LEADERSHIP THROUGH
CUSTOMER CENTRICITY

Annual Report 2019

بنك الإثمار
Ithmaar Bank

CONTENTS

AT A GLANCE

Ithmaar Bank B.S.C. (closed) (Ithmaar Bank, Ithmaar or Bank) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain (CBB) and provides retail, commercial, treasury and financial institutions, and other banking services.

Ithmaar Bank is a wholly-owned subsidiary of Ithmaar Holding B.S.C. (Ithmaar Holding or the Group), which is a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the CBB and listed on the Bahrain Bourse, Dubai Financial Market (DFM) and Boursa Kuwait. Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT).

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. Ithmaar Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan).

VISION, MISSION AND VALUES

Our Vision

To help all stakeholders and communities realise their long-term ambitions.

Our Mission

To empower people, businesses and communities to thrive by extending simple, personalised and innovative financial solutions.

Our Values

- Comply with Sharia principles
- Honesty, integrity and objectivity in all our relationships
- Market and customer focused
- Continuous improvement, creativity, innovation and willingness to bring about changes; and
- Active role in community

FINANCIAL HIGHLIGHTS

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	2019	2018	2017
Net profit [BD 000]	**2,480**	14,140	6,238
Net profit/(loss) attributable to shareholders [BD 000]	**(1,352)**	1,409	1,582
Net income before provision for impairment and overseas taxation [BD 000]	**15,667**	13,700	19,031
Total equity attributable to shareholders [BD 000]	**79,171**	85,385	154,603
Book value per share [Fils]	**79**	85	155
Earnings per share [Fils]	**-1.35**	1.41	1.58
Total assets [BD 000]	**2,978,946**	3,127,795	3,242,419
Funds under management [restricted investment accounts] [BD 000]	**41,051**	41,614	96,707
Return on average shareholders' equity	**-1.64%**	1.17%	1.02%
Return on average assets	**0.08%**	0.44%	0.19%
Capital adequacy ratio	**13.52%**	13.43%	13.92%
Cost to operating income ratio	**81.26%**	83.65%	78.66%

JOINT MESSAGE

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to announce that, although Ithmaar Bank did not report a profit attributable to equity holders for 2019, it continues to report stable, consistent growth with improved products and services as well as increased customer deposits. This is in line with the Bank's commitment to focusing on its core retail banking business, while working to realise our shared vision of becoming one of the region's leading retail banks.

Ithmaar Bank's financial results show a net loss attributable to equity holders for the year ended 31 December 2019 of BD1.35 million, compared to the net profit of BD1.41 million reported for 2018, mainly due to prudent impairment provisions. This is reflected in the fact that the Bank's results show a total net profit for the year ended 31 December 2019 of BD2.48 million, compared to the net profit of BD14.14 million reported for 2018, which was then mainly due to a one-off gain from Dilmunia Development Fund I L.P when it became a subsidiary of the Bank in 2018.

Total income for the year ended 31 December 2019 was BD171.22 million, a 12.8 percent increase compared to the total income of BD151.78 million reported for 2018, mainly due to an increase in core income. Operating income for the year ended 31 December 2019 was BD83.59 million, remaining stable with a 0.3 percent decrease compared to the BD83.82 million reported for 2018.

Ithmaar Bank's total assets stood at BD2.98 billion as at 31 December 2019, a 4.7 percent decrease compared to BD3.13 billion as at 31 December 2018, mainly due to a decrease in the investment securities portfolio of a subsidiary. Total owners' equity stood at BD79.17 million as at 31 December 2019, a 7.3 percent decrease compared to BD85.39 million as at 31 December 2018, resulting mainly from the impact of the devaluation of the Pakistan Rupee.

Despite challenging conditions, the equity of unrestricted investment account holders grew to BD1.06 billion as at 31 December 2019, a 6.9 percent increase compared to BD0.995 billion as at 31 December 2018, reflecting strengthening customer confidence in the Bank.

The stable, consistent growth is due, in a large part, to the continued, unwavering focus on further developing the Bank's customers' Islamic banking experience. This included investing in developing the Bank's digital infrastructure and on implementing far-reaching, bank-wide digital initiatives.

The Bank's unwavering focus on its core retail banking business is building a stable foundation while setting the stage for continued growth. The focus throughout 2019 has been on preparing the Bank to fully realise the tremendous opportunities that lie ahead. This, in turn, has earned the Bank two key awards in 2019, both reflecting our ability to stay ahead of the curve both locally and regionally as well as highlighting the significance of our digital initiatives.

Ithmaar Bank's award-winning performance in 2019 is a result of the confidence and trust that our customers have in the Bank and in our people. This, in turn, is a result of the commitment, dedication and expertise of our people who we continue to regard as our greatest asset.

We take this opportunity, as always, to thank our customers as well as each one of Ithmaar Bank's employees for their truly valuable contributions as well as the members of the Board of Directors and the Sharia Supervisory Board for their continued support. We take this opportunity, also, to thank the Bank's investors and all other stakeholders for their continued confidence and, in particular, the Central Bank of Bahrain and the Ministry of Industry, Commerce and Tourism for their guidance and support.

Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

HRH Prince Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

"The stable, consistent improvement in Ithmaar Bank's financial performance is due, in a large part, to the continued, unwavering focus on further developing the Bank's customers' Islamic banking experience. This included investing in developing the Bank's digital infrastructure and implementing far-reaching, bank-wide digital initiatives."

REVIEW OF OPERATIONS

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Economic Outlook

Global growth is projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021—a downward revision of 0.1 percentage points for 2019 and 2020 and 0.2 for 2021 compared to those in the October 2019 World Economic Outlook (WEO). The downward revision primarily reflects negative surprises to economic activity in a few emerging market economies which led to a reassessment of growth prospects over the next two years. In a few cases, this reassessment also reflects the impact of increased social unrest.

On the positive side, market sentiment was boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favorable news on US-China trade negotiations, and diminished fears of a no-deal Brexit, leading to some retreat from the risk-off environment that had set in during Q4 2019. However, few signs of turning points are yet visible in global macroeconomic data.

While the baseline growth projection is weaker, developments since the fall of 2019 point to a set of risks to global activity that is less tilted to the downside. These early signs of stabilization could persist and eventually reinforce the link between still-resilient consumer spending and improved business spending. Additional support could come from fading idiosyncratic drags in key emerging markets coupled with the effects of monetary easing. Downside risks, however, remain prominent, including rising geopolitical tensions, intensifying social unrest, further worsening of relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline.

Source: International Monetary Fund (IMF) - World Economic Outlook (WEO) Update, January 2020

The Gulf Cooperation Council (GCC)

The GCC governments have made substantial progress in implementing structural reform which is laying the foundation for a policy environment conducive to diversified economies. Countries across the GCC have progressively reformed their domestic business and foreign investment environments. This year, the GCC hosts three of the top 10 global improvers in the World Bank's Doing Business Indicators – Saudi Arabia, Bahrain and Kuwait – with Saudi Arabia being the world's most improved country. GCC governments have also implemented reforms designed to facilitate trade and attract foreign investment and expatriate workers. Financial sector reforms are accelerating across the GCC, with Bahrain, Saudi Arabia and the United Arab Emirates establishing and regulating cryptocurrencies. Moreover, in line with their economic diversification strategies, GCC governments have implemented measures, including the value-added tax (VAT) and excises, to diversify the sources of fiscal revenue.

Economic growth in the GCC is likely to recover over the medium term to 2.2 percent in 2020 and 2.6 percent in 2021. The recovery will be conditioned on a gradual recovery in oil process and continued spending on mega projects as well as continued growth in non-hydrocarbon sectors. Saudi Arabia's growth prospects will continue to be driven by hydrocarbon-related sectors. Non-oil sectors will drive growth in the more diversified economies; the UAE will see a boost in tourism from Expo 2020, Bahrain's growth will be driven by manufacturing and infrastructure, and Oman will continue to implement Tanfeedh-related investments in manufacturing, transportation, logistics, tourism and fisheries. Fiscal deficits are projected to narrow but persist across most GCC countries. While current account balances are projected to remain in surplus in the larger economies, Oman and Bahrain will continue to face deficits.

Source: World Bank - Gulf Economic Update, December 2019

Bahrain

The Kingdom of Bahrain's economy is projected to post a moderate level of growth at an average of 2.2% over 2020-2021 as the economy continues to rely on its limited oil revenues to underpin the safety net for citizens while furthering diversification. The non-oil economy is expected to grow at 3% over the same period thanks to high levels of infrastructure spending and an increase in manufacturing output.

Continuing fiscal reforms and emphasizing better-targeted subsidies under the Kingdom's Fiscal Balance Program (FBP) will help to narrow the fiscal deficit to 7.7% of GDP in 2020, assuming the costs of the Voluntary Retirement Scheme (VRS) is financed off budget. Public debt is expected to remain high, over 103% of GDP in the forecast period, with sizable gross financing needs. The non-oil primary balance is expected to keep improving on the back of higher non-oil revenues projected at 6.7% of non-oil GDP in 2020. The current account deficit is likely to persist, albeit at moderate levels. Reserves are expected to stay low at one month of prospective non-oil imports. The government's VRS, which now covers around 8,000 people, could also reduce the wage bill by BD122 million by the end of 2019, assuming no new hiring takes place.

Source: World Bank - Bahrain's Economic Update, October 2019

REVIEW OF OPERATIONS CONTINUED

Pakistan

Pakistan's GDP growth slowed as economic policies to address the twin deficits took effect. Growth slowed to 3.3 percent in FY19—a 2.2 percentage points decline compared to the previous year, due to the stabilization measures undertaken by the authorities. Over the past year, the exchange rate was allowed to depreciate, with a cumulative depreciation of 25.5 percent, the development budget was cut, energy prices were increased, and the policy rate was raised by 575 bps. As a result, private consumption growth decelerated from 6.8 percent in FY18 to 4.1 percent in FY19 while investment contracted by 8.9 percent. On the supply side, industrial sector growth slowed to 1.4 percent in FY19 compared to 4.9 percent in FY18. The services sector grew at 4.7 percent—1.5 percent lower than in FY18. Adverse weather conditions have dampened agricultural performance and reduced growth to 0.8 percent in FY19, significantly lower than the targeted growth of 3.8 percent. Average headline inflation increased to 7.3 percent in FY19 compared with 3.9 percent in FY18, primarily because of the exchange rate pass-through.

Real GDP growth is projected to decelerate to 2.4 percent in FY20 as the government tightens fiscal and monetary policies. Pakistan's adjustment entails a rebalancing from domestic to external demand. While domestic demand will slow down quickly, net exports are expected to increase gradually. Growth is expected to recover gradually to 3.0 percent in FY21 as external demand picks up, macroeconomic conditions improve, and the package of structural reforms in fiscal management and competitiveness take effect. This recovery is conditional on relatively stable oil prices and reduced risks. Inflation is expected to increase slightly in FY20, driven by the second-round impact of exchange-rate pass-through to domestic prices. Thereafter, inflation is projected to decline gradually.

Source: World Bank – Pakistan Overview, October 2019

Strategy and Focus

Ithmaar Bank remains committed to becoming one of the region's premier Islamic retail banks.

In line with that commitment, the Bank continued to focus on further developing its customers' Islamic banking experience.

In 2019, this included investing in developing the Bank's digital infrastructure and on implementing far-reaching, bank-wide digital initiatives.

