricted investment accountholders	**991,032**	**471,507**	**490,129**	**102,323**	**-**	**917,939**	**2,972,930**
Total repricing gap	**(456,035)**	**(127,639)**	**488,046**	**362,464**	**353,818**	**(609,560)**	**11,094**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 RISK MANAGEMENT (continued)

	USD	PKR	AED
As at 31 December 2019			
Total profit rate exposure	254,483	166,754	123,442
Reasonable shift	1.06%	1.05%	1.14%
Total effect on income	**2,698**	**1,751**	**1,407**

	USD	PKR	AED
As at 31 December 2018			
Total profit rate exposure	272,833	180,359	116,544
Reasonable shift	0.92%	3.85%	1.34%
Total effect on income	**2,510**	**6,944**	**1,562**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity	
Index	**31 December 2019**	**31 December 2018**
Pakistan Stock Exchange (+/-10%)	1,657	1,646

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.
(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
(c) Associated companies of the Bank.
(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

					31 December 2019
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	586,602	-	4,828	790	592,220
Sukuk and investment securities	331	-	-	-	331
Other assets	8,053	-	-	156	8,209
Liabilities					
Customers' current accounts	4,520	4,004	-	311	8,835
Due to banks, financial and other institutions	20,505	27,194	-	-	47,699
Other liabilities	60	-	-	-	60
Equity of unrestricted investment accounts	7,406	-	-	1,564	8,970
Commitments	1,281	-	-	-	1,281

					31 December 2019
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Income					
Return to unrestricted investment accounts	(296)	-	-	(47)	(343)
Income from murabaha and other financings	9,971	-	-	-	9,971
Profit paid to banks, financial and other institutions	(378)	(1,304)	-	-	(1,682)
Other Income - Management fees	(595)	-	-	-	(595)
Expenses					
Administrative and general expenses	207	-	18	-	225

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

					31 December 2018
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Assets					
Murabaha and other financings	607,948	-	4,828	-	612,776
Other assets	11,971	-	-	164	12,135
Liabilities					
Customers' current accounts	940	-	-	456	1,396
Due to banks, financial and other institutions	24,889	44,603	-	-	69,492
Equity of unrestricted investment accounts	6,195	-	-	1,088	7,283
Other liabilities	40	-	-	-	40
Commitments	273	-	-	-	273

					31 December 2018
	Shareholders & Affiliates	**Associates and other investments**	**Directors and related entities**	**Senior management**	**Total**
Income					
Return to unrestricted investment accounts	(68)	(129)	-	44	(153)
Income from murabaha and other financings	11,167	-	-	-	11,167
Profit paid to banks, financial and other institutions	(933)	(1,243)	-	-	(2,176)
Other Income - Management fees expenses	(268)	-	-	-	(268)
Expenses					
Administrative and general expenses	207	-	18	-	225

With respect to financing facility of BD4.8 million relating to a member of the board of directors, no profit is accrued since profit is linked to exit of a specific investment (held as collateral).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The subsidiaries comply with the directives of the respective local regulators for their capital management.

	31 December 2019	31 December 2018
Tier 1	121,126	134,509
Tier 2	24,768	20,778
Total Capital Base	**145,894**	**155,287**
Total Risk-Weighted Exposures	1,079,303	1,156,222
Capital Adequacy Ratio	**13.52%**	**13.43%**

35 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2019 (31 December 2018: nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2019	**31 December 2018**
INCOME		
Income from other financings	67,836	58,440
Income from investments	41,856	35,023
Other income	8,448	10,125
Gross income	**118,140**	**103,588**
Less: profit paid to banks, financial and other institutions - note (ii)	(61,327)	(45,478)
Total income	**56,813**	**58,110**
EXPENSES		
Administrative and general expenses - note (ii)	(30,056)	(33,540)
Depreciation and amortisation	(4,161)	(4,539)
Total expenses	**(34,217)**	**(38,079)**
Net income before provision for impairment and overseas taxation	**22,596**	**20,031**
Provision for impairment (net)	(2,965)	1,135
Net income before overseas taxation	**19,631**	**21,166**
Overseas taxation	(10,179)	(9,637)
NET INCOME FOR THE YEAR	**9,452**	**11,529**
Attributable to:		
Equity holders of the Bank	6,292	7,675
Minority interests	3,160	3,854
	9,452	**11,529**
Basic and diluted earnings per share	**Fils 6.29**	**Fils 7.68**

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 414 (2018: 255) out of total 555 branches (2018: 455).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37 ACQUISITION OF A BUSINESS

- Dilmunia Development Fund I L.P.

During December 2018, the Bank's interest in shareholding of Dilmunia increased to 53.54% from 40.56% resulting from in-kind redemption by investors of fund units against underlying development property. Further, the Bank acquired additional 3.61% interest on 31 December 2018 resulting from settlement of a financing, increasing its total shareholding in the Fund to 57.15%. Hence the Fund was classified as a subsidiary of the Bank from existing accounting as an investment in restricted investment accounts.

The resulting transaction of the Fund being classified as a subsidiary has been accounted for by applying the purchase method in accordance with the requirements of IFRS 3 'Business Combinations'. The cost of the transaction has been measured at the fair value of the consideration given. Identified assets acquired, liabilities assumed or incurred have been carried at the fair value as at the acquisition date as follows:

	Amount
Fair value of net assets as of 31 December 2018 (based on independent valuation of Development Properties)	70,624
Percentage of identifiable net assets acquired	57.15%
Fair value of net assets as of 31 December 2018	40,362
Less: Existing equity interest	(29,527)
Gain on bargain purchase	**10,835**
Minority interests	**8,359**
Total Gain on Bargain Purchase	**19,194**

The fair value of the net assets acquired are as follows:

	Acquiree's carrying value as of 31 December 2018	**Fair value adjustments**	**Fair value as of 31 December 2018**
ASSETS			
Cash and balances with a financial institution	6,635	-	6,635
Other assets	14,830	(1,593)	13,237
Development properties	41,851	37,445	79,296
	63,316	**35,852**	**99,168**
LIABILITIES			
Other liabilities	11,886	16,658	28,544
	11,886	**16,658**	**28,544**
NET ASSETS	**51,430**	**19,194**	**70,624**

38 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

39 COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.

40 SUBSEQUENT EVENT

There have been no events subsequent to 31 December 2019 that would significantly impact the amounts reported in the consolidated financial statements as at 31 December 2019.