Key Digital Initiatives

Biometric ATMs

In March 2019, His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa inaugurated the first biometric payment network in the region by becoming the first to register and use the Ithmaar Bank offering. This marked an important milestone in Ithmaar Bank's implementation of a path-breaking initiative.

In May 2019, Ithmaar Bank formally launched the region's first biometric-enabled Automated Teller Machine (ATM) network after it retrofitted all the Bank's ATMs with sophisticated fingerprint readers and completed extensive testing of the new, first of its kind security feature.

The pioneering initiative was first announced in September 2018 when Ithmaar Bank and Eazy Financial Services unveiled plans to launch the region's first biometric payment network, supported by the Labour Fund "Tamkeen", to provide a new and more efficient alternative for customers to conduct many of their financial transactions. Ithmaar Bank's inauguration of the first biometric-enabled ATM network is among its key digital initiatives and in line with its commitment to customer-centricity.

Following the launch, Ithmaar Bank customers are no longer required to use their cards at the Bank's ATMs. Instead, they can simply use their fingerprint along with their PIN to process financial transactions. This provides a simpler, more secure way to process financial transactions than ever before.

Pioneering role

In July, Ithmaar Bank announced that it was fully compliant with the Kingdom of Bahrain's open banking standards and, recognizing the need to on-board businesses and provide opportunities and possible collaboration, invited qualified FinTech companies, local start-ups and other interested parties to discuss opportunities.

Open banking allows customers to securely share their financial data with various institutions and aggregators. This, in turn, opens up the banking and financial services industry to new growth opportunities and, potentially, creates exciting new banking products and services for customers.

Ithmaar Bank, a founding member of Bahrain Fintech Bay, the leading FinTech Hub in the Middle East, has long-played a pioneering role in implementing new technology to help enhance its products and services as part of its customer-centric strategy.

Enhanced online presence

In May, Ithmaar Bank unveiled an enhanced website with a wide range of improvements including a more customer-friendly interface. The website enhancement, part of the Bank's digital initiatives, is more interactive, offers an easy-to-navigate structure for all platforms, and was developed in line with the Bank's commitment to growing closer to its customers. The new Ithmaar Bank website, which marks a complete redesign, incorporates the latest trends in website deployment with an emphasis on creativity, usability, functionality, navigation, visual design and ease of use. Customers, for example, are now able to apply for credit cards and financing through the website and can also see for themselves, in real time, how busy each branch is and how long the queues are.

Ithmaar Bank also caters to its customers banking needs through continuous engagement on other social media channels such as Instagram, Facebook, Twitter and Linkedin.

Later, in October, Ithmaar Bank launched a customer-centric chat service on WhatsApp Business to help further improve its customers' banking experience. Following the launch, Ithmaar Bank customers can request information about Ithmaar Bank products and services, as well as make general enquiries about branch locations and timings, ATM locations, Thimaar draw dates and winners lists, as well as ongoing promotions and campaigns. The launch of the chat service on WhatsApp Business is part of Ithmaar Bank's committed, bank-wide digital initiative which aims to build on the Bank's history of innovation.

Major upgrades ahead

In September, Ithmaar Bank, announced plans for a major upgrade to further improve its customers' banking experience. The upgrade, part of Ithmaar Bank's far-reaching digital initiatives, aims to maintain the Bank's leading position in terms of innovation and technology. The announcement followed the formal appointment of one of the world's leading banking solutions experts to help implement a Customer Relationship Management (CRM) platform upgrade that will put the Bank's customer service capabilities among the best in the world.

The sophisticated new Microsoft Dynamics CRM solution will enhance customers' banking experience and help introduce new, customer-focused solutions in line with banking industry trends towards increasing personalisation, security and mobility, as well as customer engagement.

Unwavering focus on core retail banking business

Ithmaar Bank's commitment to customer-centric growth puts customers at the very center of everything the Bank does. Determined to becoming one of the region's premier Islamic retail banks, Ithmaar Bank listens closely to its customers and works to ensure their expectations are met or exceeded. This thinking drives the Bank's strategy as well as its day to day operations.

At the start of 2019, for example, Ithmaar Bank enhanced its Thimaar savings account to offer account holders 3,206 prizes - the highest by any bank in Bahrain – and increased the total prize purse to US$4,400,000, including two grand prizes of US$1 million each. The enhancement, which made the Thimaar account one of the most rewarding investment schemes in the Kingdom, was a result of the Bank's commitment to listening closely to customers' requirements and actively responding to their feedback.

In March, Ithmaar Bank announced that customers can immediately collect their debit cards from any of the Bank's branches. The service, which further reinforced Ithmaar Bank's position as an innovative Islamic retail bank, is available to all customers including new customers when they open a new account and request a Debit Card as well to those requesting card replacements. As a result, customers can immediately collect their new Debit Card, with their name already printed, directly from the branch upon opening their accounts.

In October 2019, as part of its efforts to continuously improve its customers' banking experience, Ithmaar Bank inaugurated a new branch in Muharraq. The branch, which is more accessible and offers better parking facilities than Ithmaar Bank's earlier branch in Muharraq, was commissioned in response to customer demands. The new full-service branch, located within the new Muharraq Central Market complex, was designed to efficiently serve both individual and corporate customers at the complex, while also serving the fast growing commercial and residential area nearby. The new branch maintains Ithmaar Bank's network of 16 branches, one of the largest retail banking networks in Bahrain.

To further enhance the level of service Ithmaar Bank provides to each segment of customers, in 2019 the Bank reorganised its high net worth customer segments to allow better concentration on High Net Worth Individuals (HNWI) customers through Premier Banking, and for Ultra High Net Worth Individuals (UHNWIs) customers through Private Banking. In 2019, the Premier Banking and the Private Banking departments continued their core focus on expanding their respective HNWI and UHNWI client bases as well as on growing their portfolios through providing exceptional services and offerings.

REVIEW OF OPERATIONS CONTINUED

Meanwhile, Ithmaar Bank's Business Banking Group (BBG) continued to cater to the banking needs of corporate and Small and Medium Enterprises (SMEs) clients, as well as to financial institutions. It also provided treasury services. In 2019, the BBG continued to diversify its asset base and achieved good recovery of chronic non-performing assets. The focus in 2019 continued to be on growing the Bank's SME portfolio and strengthening relationships with corporate and financial institution clients. Diversification of assets was through the financing of the manufacturing, education, healthcare, retail trade, food, infrastructure, and social housing development sectors.

Asset Management

Ithmaar Bank's Asset Management Department focused in 2019 on actively managing the Bank's Funds Under Management (FUM). The Department, acting as Modareb for the fund's investors, works to maximise the performance of these FUMs to achieve the greatest realisation for the funds' investors. The FUMs are located in Bahrain, the United States of America and Europe. The Bank's Asset Management Department also provides outsourcing services to manage investments held by Ithmaar Holding, and its subsidiary IB Capital.

Award winning performance

In July, Ithmaar Bank was named Best Bank for Personal Finance in Bahrain by the World Union of Arab Bankers (WUAB) at a high-profile ceremony in Lebanon and attended by senior bankers from across the Middle East. Ithmaar Bank earned the prestigious award following a comprehensive selection and review process that was conducted by a committee of high-level economists and banking professionals, as well the research department of the Union of Arab Banks (UAB) and the WUAB.

The WUAB is a prominent Arab Forum that is patronized by Arab leaders of economics and finance, as well as influential banking pioneers, top experts, successful businessmen, professionals and entrepreneurs. WUAB, a sister organization of the UAB, is a non-profit, Non-Governmental Organization that enjoys the privileges, immunities and exemptions extended to regional and international organizations operating under the Arab League. The UAB enjoys full financial, administrative and organizational autonomy. It is considered a major representative of the Arab banking and financial community and a supporter of Arab banks and financial institutions, including Arab mutual banking institutions.

In December, Ithmaar Bank was named Fastest Growing Islamic Fintech Bank at the World Islamic Banking Conference (WIBC) 2019. The prestigious award was presented by Central Bank of Bahrain (CBB) Governor, Rasheed Mohammed Al Maraj. The WIBC brought Islamic banking experts from across the world to Bahrain to discuss key issues, review the latest developments and share insight into current trends. The annual event, now in its twenty-sixth year, is widely recognised as one of the most important events on the global Islamic banking calendar, and provides a valuable opportunity to showcase Bahrain's contributions to the global Islamic banking industry. According to organisers, the WIBC Performance Awards are the flagship awards for the event, and are granted to the top Islamic financial institutions based on their aggregate performance scores against multiple measures on a global and regional level. Each financial institution receives an aggregate score based on weighted scores of three metrics: financial stability, financial performance, and governance and social responsibility. Award recipients were those that secure the top aggregate score at the global and regional level.

Training and development

Ithmaar Bank has long maintained that, ultimately, the Bank's success is driven by its people. As a result, the Bank invests heavily in continuous training and development. In 2019, this included in-house, external and overseas training sessions.

In April, Ithmaar Bank launched a pioneering new employee training and compliance programme aimed at bolstering compliance with regulatory rules and guidelines across the Bank. The programme involved 48 employees from different departments and branches undergoing in-house training sessions as well as customised courses to become the first line of compliance support on the ground.

In July, Ithmaar Bank held training sessions for all employees to ensure their adherence to the Bank's Code of Ethics and Business Conduct and to raise awareness of the Bank's Human Resources policies.

As required by the CBB, Ithmaar Bank conducted an Islamic Finance Awareness Training programme, a training session on the Personal Data Protection Law, and an annual Anti Money Laundering (AML) Refresher Course for all relevant employees. A comprehensive Business Continuity Plan and Information Security awareness programme was also arranged on a quarterly basis for all new joiners, including employees, trainees, temporary employees and outsourced personnel.

Celebrating success

In May, Ithmaar Bank hosted a dinner to honour employees who recently earned advanced professional certifications. A total of twenty-two employees from various departments, including Information Technology, Risk Management, Retail Support, Branches Network, Product Management and Development, the Collection Unit, , Sharia Compliance, Sales, Legal, Human Resources, and Private Banking, were honoured for having earned various degrees including the Project Management Professional, the Advanced Diploma in Islamic Finance, the Oracle Database 12c Administrator Certified Associate, ISO 27001:2013 Lead Auditor, the Certified Associate in Project Management – CAPM, the Professional Masters in Islamic Banking and Finance and the CIPD in Human Resources.

Throughout the year, Ithmaar Bank distributed token gifts to employees to mark various key dates including their individual employment anniversaries as well as, for example, the start of Ramadan, Eid Al Fitr and Eid Al Adha, National Day and Labour Day.

The Bank also continued the "Breakfast with the CEO and DCEO" programme where employees are randomly selected from different departments and invited to share their thoughts, challenges, aspirations, suggestions and expectations with the senior executives over an informal breakfast.

Investing in our people

In April, Ithmaar Bank employees who volunteered to become fire wardens attended three-days of training in firefighting and first aid at the Bahrain Civil Defense School. The training included an introduction to first aid which focused on treating shock, bleeding, epilepsy, low blood sugar and sun stroke cases. The training also included sessions focused on different types of fires and how to fight them.

In October, Ithmaar Bank organised a football match for employees in the Support Units. The match was an opportunity to enhance teamwork and help employees to get to know each other better.

REVIEW OF OPERATIONS CONTINUED

Training (Bahrain)

BIBF Levy Training	Total: 2,171 hours Managers and Above: 480 hours Below Managers: 1,691 hours
External Training - Bahrain	Total: 2,064 hours Managers and Above: 803 hours Below Managers: 1,243 hours
External Training - Abroad	Total: 134 hours Managers and Above: 64 hours Below Managers: 70 hours
In-House Training	Total: 4,730 hours Managers and Above: 1269 hours Below Managers: 3,461 hours
Islamic Banking Ethics and Governance Course – CBB Requirement	40 employees successfully completed the Programme
Financial Advice Programme Level 1	4 employees successfully completed the Programme 7 employees successfully completed Module 1
Financial Advice Programme Level 2	9 employees successfully completed Module 1
Anti-Money Laundering – CBB Requirement	New Joiners: 59 employees Annual Refresher Course: 231 employees

Staff Overview (Bahrain)

	Bahrainis			Non-Bahrainis			
	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Total
Male	73	64	39	6	1	0	183
Female	25	47	37	2	0	0	111
Total	89	111	76	8	1	0	294

Role in The Community

As a pioneering Islamic retail bank, Ithmaar Bank has long recognised the important role it must play in supporting the community in which it operates. The Bank, which has always taken this responsibility very seriously, continued throughout 2019 to support various local charities while also participating in key national events.

In 2019, Ithmaar Bank continued, for the twelfth consecutive year, its support for the King Hamad Trophy Golf Championship which is organised by the Bahrain Golf Association. The Championship, held under the patronage of His Majesty King Hamad bin Isa Al Khalifa at the Royal Golf Club in Riffa Views, is the highlight of the Kingdom's golfing calendar, and one of the region's most important sporting events.

In April, Ithmaar Bank extended its support to the Crown Prince's Center for Training and Medical Research. The Bank's support helps further enhance the Bahrain Defense Force (BDF) Royal Medical Services at the Military Hospital and contributes to the development of medical services in the Kingdom of Bahrain. The Crown Prince's Center for Training and Medical Research is the first simulation center in the Kingdom, and serves as a Middle East hub in attracting collaboration from elite healthcare and educational institutions around the world.

In June, Ithmaar Bank distributed shopping vouchers and financial support to licensed charitable societies across the Kingdom to help support low income families during the holy month of Ramadan. In total, Ithmaar Bank worked with more than 100 charitable societies to ensure as many deserving families as possible receive the necessary support.

In 2019, Ithmaar Bank also provided financial support to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the American Mission Hospital, the Arabian Gulf University, the Bahrain Athletics Association, the Bahrain Olympic Committee, Bahrain Polytechnic, the Bahrain Secretarial Association, the Boy Scouts of Bahrain, the Future Society of Youth, the General Council for Islamic Banks and Financial Institutions (CIBAFI), the Royal Charity Organization, and the Shaikha Hessa Girls' School.

Ithmaar Bank's commitment to playing a real and meaningful role in the community goes far beyond mere philanthropy and, in addition to providing financial support to deserving causes, the Bank also plays a direct role in helping shape the Kingdom of Bahrain's future banking and finance professionals.

In the summer of 2019, Ithmaar Bank, welcomed twenty-eight undergraduate students from various local and international universities to its annual summer internship programme. The two-month programme, a long-standing tradition at the Bank, offers participants first-hand insight into the Bank's organisational structure, as well as the key functional areas of Islamic retail banks and an understanding of day-to-day operations. The students were allocated to various departments in the Bank based on their specialisations and interests, including the Retail Banking, Branch Network, Financial Control, Informational Technology, Banking Operations, Internal Audit, Legal Affairs, Sharia, Marketing and Corporate Communications and the Human Resources departments.

High-level praise and recognition

Ithmaar Bank's contributions in support of the local community have not gone unnoticed.

In July, the Minister of Industry, Commerce and Tourism, presented Ithmaar Bank with a trophy in recognition of the Bank's support for the first annual Young Entrepreneur Tech Camp.

In October, His Highness Shaikh Nasser, representative of His Majesty the King for Charity Works and Youth Affairs, and Chairman of the Supreme Council for Youth and Sports Affairs presented a trophy to Ithmaar Bank in recognition of the Bank's support for the Nasser Ramadan Football tournaments.

Later in October, the Minister of Justice, Islamic Affairs and Endowments honoured the Bank in recognition of its support for the Zakat International Conference which was hosted in Bahrain.

FINANCIAL REVIEW

Financial Performance

Ithmaar Bank's net profit stood at BD2.48 million for the year ended 31 December 2019 compared to BD14.14 million for the year ended 31 December 2018. The net loss attributable to equity holders of the Bank for the year ended 31 December 2019 was BD1.35 million compared to BD1.41 million for the year ended 31 December 2018.

Ithmaar Bank's financial results show stable income for the period. During the year, the Bank recorded an Operating Income of BD85.39 million compared to BD83.82 million for the year ended 31 December 2018. The Bank recorded a total income before provisions for impairment and overseas taxation for the year ended 31 December 2019, of BD15.7 million compared to BD13.7 million for the same period in 2018.

During December 2018, Dilmunia Development Fund I L.P. became a subsidiary of Ithmaar Bank after the Bank's shareholding in the company increased to more than 50 percent. Accordingly, a gain on bargain purchase of BD19.2 million was recognised.

Financial Position

Total assets stood at BD2.98 billion as at 31 December 2019, a 4.8 percent decrease compared to BD3.13 billion as at 31 December 2018.

Murabaha and other financings stood at BD1.88 billion as at 31 December 2019, a 6.9 percent decrease compared to BD2.03 billion as at 31 December 2018. The equity of unrestricted investment accountholders, at BD1.06 billion as at 31 December 2019, increased by 6.95 percent compared to BD1 billion as at 31 December 2018, mainly due to market conditions.

Total owners' equity stood at BD79.17 million as at 31 December 2019, a 7.3 percent decrease compared to BD85.39 million as 31 December 2018, mainly due to the accounting standard, FAS 30's impact of previous years recognised in equity and the foreign exchange impact of a devaluation of the Pakistani rupee during the year recognised in equity.

KEY OPERATING SUBSIDIARIES
BOARD OF DIRECTORS
SHARIA SUPERVISORY BOARD
EXECUTIVE MANAGEMENT

KEY OPERATING SUBSIDIARIES

Faysal Bank Limited

Faysal Bank Limited (FBL) is one of the most prominent and fastest growing retail banks in Pakistan. FBL, including its predecessors, has been in operations for more than 30 years. FBL shares are listed on the Pakistan Stock Exchange.

FBL is mainly engaged in Commercial, Retail, and Corporate banking activities and strives to provide quality service to its customers to meet their financial needs. FBL's branches have been transformed into multi-product selling hubs through which customers can access a wide variety of products and services. There is also a great deal of focus on realising synergies between FBL's various operating units to ensure maximum value creation and holistic customer solutions. Ithmaar Bank owns 66.57 percent of FBL.

FBL has 555 branches spread over 130 cities across Pakistan. The Bank also has sizable clients in the Corporate, Commercial, SME and Consumer segments. FBL is increasing its branch network to strengthen its customer reach and ability to provide banking services to customers at their doorsteps.

The Bank is enhancing its technology platform to facilitate transactions for customers and reduce the cost of doing business. FBL introduced a Virtual Card allowing customers to make secure worldwide online purchases.

With an increase in the local policy benchmark rate, a decent deposit mix, and a diversified loan portfolio, the Bank is expected to maintain its growth trajectory.

FBL's total assets and total shareholders' equity as of 31 December 2019 amounted to PKR 600 billion (equivalent BD1.5 billion) and PKR 46 billion (equivalent BD 1.5 million) respectively.

The investment is in Pakistani Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss, as of 31 December 2019, amounted to BD37.2 million (included in the foreign exchange translation reserve in the statement of changes in equity).

Dilmunia Development Fund I L.P.

Dilmunia Development Fund I L.P. (the Fund) is an exempted limited partnership formed and registered under the laws of the Cayman Islands.

The General Partner in the Partnership is Ithmaar-Dilmunia General Partner Company Limited. The Fund has been formed to acquire 650,000 square meters of land within the Health Island - Dilmunia Project in Bahrain to develop the infrastructure and sell the Land in parcels.

The total assets and total shareholders' equity as of 31 December 2019 amounted to BD59.2 million and BD50.5 million respectively.

BOARD OF DIRECTORS

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 18 April 2019

HRH Prince Amr has more than 30 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), and Chairman of Ithmaar Holding, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of Red Sea Design Consultants (Jeddah), and Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan).

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment, and a Member of the Saudi Council of Engineers.

HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Tunku Yaacob Khyra

Independent, Non-Executive Board Member

Elected 18 April 2019

Prince Yaacob has more than 35 years of banking and finance experience.

He is a member of the Ithmaar Holding Board of Directors. He is also Chairman of MAA Group Berhad (Malaysia) which he joined in 1998. Prior to his current position, Prince Yaacob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was Chairman. He also worked at PriceWaterhouse, UK and Malaysia.

Prince Yaacob holds a Bachelor of Science Degree with Honours from the City University in London, and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 18 April 2019

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in other countries in the GCC region, and has more than 37 years of experience in managing business activities in various sectors.

He is a member of the Ithmaar Holding Board of Directors. He is also Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he has a BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Abdelhamid Mohamed Aboumousa

Executive Board Member

Elected 18 April 2019

Mr. Aboumousa has more than 49 years of diversified banking and finance experience.

He is a member of the Dar Al-Maal Al-Islami Trust (DMIT) Board of Supervisors and a member of the Ithmaar Holding Board of Directors.

He is currently Governor of Faisal Islamic Bank of Egypt, which he joined in 1979. Prior to joining Faisal Islamic Bank of Egypt, Mr. Aboumousa worked at the Central Bank of Egypt (CBE) for 16 years. He is Head of the Egyptian–Saudi Business Council, and is also a Member of the General Assembly of Misr Insurance Holding Company, Egypt.

Mr. Aboumousa is a Member of the Board of Faisal Islamic Bank of Sudan, Momtalakat for Insurance in Egypt, Ayadi for Investment and Development in Egypt, Midor for Electricity - MIDALIC – Egypt, and Awqaf Properties Investment Fund (APIF) - Islamic Development Bank (IDB) – Jeddah. He is also Chairman of International Company for Leasing S.A.E. (Incolease) in Egypt, and Deputy Chairman of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Aboumousa is also a member of the Advisory Committee of ARMILA Fund, Milan, Italy, and a member of the Advisory Committee of ANASTASIA Fund, Milan, Italy.

He holds a Bachelor's degree in Accounting from the Faculty of Commerce, Cairo University, Egypt, and a diploma in Finance, also from Cairo University. He also received a Higher Diploma in Economics from Luigi Bocconi University, Milan, Italy.

BOARD OF DIRECTORS CONTINUED

Mohammed A. Rahman Bucheerei

Executive Board Member

Elected 18 April 2019

Mr. Bucheerei has more than 49 years of experience in Accounting, Commercial and Offshore Banking. He was Chief Executive Officer of Ithmaar Bank from 12 July, 2010 to 31 August, 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. Mr. Bucheerei is also a member of the Board of Directors of Ithmaar Holding and IB Capital. Mr. Bucheerei is Group Chief Executive Officer of Dar Al-Maal Al-Islami Trust (DMIT). Previously, he served as the General Manager of the Private Offices of HRH Prince Mohammed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He is Chairman of DMI (Jersey) Limited, MFAI (Jersey) Limited, Faisal Finance Maroc S.A., Faisal Private Bureau, DMI Administrative Services, Ithmaar Development Company, and NASEEJ Rabat.

He is a member of the Board of Directors of the Islamic Investment Company of the Gulf (Bahamas) Limited, Faysal Bahamas Limited, Gulf Investors Asset Management Company J.S.C. Closed, DMI NV, Faisal Finance Luxembourg and Shamil Finance Luxembourg.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Abdulellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 18 April 2019

Mr. Al-Qassimi has more than 34 years of diversified management experience. He is a member of the Ithmaar Holding and the IB Capital Boards of Directors.

His previous positions including being Chief Executive of Tamkeen (the Labour Fund), from which he resigned in May 2010; Deputy Chief Executive Officer of the Labour Fund Project at the Bahrain Economic Development Board; Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs; and Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee, and the Steering Committee of Career Expo, and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a member of the Board of Directors of Solidarity Group Holding, Naseej, Faysal Bank Limited (Pakistan); and Saudi Solidarity Takaful Co. (KSA), as well as a member of the Board of Trustees of Arabian Pearl Gulf School. Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK, a MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

Omar Abdi Ali

Non-Executive Board Member

Elected 20 June 2019

Mr. Ali has more than 49 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is a member of the Ithmaar Holding Board of Directors.

Mr. Ali is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania). Previously, Mr. Ali served at Dar Al-Maal Al-Islami Trust (DMIT) where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President, Finance and Vice-President in charge of Internal Audit from 1983 to 1986.

Prior to his DMI appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan). He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served with the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 18 April 2019

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, has almost 31 years of experience in training, consulting and banking. Dr. Bouresli is the Chairperson of the IB Capital Board of Directors, and a member of the Ithmaar Holding Board of Directors.

She is currently a Professor of Finance at Kuwait University's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning. Dr. Bouresli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait. Also, she earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize.

Prior to her ministerial appointments, Dr. Bouresli was the Chairwoman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and Head of the Capital Market Authority Project from 2006 to 2007. Dr. Bouresli, who has many published works in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

Dr. Bouresli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

Sheikh Mohamed Abdullah Abdelkarim Elkhereiji

Non-Executive Board Member

Elected 18 April 2019

Sheikh Elkhereiji has more than 41 years of diversified banking and management experience.

He is a member of the Ithmaar Holding Board of Directors. Sheikh Elkhereiji is the Chairman of many companies in Saudi Arabia, including Elkhereiji Group Holding Co., Hal International Company and S.A. Elkhereiji Real Estate Limited Company. Sheikh Elkhereiji is a member in the Board of Supervisors of Dar Al-Maal Al-Islami Trust, and a member of the Board of Directors of Yanbu Cement Company (Saudi Arabia) as well as the Worldcare International Company (United States of America). Sheikh Elkhereiji is also a member in the Honorary Advisory Council for Dar Al Hikma University in Jeddah and a member of the Board of Directors of Bayan Educational Institution. Previously, Sheikh Elkhereiji was the Chairman of Faisal Investment Bank (Bahrain). He holds a Bachelors degree in Law from Cairo University, Egypt, a Diploma in Change Management from Harvard, USA, and a Diploma in Marketing Management from the International Marketing Institute, Cambridge in USA.

Elham Ebrahim Abdulla Hasan

Independent, Non-Executive Board Member

Elected 18 April 2019

Ms. Hasan, who has more than thirty years of diversified experience in the financial services industry, is a member of the Ithmaar Holding and the IB Capital Boards of Directors.

She is currently Chairwoman of Taaheal Healthcare and an Advisor on Business and Corporate Strategy, as a well as a Board Member of Mumtalakat, Solidarity Group Holding – Bahrain and BNP Paribas Investment Company – Saudi Arabia. A leading businesswoman in the Kingdom of Bahrain, Ms Hasan was the first female partner at PricewaterhouseCoopers in the Middle East region. She was voted one of the Most Influential Women in the Middle East by Forbes Magazine, and earned the Euro Money Award for Islamic Assurance Advisory Services.

Ms Hasan was previously a Board Member of the Bahrain Economic Development Board (EDB), Tamkeen, BBK, the Bahrain Real Estate Investment Company (EDAMAH), and the University of Bahrain, as well as a member of both the Women Empowerment Economic Committee of the Supreme Council for Women and the Planning and Follow-up Committee of the Bahrain Business Women's Society. She was the Country Senior Partner at PricewaterhouseCoopers in Bahrain until June 2010, and was the financial services leader for PricewaterhouseCoopers Middle East until June 2007. While at PricewaterhouseCoopers, Ms Hasan worked extensively with Islamic institutions since the early eighties.

Ms. Hasan qualified as Certified Public Accountant in 1986 and is a member of the American Institute of Certified Public Accountants.

SHARIA SUPERVISORY BOARD

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 25 March 2019

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is the Chairman of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia, a consultant at the Royal Court, and a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment in Saudi Arabia, and has authored several books including `Paper Money: Truth, History and Reality', `Economic Research', A Window on the Community and others.

Sheikh Nedham Mohammed Saleh Yaqouby

Member

Appointed 25 March 2019

Sheikh Yaqouby is a prominent, highly-respected Islamic Sharia scholar and a successful businessman from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and the IB Capital Sharia Supervisory Boards.

He is a member of the Sharia Board of AAOIFI, a member of the Sharia Advisory Board of the Central Bank of Bahrain (CBB) and Chairman or a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, in Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney Award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking Award and other awards.

Sheikh Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Appointed 25 March 2019

Sheikh Al-Asfoor is a well-known and highly respected Sharia scholar in the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is also a member in the Sharia Advisory Board of the CBB and several Sharia Supervisory Boards in the Kingdom of Bahrain and abroad.

Sheikh Al-Asfoor is the Head of the Jaafari Endowments and is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran, and has authored more than 60 books on the Islamic Sharia.

Sheikh Osama Mohammed Saad Bahar

Member

Appointed 25 March 2019

Sheikh Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is a member of the Ithmaar Holding, Ithmaar Bank and IB Capital Sharia Supervisory Boards.

He is currently a member of the Sharia Board of First Energy Bank, as well as of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad.

Sheikh Bahar holds a Master's degree from AlImam Ouzai University in Lebanon, and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Bahar has authored several books on Islamic banking as well as on society affairs. He has participated in and conducted several radio interviews and written newspaper columns.

EXECUTIVE MANAGEMENT

Ahmed Abdul Rahim

Group Chief Executive Officer

- Master of Business Administration, University of Glamorgan, Wales (UK) (1999)
- Fellow of the Institute of Financial Accountants, UK (1995); and the Institute of Public Accountants, Australia (2014)
- Executive Management Diploma, University of Bahrain (1993)
- Advanced Banking Diploma, Bahrain Institute of Banking and Finance (1998)
- 42 years of banking experience
- Joined the group in 2006

Abdulhakeem Khalil Al Mutawa

Deputy Chief Executive Officer, Banking Group

- Master of Business Administration, University of Bahrain (1991)
- Post-Graduate Diploma in Management, University of Bahrain (1990)
- Bachelor of Science in Mechanical Engineering, University of Texas at Austin, USA (1981)
- 38 years of experience, of which 17 years in banking
- Joined the group in 2003

Mohammed Hasan Janahi

General Manager, Retail Banking Group

- Advanced Diploma in Banking and Finance, BIBF (1998)
- 35 years of Banking experience
- Joined the group in 2002

Yusuf Abdulla Alkhan

General Manager, Information Technology, Banking Operations and Administration

- Master of Business Administration, AMA International University (2005)
- Bachelor of Science in Computer Science, University of Bahrain (1989)
- 31 years of experience
- Joined the group in 1989

Abdulla Abdulaziz Taleb

General Manager, Business Banking Group

- Bachelor of Science in Banking and Finance, Kingdom University (2009)
- Advanced Diploma in Islamic Banking, Bahrain Institute of Banking and Finance (BIBF) (2005)
- 20 years of banking experience
- Joined the group in 2014

Maysan Faisal Almaskati

Assistant General Manager, Head of Asset Management

- B.Sc. in Industrial Engineering, Kansas State University, USA (1997)
- Investment Representative Program (Series 7), Bahrain (2000)
- 20 years of banking experience
- Joined the group in 2019

Saqib Mahmood Mustafa

Assistant General Manager, Chief Financial Officer, Head of Financial Control

- Certified Sharia Advisor and Audior (CSAA) (Awarded by AAOIFI) (2019)
- International Certificate in Banking Risk & Regulation (ICBRR) (2011)
- Member of the Institute of Chartered Accountants of England & Wales (ICAEW) (2010)
- Certified Islamic Professional Accountant (CIPA) (awarded by AAOIFI) (2009)
- Fellow Member of the Association of Chartered Certified Accountants (ACCA) (2003)
- Bachelor of Commerce Karachi University (Pakistan) (1999)
- 20 years of banking and finance experience
- Joined the group in 2007

EXECUTIVE MANAGEMENT CONTINUED

Rafed Ahmed Al Mannai

Head of Product Management & Business Alliances

- Master of Commerce in Information Systems, University of Queensland (2000)
- Bachelor of Science in Architectural Engineering, University of Bahrain (1998)
- 19 years of banking experience
- Joined the group in 2007

Balu Tiruvilandur Ramamurthy

Head of Compliance and Anti-Money Laundering

- International Diploma in Compliance (ICA-IDC), International Compliance Association & University of Manchester (2014)
- Certified in the Governance of Enterprise IT (CGEIT), Information Systems Audit and Control Association, USA (2008)
- Certified Information System Auditor (CISA), Information Systems Audit and Control Association, USA (2001)
- Masters degree in Commerce (M.Com), Madurai Kamaraj University - India (1996)
- Certified Associate of Indian Institute of Bankers, Institute of Bankers (1986)
- 36 years of banking experience
- Joined the group in 2018

Khalil Ebrahim Al-Asfoor

Head of Internal Audit

- B.Sc. in Accounting, University of Bahrain (2001)
- Fellow member of the Association of Chartered Certified Accountants (FCCA), UK (2005)
- Associate Professional Risk Manager (APRM), Professional Risk Managers' International Association (PRMIA), US (2012)
- Chartered Institute for Securities and Investment (CISI), UK (2012)
- Certified Internal Auditor (CIA), Institute of Internal Auditors, US (2018)
- 18 years of experience in banking and financial services
- Joined the group in 2016

Fatima Abdulla Budhaish

Head of Risk Management

- Executive Master of Business Management, University of Bahrain. (2007)
- Certified Public Accountant (CPA), U.S.A. (2002)
- Executive Management Leadership, Darden Graduate School of Business, University of Virginia, USA (2011)
- Bachelor in Accounting, University of Bahrain (2000)
- 20 years of banking experience.
- Joined the group in 2018

Taimour Raouf George

Head of Marketing and Corporate Communications

- B.Sc. in Computer Science, University of Bahrain (2001)
- 22 years of communications experience
- Joined the group in 2008

Enas Mohamed Rahimi

Head of Human Resources

- Certificate in Personnel Practice (CPP), CIPD (2010)
- MBA specialised in Project Management, AMA International University (2006)
- BSc. in Banking & Finance, University of Bahrain (2001)
- 14 years of human resources experience
- Joined the group in 2005

Sheikh Adel Ahmed Al Marzooqi

Head of Sharia Coordination and Implementation

- Master's Degree in Islamic Studies, Allman Ouzai University, Lebanon (2004)
- Bachelor in Islamic Studies, Allman Ouzai University, Lebanon (1997)
- 19 years of Sharia experience
- Joined the group in 2009

Luay Yaqoob Seyadi

Acting Head of Banking Operations

- MBA, University of Strathclyde (2011)
- BSc. Accounting, NYIT (2006)
- 14 years of banking experience
- Joined the group in 2018

Mohammed Ali Safar

Head of Private Banking

- BA Financial Services, University of Bradford (2006)
- 12 years of experience in banking
- Joined the group in 2007

Ahmed Fareed Buqais

Head of Information Technology

- BSc. Computer Science, University College of Bahrain (2009)
- 11 years of IT experience
- Joined the group in 2012

Fatema Abdulla Mohamed Mufeez

Acting Head of Legal Affairs

- B.Sc. in Law, University of Bahrain (2007)
- Licensed as a Practiced Lawyer, Ministry of Justice and Islamic Affairs of the Kingdom of Bahrain
- 12 years of experience
- Joined the group in 2016

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Overview of Policies and Controls

Ithmaar Bank follows the "High Level Controls" and "Public Disclosure" Modules of the Rulebook issued by the Central Bank of Bahrain (CBB) and the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable.

Ithmaar Bank's Corporate Governance Policy provides guidance on engaging with its stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is Ithmaar Bank's policy to treat shareholders in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value for shareholders over the long-term. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Bank adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct and Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Bank, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interests of stakeholders.

The written Code of Ethics and Business Conduct that binds all employees and members of the Board of Directors lends further weight to the practical implementation of the Bank's stated policies.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Bank must comply with the Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with the CBB regulations, the Bank wishes to explain the following:

The Chairman is a non-executive director but not an independent director, as defined by the CBB, due to his position as the Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), the Bank's controller.

FBL, a subsidiary of Ithmaar Bank, follows the local regulations of the State Bank of Pakistan, which may differ from CBB regulations in some aspects, including the Sharia governance requirements applicable to Bahrain-incorporated banks.

Developments in Regulations

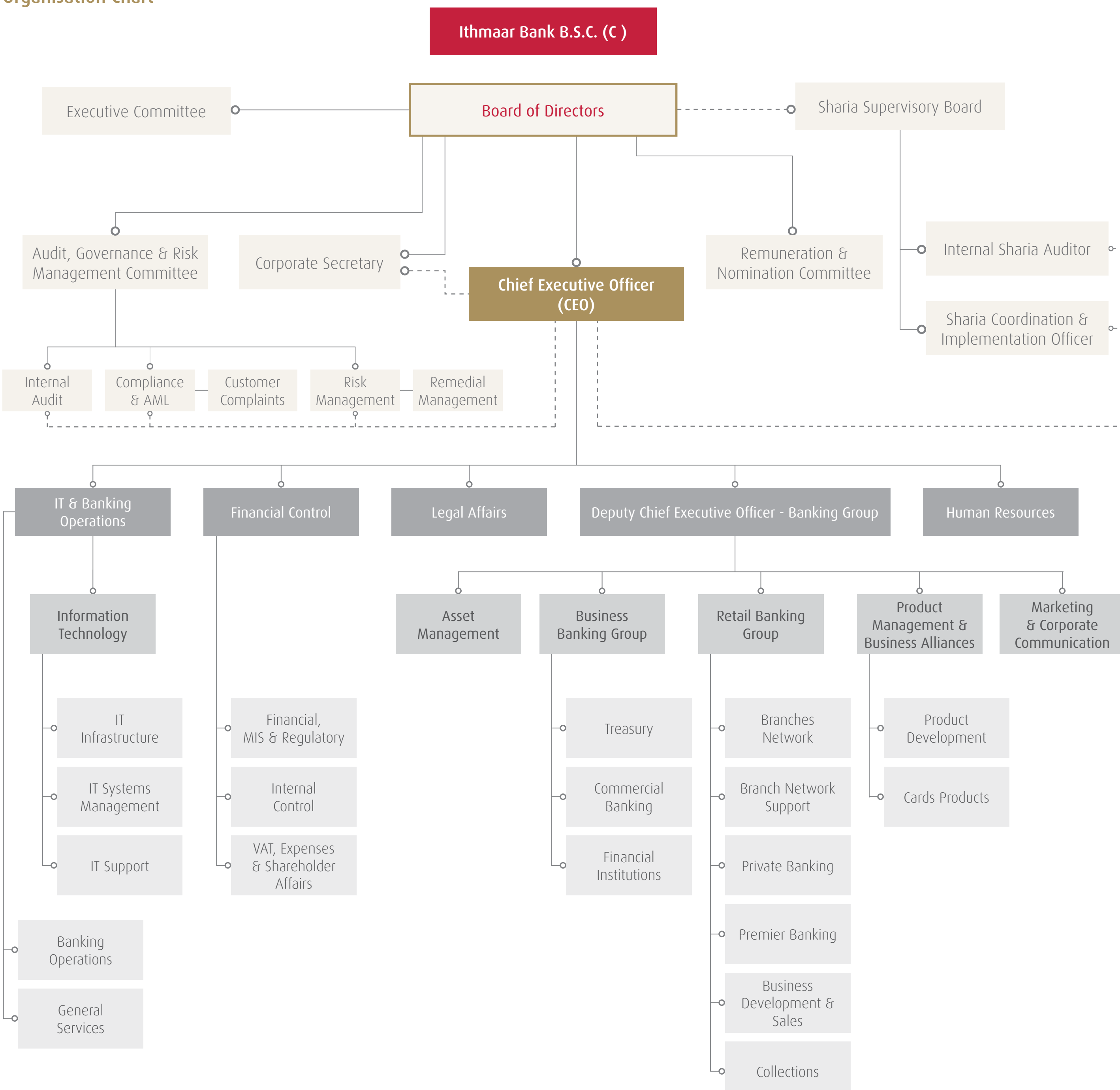
On an ongoing basis, the Bank monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. Material changes to the HC module introduced by the CBB during the year include the introduction of new regulations on compliance.

Administration

Ithmaar Bank is administered by the Board of Directors and the Sharia Supervisory Board and, for day-to-day matters, by the Executive Management.

CORPORATE GOVERNANCE CONTINUED

Organisation Chart



Board of Directors

The Board of Directors of Ithmaar Bank is comprised of ten members, of whom five are independent. Independence is determined based on the Central Bank of Bahrain (CBB) definition of "Independent Director" which is stipulated in the Glossary section of the CBB Rulebook.

The Board is committed to the roles and responsibilities prescribed by the Commercial Companies Law of 2001 (as amended), which are reflected in Ithmaar Bank's Corporate Governance Policy and constitutive documents.

The Board's roles and responsibilities include, but are not limited to, the overall business performance and strategy for the Bank; causing financial statements to be prepared which accurately disclose Ithmaar Bank's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders. In particular, the Board, among other things, ensures that Ithmaar Bank's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following:

- Maintaining overall responsibility for the performance of Ithmaar Bank;
- Establishing policies for strengthening the performance of the Bank, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- Selecting, appointing, monitoring and evaluating the performance of management;
- Appointing the Chief Executive Officer and the executive management, as well as setting the terms of their employment;
- Reviewing the performance and compensation of the management;
- Reviewing the structure and succession planning of the management;
- Overseeing and advising the management;
- Monitoring and managing potential conflicts of interest;
- Deciding on whatever steps are necessary to protect the Bank's financial position and viability;
- Ensuring that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensuring adherence to high standards of ethics and corporate governance;
- Ensuring that appropriate risk management and regulatory compliance policies are in place;
- Monitoring the effectiveness of the governance, compliance, and internal control framework;
- Ensuring timely and adequate legal and regulatory disclosures;
- Arranging the shareholders' annual, ordinary and extraordinary general meetings; and
- Ensuring equitable treatment of minority shareholders.

Some of the responsibilities of the Board of Directors are delegated to the committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationships with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association and Corporate Governance Policy of Ithmaar Bank, which complies with applicable statutory and regulatory rules. Board members serve three-year terms. At the end of each term, the new Board is to be elected (or appointed, as applicable) at Ithmaar Bank's annual general meeting.

The next election of the Board of Directors will take place during the annual general meeting to be held in 2022.

CORPORATE GOVERNANCE CONTINUED

Structure and Composition of the Board

Ithmaar Bank is managed at the high level by the Board. The size of the Board is subject to Ithmaar Bank's Articles of Association and the rules and regulations decreed by the Ministry of Industry, Commerce and Tourism and the Central Bank of Bahrain.

Duties of Board Members

The Board members, individually and collectively, are bound by distinct fiduciary duties to Ithmaar Bank and its shareholders. The Board members owe their fiduciary duty to the Bank as a corporate entity in its own right and not just to individual shareholders and/or a groups of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by Board members to Ithmaar Bank are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

The Board members are required to act in accordance with Ithmaar Bank's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of Ithmaar Bank's internal authorities and policies.

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of Ithmaar Bank.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of Ithmaar Bank. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using Ithmaar Bank's properties and assets for their personal needs or seeking business opportunities for personal benefit.

Ithmaar Bank provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The above duties are detailed in the Corporate Governance Policy and Code of Ethics and Business Conduct, which is approved by the Board.

Board Members' Election and Evaluation System

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum of Association, Articles of Association, the Corporate Governance Policy and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews the composition and performance of the Board of Directors annually. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives, as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

The arrangements for the termination of membership in the Board of Directors are stipulated in the Articles of Association of Ithmaar Bank. In the event of a vacancy, termination or resignation on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board for the appointment of a director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All the Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

The Board members also receive a copy of the Code of Ethics and Business Conduct.

The Board, its Committees and individual members are regularly assessed with respect to their effectiveness and contributions.

Board Induction and Development Programme

Ithmaar Bank prepares an all-day induction programme for newly appointed/elected Board members, which starts with a welcome note from the Chief Executive Officer. Thereafter, members of the Executive Management introduce Ithmaar Bank in detail, covering its history, structure, subsidiaries, products, strategy, financial performance and organisational chart. This is followed with presentations from the heads of various departments in respect of their role and function within Ithmaar Bank. The Bank also arranges training sessions throughout the year for Board members and Executive Management to keep them abreast of recent legal, regulatory, market, technological and other developments in the banking sector.

Board Members' Conflict

When the Board deliberates an agenda wherein a conflict of interest arises, the conflicted director declares his or her conflict and abstains from voting or deliberation. Article 189 of the Commercial Companies Law of 2001 (as amended) requires that members of the Board and Management should not have personal direct or indirect interest in transactions and contracts concluded by Ithmaar Bank, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

Interested members have a duty to inform the Board of any matter which presents a conflict and are then restricted from participating in deliberations of, or voting on, the matter. Such declaration is to be recorded in the meeting minutes. The Chairman shall inform the General Assembly of the results of such contracts in the annual general meeting following execution of the transactions and such notification is to be accompanied by a special report of an external auditor in respect of the nature and details of the matter, and the extent of interest of the respective member. Violating this Article shall render the member and the Board jointly liable for compensation for any damage caused by the breach. This provision is reflected in Ithmaar Bank's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to Ithmaar Bank without the approval of the Annual General Meeting. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by the majority vote of disinterested directors subject to CBB approval. The Articles of Association specifies that violations of such restriction shall permit the shareholders to claim compensation from the conflicted director, for damage caused to Ithmaar Bank or profit realised by the conflicted director.

Board Members' Remuneration

The Board member' sitting fees for Board and Board Committee meetings in 2019 amounted to BD 119,886 (2018: BD 125,541). The Sharia Supervisory Board retention fee for 2019 amounted to BD22,620 (2018: BD22,620) and their sitting fees for 2019 was BD8,294 (2018: BD7,917).

Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total remuneration to attract and retain qualified and competent employees. The Bank's Variable Remuneration Policy is driven primarily by a performance-based culture that aligns employee interests with those of the shareholders. These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share the Bank's success, and to align employees' incentives with its risk framework and risk outcomes.

The Bank's reward package comprises the following key elements:

1. Fixed pay;
2. Benefits; and
3. Discretionary performance bonus.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy.

All remuneration matters, and related overall compliance with regulatory requirements, are overseen by the Remuneration and Nomination Committee (RNC).

The remuneration policy in particular considers the role of each employee and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role, and an employee is considered a Material Risk Taker if they head significant business lines and if any individuals within their control have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our employees and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives in line with our performance management system.

This assessment also takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity.

Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also, importantly, on how it is achieved, as the RNC believes the latter contributes to the long-term sustainability of the business.

Remuneration Policy

The Remuneration Policy is reviewed on a periodic basis to reflect changes in market practices and Ithmaar Bank's business plan and risk profile.

The Bank's remuneration policies will apply only to its subsidiaries which are licensed by the CBB under Volume 1 or Volume 2 of the CBB Rulebook. In the case of other subsidiaries and branches of the Bank, the RNC should ensure that, where applicable, such entities comply with local rules that apply to their remuneration policies.

No external consultants' advice was sought in 2019 regarding the remuneration process.

CORPORATE GOVERNANCE CONTINUED

Ithmaar Share Incentive Scheme

As Ithmaar Bank is not listed, the Award Price of the Phantom Shares will be defined to be the adjusted Net Asset Value (NAV) as per the latest audited financial statements of the Bank.

Variable Remuneration for Employees

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the employee's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both satisfactory financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted in determining the variable remuneration pool, the RNC aims to balance the distribution of profits to shareholders and performance bonuses to employees.

The key performance metrics include a combination of short-term and long-term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures, including forward-looking considerations.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. The objective is to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the RNC.

At the individual level, poor performance by the Bank would mean individual Key Performance Indicators are not met and hence employee performance ratings would be lower.

Remuneration of Control Functions

The remuneration structure of control function personnel should not compromise their independence or create conflicts of interest in their advisory role to the RNC. The RNC will ensure that the increased conflicts of interest arising from variable remuneration of the control functions based on institution-wide performance criteria is properly addressed.

The Bank will take all reasonable steps to ensure that control function personnel are not placed in a position where, for example, approving a transaction, making decisions or giving advice on risk and financial control matters could be directly linked to an increase in their performance-based remuneration.

The variable remuneration of those staff members in control functions will be designed in a way that avoids conflict of interests related to the business unit they are overseeing and will be appraised and determined independently.

Risk Assessment Framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes, and has an appropriate mix of remuneration that is consistent with risk alignment.

The RNC considers whether the variable remuneration policy is in line with the risk profile and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of a bank's current capital position and its ICAAP.

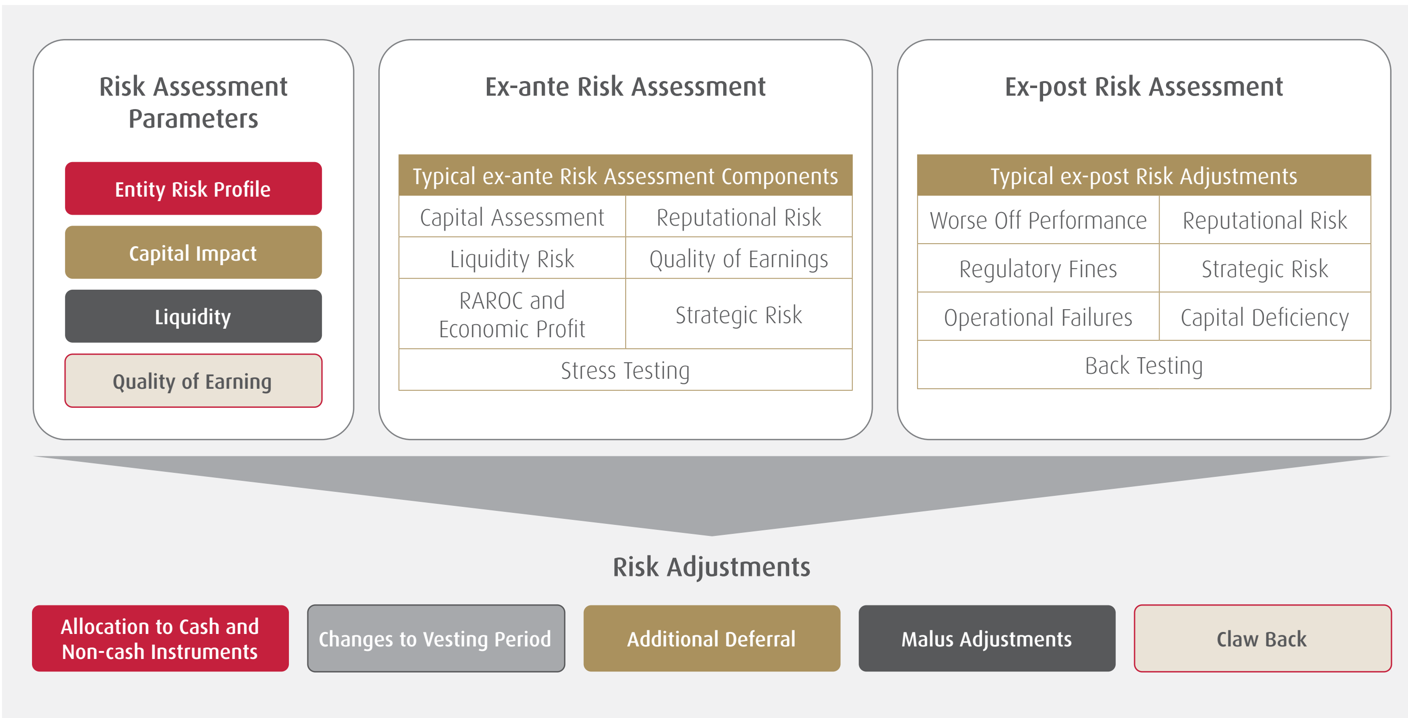
The size of the variable remuneration pool and its allocation takes into account the full range of current and potential risks, including:

- The cost and quantity of capital required to support the risks taken;
- The cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

Risk Adjustment Methodologies

The Bank's risk alignment framework will use a mix of quantitative and qualitative approaches.

The Bank's risk adjustment framework is set out below:



Long-term Performance Measures

The malus and clawback provisions allow the Board of Directors to determine that, if appropriate, elements under the deferred bonus plan can be forfeited or adjusted, or that the delivered variable compensation could be recovered in certain situations. The intention is to allow appropriate response if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be taken by the Board of Directors.

The Bank's malus and clawback provisions allows the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted or cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank or the employee's business unit to suffer material loss in its financial performance, material misstatement of financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

CORPORATE GOVERNANCE CONTINUED

Components of Variable Remuneration

Variable remuneration has the following main components:

Upfront Cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years.
Deferred Non-cash	The Bank has two forms of non-cash awards to align long-term performance and risk and to encourage employee retention: • Deferred short-term incentives – incentives that are rewarded for current performance and considered as earned but are deferred in terms of payment to employees. These include deferred annual bonuses in the form of Phantom Shares Awards (PSA) or deferred annual bonus Performance Linked Units (PLU). The minimum term of deferral is three years. • Future performance awards (FPA) – incentives that are awarded with future performance and service conditions i.e. not yet earned by the employee. FPAs include Long Term Incentive Plan (LTIP) shares in the form of Phantom Shares and performance linked units and provide better risk alignment to the business and individual performance of the employee.

Deferred Compensation (Bahrain)

All employees with job titles of Executive Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of Variable Remuneration	Assistant General Managers and Above	Executive Senior Managers	Deferral Period	Retention	Malus	Clawback
Upfront cash	40%	70%	Immediate	-	-	Yes
Deferred cash	-	30%	Over 2 years	-	Yes	Yes
	10%	-	Over 3 years	-	Yes	Yes
Deferred non-cash	50%	-	Over 3 years	6 months	Yes	Yes

Minimum Vesting Period

The minimum vesting period for deferred annual bonus share awards is pro-rata over a minimum three-year period, i.e. at most, a third of the deferred awards vest each year. For Future Performance Awards (FPA), the Bank may provide for a longer period to align with the underlying performance conditions, but a minimum period of three years would apply.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

Employee Remuneration (Bahrain)

2019

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable Remuneration				Severance payment	Others	**Total BHD**
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	6	1,280,901	-	-	-	-	-	-	-		-	**1,280,901**
Approved Persons Control & Support	8	914,552	-	-	-	-	-	-	-		-	**914,552**
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-		-	-
Other Staff	2	165,659	-	-	-	-	-	-	-		-	**165,659**
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-		-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-		-	-
Total	**16**	**2,361,112**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**2,361,112**

2018

	No. of Staff	Fixed Remuneration		Total Bonuses Distributed	Guaranteed Bonuses	Variable remuneration				Severance payment	Others	Total BHD
						Upfront		Deferred				
		Cash BHD	Others	(Cash/Shares)	(Cash/Shares)	Cash BHD	Shares	Cash BHD	Shares			
Approved Persons Business Lines	5	1,150,562	-	479,791	-	195,604	-	50,437	233,750	-	-	479,791
Control & Support	9	1,288,949	-	268,246	-	122,222	-	35,480	109,250	-	-	268,246
Other Material Risk Takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Other Staff	2	169,582	-	33,954	-	23,768	-	8,746		-	-	33,954
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Staff of Branches & Subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-	-
Total	16	2,609,093	-	781,991	-	341,594	-	94,663	343,000	-	-	781,991

CORPORATE GOVERNANCE CONTINUED

Deferred Awards for Current Year (2019)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	399,902	2,596,907	409,884	809,786
Awarded During the Period	341,594	-	-	341,594
Paid Out / Released During the Period	(87,722)	(1,092,277)	(169,303)	(257,025)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	653,773	1,504,630	240,581	894,354

Deferred Awards for Previous Year (2018)

	Cash	Shares		Total
	BHD	Number	BHD	BHD
Opening Balance	145,892	4,149,490	650,534	796,426
Awarded During the Period	335,385	-	-	335,385
Paid Out / Released During the Period	(81,375)	(1,552,583)	(240,650)	(322,025)
Service, Performance and Risk Adjustment	-	-	-	-
Bonus Share Adjustment	-	-	-	-
Closing Balance	399,902	2,596,907	409,884	809,786

Notes:

1- The payment of vested shares for the deferred component was completed after the reorganisation.

2- The number of shares have been adjusted to reflect the Phantom Shares in Ithmaar Bank B.S.C. (c) post reorganisation.

Additional remuneration data will be made available on the website for the year ended 31 December 2019.

Employment of Relatives of Approved Persons

The Human Resources Policy of Ithmaar Bank indicates that any employee who is a first degree relative of an existing Approved Person in the Bank is required to declare the relationship in writing to the Human Resources Department.

Board Committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit, Governance and Risk Management Committee (AGRMC)

The AGRMC is chaired by an Independent Director and comprised of:

- Ms Elham Ebrahim Hassan - Chairperson
- Dr. Amani Khaled Bouresli - Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member
- Sheikh Osama Bahar – Member*

* Sheikh Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Corporate Governance.

The AGRMC meets a minimum of four times in a year.

The AGRMC is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors, and coordinating the implementation of the Corporate Governance Policy framework.

The Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, among other things: the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation of various regulatory reports; internal and external audit reports and the status of their implementation (as appropriate); and new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The objectives of the Committee also include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk, liquidity risk and profit rate, in addition to any other risk categories Ithmaar Bank faces in carrying out its activities.

The Committee also recommends and monitors the overall risk management framework in line with the regulatory guidelines which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board. The Committee also ensures that the information security and the business continuity management framework of the Bank are in line with regulatory guidelines and commensurate to the scale of business operations of the Bank.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending them to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight of the Corporate Governance, Compliance and Regulatory requirements.
- Updating and aligning all risk and information security policies in line with changes in the regulatory requirements;
- Reviewing of existing risk limits and establishing new risk limits for better control of credit, market, operational, liquidity, profit rate risk and concentration risks;
- The Internal Capital Adequacy Assessment Process (ICAAP) report for review; and
- Reviewing the Expected Credit Losses as per the FAS 30 standards.

CORPORATE GOVERNANCE CONTINUED

Executive Committee

The Executive Committee is appointed by the Board of Directors to assist with the oversight of the general management of Ithmaar Bank and its business by management, as well as considering and recommending to the Board of Directors the strategy, business plans and budget, and evaluating the financial and business performance.

The Executive Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board: credit proposals over certain threshold; asset quality and exit strategies; status updates and reports from the management in respect of major issues and group reorganisation; consolidated financial performance; strategic business plans; and key management initiatives, including with respect to Funds Under Management.

The Committee meets at least twice a year.

The Executive Committee comprises:

- Mr. Omar Abdi Ali - Chairman
- Governor Abdelhamid Aboumousa - Member
- Mr. Mohammed A. Rahman Bucheerei - Member

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators;
- Approving business proposals falling within its authority in accordance with the Business Discretionary Powers Policy;
- Reviewing the Company's funding requirements and strategies;
- Reviewing the strategic business plan and annual budget and recommending them to the Board for approval;
- Reviewing the financial position, including the capital adequacy and liquidity positions, and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

Remuneration and Nomination Committee (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resources issues. The aggregate sitting fees paid to its members in 2019 was BD 10,179 (2018: BD 6,786).

The RNC reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election;
- The appointment of new senior management executives; and
- The remuneration policies as well as guidelines for increments; and promotions.

The RNC meets at least twice a year.

The RNC comprises:

- Mr. Abdulellah Ebrahim Al-Qassimi, Chairman
- Tunku Yaacob Khyra, Member
- Sheikh Zamil Abdullah Al-Zamil, Member

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board changes in the structure and job descriptions of Approved Persons;
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board;
- Recommending the organisation chart and succession plan and
- Recommending the Variable Remuneration Policy implemented in compliance with the regulations of the Central Bank of Bahrain on Sound Remuneration Practices of Approved Persons and Material Risk Takers.

Attendance

2019 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit, Governance & Risk Management Committee		Executive Committee		Remuneration & Nomination Committee	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	4	4	-	-	-	-	-	-
2	Sheikh Zamil Abdullah Al-Zamil	4	4	1	1	-	-	3	3
3	Governor Abdelhamid Aboumousa	4	4	-	-	2	2	-	-
4	Mr. Mohammed A. Rahman Bucheerei	4	4	-	-	2	2	-	-
5	Mr. Abdulellah Ebrahim Al-Qassimi	4	4	4	4	-	-	3	3
6	Dr. Amani Khaled Bouresli	4	4	4	4	-	-	-	-
7	Mr. Abdulshakoor Hussain Tahlak (resigned 25 March 2019)	1	1	-	-	-	-	1	1
8	Sheikh Mohamed Abdullah Elkhereiji	4	4	-	-	-	-	-	-
9	Ms. Elham Ebrahim Hasan	4	4	3	3	-	-	-	-
10	Mr. Omar Abdi Ali	4	4	-	-	2	2	-	-
11	Tunku Yaacob Khyra	3	3	-	-	-	-	2	2

Dates of Meetings During 2019				
	4 March	4 February	23 June	4 March
	24 June	4 May	3 December	12 June
	30 September	4 August	-	30 September
	4 December	4 November	-	-

Notes:

- Sheikh Osama Bahar, member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee. He attended all four meetings.
- In accordance with the Central Bank of Bahrain's requirement and Ithmaar Bank's Articles of Association, the Board of Directors shall meet at least four times a year, and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

CORPORATE GOVERNANCE CONTINUED

Sharia Supervisory Board

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. The SSB contributes in the guidance and development of Ithmaar Bank's activities and it monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed in compliance with the licensing requirements of the Central Bank of Bahrain (CBB) and Ithmaar Bank's Memorandum and Articles of Association by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Remuneration and Nomination Committee (RNC). The SSB serves a three-year term.

The SSB has full authority to achieve its goals and responsibilities. It is also allowed to view all records and transactions from any sources without restrictions, including access to the Board and to management personnel, professional and legal consultants, employees, as well as access to the Sharia Coordination and Implementation Department at Ithmaar Bank, which is represented by the Sharia officer who is proactively involved in reviewing and advising on the Sharia compliance of all products and anything related to the products, as well as investment projects, conducting training for employees to ensure they understand the products and their implementations, handling the secretary tasks for the SSB and replying to customers' inquiries according to SSB's fatwas. The SSB also communicates directly with the Internal Sharia Audit Department and reviews its periodic reports and implemented operations according to SSB fatwas and AAOIFI standards and produces periodic reports to the SSB in order to ensure that activities are under a strict and direct oversight of SSB guidelines and decisions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities, in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended.

These remunerations are recommended by the RNC, the structure of which is approved by the shareholders.

Currently, Ithmaar Bank does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section.

All SSB members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

SSB members also receive a copy of the Code of Ethics and Business Conduct.

Management

The day-to-day operations of Ithmaar Bank are handled by the Executive Management team.

Departments are grouped into Business, Control and Support Units with clear definition between them to avoid conflicts of interests. These safeguard measures are reinforced by independent Internal Audit, Risk Management, Compliance and Anti-Money Laundering departments, as well as an Internal Sharia Auditor and a Sharia Coordinator and Implementation Officer.

The Risk Management Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Compliance and Anti-Money Laundering Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Internal Audit Department reports functionally to the Audit, Governance and Risk Management Committee and, administratively, to the Chief Executive Officer. The Internal Sharia Auditor and Sharia Coordinator & Implementation Officer reports functionally to the Sharia Supervisory Board, and, administratively, to the Chief Executive Officer.

The total remuneration of the Chief Executive Officer and senior management in 2019 was US$6.2 million (2018: US$6.9 million).

Management Committees

Ithmaar Bank has the following key Management Committees:

Investment and Credit Committee (ICC)

The main objective of the ICC is to review and approve transactions within their discretionary powers. It is also responsible for assessing and mitigating the credit risk of the Bank as well as recommending changes in the Bank's credit & investment banking portfolio strategy and related policies. The Committee is chaired by the Chief Executive Officer.

Asset and Liability Management Committee (ALCO)

The ALCO is responsible for the management of liquidity risk, profit rate risk, market risk, balance sheet structure and capital management. The main objective of this Committee is to review financial performance and manage liquidity to achieve sustainable and stable profits within a framework of acceptable financial risks and controls. The Committee is chaired by the Chief Executive Officer.

Business Continuity Plan (BCP): Crises Management Team (CMT)

The Committee defines the roles and responsibilities for executives in the management of a crisis, including an assessment of the impact an event will have on time-sensitive business processes, and guidance on formally declaring a disaster. Since such plans are developed to address the worst-case scenario, they are likely to require alteration at the time of the event to effectively address the specific situation.

The CMT is responsible for working with each of the teams to refine strategies, tasks, and assignments at the time of the incident; therefore CMT will meet at least twice a year. The CMT plays a leadership role in managing disasters as well as maintaining the Bank Business Continuity plan. The Committee is chaired by the Chief Executive Officer or by the next reporting line at the Bank, and consists of the respective departmental managers.

Information Security Steering Committee (ISSC)

The Committee's focus is to ensure the confidentiality, integrity, and availability of the Bank's information technology resources and data by safeguarding them from compromise, misuse, loss or damage caused intentionally or unintentionally. The Committee is chaired by the Deputy Chief Executive Officer – Banking Group.

Information Technology Steering Committee (ITSC)

The ITSC is a recommendation-making authority with regards to Information Technology (IT), its strategy, management and governance. The ITSC is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding to achieve the goals and the needs of the Bank. The ITSC aims to obtain the greatest value and returns for its use within a well-controlled risk containment framework. The Committee is chaired by the Chief Executive Officer.

Communication with Stakeholders

Ithmaar Bank maintains a website which customers and other stakeholders may access for information about products and services, as well as the corporate profile, corporate information, press releases and financial performance, amongst others. The Bank also continues to provide public announcements and press releases on major developments and news.

Management Changes

Changes in the organisational structure and reporting lines

August 2019:

The reporting lines of the Corporate Secretary & Legal Affairs, Financial Control and Information Technology, Banking Operations and Administration departments were shifted to the Chief Executive Officer.

The reporting lines of the Private Banking, Premier Banking and Retail Collection departments were shifted to Retail Banking Group.

The Product Management and Business Alliances department, comprising Product Management, Alliances and Cards, was spun off from the Retail Banking Group, to become a separate unit reporting to the Deputy CEO - Banking Group

The reporting line of the Marketing and Corporate Communications department was shifted to the Deputy CEO - Banking Group

Changes in Management and Management Committees

Changes in Management Personnel

Senior appointments:

- October 2019: Assistant General Manager, Maysan Faisal Almaskati, was appointed as the Head of Asset Management.

Other appointments, promotions and resignations:

- June 2019: Yusuf Abdulla Alkhan, was promoted to General Manager, Information Technology, Banking Operations and Administration
- June 2019: Mohammed Hasan Janahi, was promoted to General Manager, Retail Banking Group.
- June 2019: Executive Senior Manager, Rafed Ahmed Al Mannai, was appointed as the Head of Product Management & Business Alliances.
- June 2019: Ahmed Fareed Buqais, was appointed as the Head of Information Technology.
- June 2019: Saqib Mustafa was promoted to Assistant General Manager, Chief Financial Officer.
- June 2019: Executive Senior Manager, Ayoob Yusuf Al-Awadhi, then Head of Asset Management, resigned from the Bank.
- July 2019: Deputy Chief Executive Officer - Support Group, Ravindra Anant Khot, resigned from the Bank.
- August 2019: Executive Senior Manager, Dana Aqeel Raees, then Head of Corporate Secretary & Legal, resigned from the Bank.
- October 2019: Abdulla Abdulaziz Taleb was promoted to General Manager, Head of Business Banking Group.
- October 2019: Enas Mohammed Rahimi was promoted to Executive Senior Manager, Head of Human Resources.
- October 2019: Mohammed Ali Safar was promoted to Executive Senior Manager, Head of Private Banking.
- October 2019: Ahmed Fareed Buqais was promoted to Executive Senior Manager, Head of Information Technology.
- October 2019: Senior Manager, Luay Yaqoob Seyadi, was appointed as Acting Head of Banking Operations.
- October 2019: Assistant Manager, Ali Ahmed Mohamed, was appointed as the Acting Corporate Secretary.

ITHMAAR BANK B.S.C. (c) ANNUAL REPORT 2019

CORPORATE GOVERNANCE CONTINUED

Changes in Management and Management Committees (Continued)

Changes in Management Committees:

1. Investment and Credit Committee:
   - In July 2019, the Deputy CEO – Banking Group was appointed as a Vice Chairperson.
   - In July 2019, the Deputy CEO – Support Group and the Head of Asset Management were removed from the ICC membership due to their resignation.
2. Information Technology Steering Committee (ITSC):
   - In March 2019, the CEO was appointed as Chairperson for the committee, the Deputy CEO – Banking Group was appointed as the Vice Chairperson, and the Head of Compliance and Anti-Money Laundry was appointed as a member.
   - In December 2019, the Deputy CEO – Support Group was removed from the committee due to his resignation and the titles of other members were updated.
3. Information Security Steering Committee (ISSC):
   - In March 2019, the Deputy CEO – Banking Group was appointed as Chairperson for the committee, and the Head of Risk Management was appointed as Vice Chairperson for the committee.
4. Business Continuity Plan (BCP) / Crisis Management Committee (CMT):
   - In August 2019, General Manager - Banking Operations, IT & Administration was appointed as a Vice Chairperson. The head of CAML, head of HR and head of Marketing and Corporate Communications were added as members.

Code of Ethics and Business Conduct

Ithmaar Bank's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar Bank.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Bank's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

The employment of relatives of approved persons is covered under the Human Resource Policy which requires the employee to declare to the Human Resources Department the relationship (father, mother, brother, sister, husband or wife) with any approved persons at the time of recruitment and/or subsequently, as appropriate. The employees will be given a grace period of one year so one or more of the relatives leave the Bank and exceptions, if any, require the approval of the Chief Executive Officer.

Risk Management

Ithmaar Bank has in place a comprehensive Enterprise Wide Risk Management Framework in place addressing all activities and commensurate to the business operations and risk appetite of the Bank. The Risk Management Framework plays a pivotal role in protecting the shareholders' and customers' interests and is accorded paramount importance by the Board and the management.

The Risk Management culture emanates at the level of Board of Directors who establish the risk appetite and tolerance levels in line with the business strategy. The risk management framework is detailed in the Risk Charter and the various risk management policies which include the approach and methodology for the management of various risks. The risk appetite and risk policies are periodically reviewed to maintain their relevance and alignment with the business strategy and prevailing market conditions, and to ensure compliance with the guidelines of the CBB.

Risk Management in Ithmaar Bank is considered a collective responsibility and hence the risk management culture is effectively communicated across the organisation. Ithmaar Bank has an effective risk governance structure enabling the effective monitoring and management of risks across all business and support activities. The Board is assisted by the Audit, Governance and Risk Management Committee, which meet periodically to oversee the implementation of the risk framework and management of the same. However the Board retains ultimate responsibility for the effective implementation and functioning of the risk management framework and thereby approves all risk management policies. The Audit, Governance and Risk Management Committee is supported by an independent Risk Management Department headed by the Chief Risk Officer which is responsible for implementing the Board-approved risk management framework in close coordination with the senior management and all other relevant departments.

The Risk management framework also encapsulates a robust monitoring and reporting process wherein the Risk Management Department monitors risk parameters on an ongoing basis against the Board approved limits and tolerance levels, and presents the same to the management and the Board.

Additional information on the risk framework and the approach and methodology of managing each dimension of risk is detailed in the Public Disclosures section.

Compliance, Anti-Money Laundering and Internal Controls

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, directives, reporting requirements and codes of conduct, including the internal code of conduct.

The Compliance Management Policy sets the compliance framework for managing compliance risks within the Bank, through setting the roles and responsibilities of the Board of Directors, the Senior

Management and the Compliance Function staff, as well as formalising the independence and effectiveness of the compliance function and the reporting line of the Compliance Officer. The compliance function follows a risk-based approach to compliance risk management, in accordance with the compliance plan approved by the Audit, Governance and Risk Management Committee of the Board.

Ithmaar Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. The Compliance Officer has the duty of promoting a sound compliance culture across the organisation through effective training, supported by periodic compliance testing to identify areas of improvement. Furthermore, the Compliance Function communicates matters of interest from a compliance perspective across the Bank in order to ensure that Senior Management and other personnel are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance across the Bank's operations.

Customer Complaint Procedures

A formal complaints management policy is in place, in line with the requirements of the Central Bank of Bahrain (CBB). A dedicated customer complaints unit and officer is responsible for handling the management of complaints. Contact details of the complaints unit are published at all branches and on Ithmaar Bank's website. All customer complaints are promptly resolved to the best satisfaction of the customers.

Anti-Money Laundering

The Kingdom of Bahrain defines Money Laundering and Terrorist Financing (ML/TF) as criminal offences. The CBB mandates Islamic Financial Institutions in Bahrain to comply with all applicable legislations, laws and regulations on Anti-Money Laundering and Combating Terrorist Financing.

Ithmaar Bank complies with Bahrain relevant legislations on AML/CFT, CBB rules and the guidance of the Financial Crime Module which is based on the principles of the Financial Action Task Force's (FATF) 40 recommendations and the Basel Committee on Banking Supervision Paper.

The Bank has adopted policies and procedures to combat ML/TF that are approved by the Board of Directors, and implements programmes against ML/TF by establishing and maintaining appropriate systems and controls to limit the vulnerability to Financial Crime. The Bank maintains adequate policies and procedures related to Customer Due Diligence (CDD), customer screening and transaction monitoring to prohibit and actively prevent the Bank from conducting business relationships with entities engaged in money laundering practices or any illegal activities that facilitate funding of terrorism. These policies and procedures apply to all employees, branches and offices of the Bank.

All relevant staff of the Bank who deal with customers and/or are managerially responsible for handling customer relationships, must undergo annual training on Anti-Money Laundering and Know Your Customer (KYC) rules and procedures.

Ithmaar Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a dedicated Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently monitors implementation of the AML policies of the Bank and reports suspicious transactions to the relevant regulatory authorities in the accordance with the regulatory requirements. The AML and KYC framework incorporates the following four key elements: customer acceptance, customer identification procedures, verification of source of funds, ongoing transaction monitoring and risk assessment.

Fines and Penalties

During 2019, the Bank paid a financial penalty of BD60,000 to the CBB pertaining to the Bank's disclosures on its website of FX margins on credit card transactions

Internal Controls

The Internal Control Framework of the Bank is overseen by the Board Audit, Governance and Risk Management Committee (AGRMC). The Bank has a multi-faceted internal control framework in terms of the following:

- Detailed operational policies and procedures detailing the controls to be adopted for the various processes in place.
- Clear segregation of duties to ensure there are no lapses in controls with adequate monitoring of processes.
- Robust Operational Risk Management Framework defining the methodologies for identification, measurement and monitoring of operational risks.
- Independent Internal Audit of all functions to measure the adequacy of internal controls across various processes and systems.
- Independent compliance oversight to ensure that the applicable regulatory requirements are adequately adhered to.
- All processes and systems are evaluated on an ongoing basis by the concerned process owners and by the Risk Management through the Risk Control Self-Assessment and Internal Audit departments for any possible enhancements of controls from an audit perspective.
- Any instances of control failures are immediately investigated by business and control functions to evaluate the need for further strengthening on controls across processes and functions. The AGRMC actively monitors the Internal Control Framework of the Bank based on the observations of the Internal Control, Risk Management, Compliance and Internal Audit departments.

FUNDS UNDER MANAGEMENT

FUNDS UNDER MANAGEMENT

As a commercial financial institution, a fundamental objective of the Bank is to act as a financial intermediary, channelling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Account Holders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined ratios and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

Structure of the Funds

The Bank provides three types of FUMs, namely Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner in which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's Know Your Customer (KYC) requirements.

As of 31 December 2019, the Bank's operated URIA funds are as follows:

- General Modaraba
- Special Modaraba

II. Restricted Funds (RIA)

In the case of RIA accounts, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Modaraba and/or Agency agreements) so as to formalise the relationship. RIA funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in the case of RIA funds. As per the CBB's instructions, all future RIA funds shall be structured as CIUs.

The funds managed by the Bank are mainly in real estate and private equity.

These are subject to various risks including:

- Foreign exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being not marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operational costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus. Ithmaar Bank discloses regular updates related to individual funds on its corporate website *www.ithmaarbank.com*

FUNDS UNDER MANAGEMENT CONTINUED

Structure of the Funds

III. Collective Investment Undertakings (CIU)

CIU have the following features:

- The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.
- These funds are structured in accordance with relevant CIU rules issued by the CBB.
- All investors are required to meet the KYC requirements as per CBB rules.

Risk and Reward

In accordance with the principles of the Islamic Sharia, all FUMs are managed on a profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the Fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH may invest for an unspecified term (such as Savings Accounts), and profits are accounted for on a periodical basis during the Modaraba period. URIA funds are not subject to administration fees.

In the case of RIA and CIU, specific expenses that may arise in relation to the launching of a Modaraba fund and in the employment of funds may be charged against the gross revenue of that Modaraba, provided this is set out in the related Modaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Modaraba. Distributable profit is calculated after all permitted expenses have been deducted.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

Redemptions

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices, provided such exposure does not cause any violations of regulatory or internal limits.

Fiduciary Obligations

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to IAHs as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

Investment Objectives

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Modaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

Governance of Funds Under Management

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit, Governance and Risk Management Committee, amongst its other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including the Retail Banking and the Business Banking groups.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetites of investors.

A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management department and the Compliance department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

The Profit Distribution Sheet (Modaraba Account) provides details the on investment periods and the Bank's share of investments in 2019 as per the terms and conditions:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2019:

BD or US$	1 day	7 days	1 month	3 months	6 months	9 months	1 year	18 months	2 years	3 Years
Savings	0.10	-	-	-	-	-	-	-	-	-
General Modaraba	0.10	0.10	1.41	1.81	2.06	2.31	2.80	2.90	2.97	3.04
Special Modaraba	-	-	2.42	3.17	3.62	3.72	4.43	4.48	4.63	4.85

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

Contents

REPORT OF THE SHARIA SUPERVISORY BOARD

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-Awai 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 the 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 audited some of their samples through the 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 the 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 the 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 the Islamic Sharia.

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

d. Zakat is calculated in accordance with Sharia Standards 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.

REPORT OF THE SHARIA SUPERVISORY BOARD CONTINUED

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 Sheikh Abdullah Al Manee'a
Chairman

His Eminence Sheikh Nedham Mohammed Saleh Yaqoub
Member

His Eminence Sheikh Mohsin Al-Asfoor
Member

His Eminence Sheikh Osama Bahar
Member

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. Abdelhamid Aboumousa

Sheikh Zamil Abdullah Al-Zamil

Mr. Mohammed Bucheerei

Mr. Abdulellah Ebrahim Al-Qassimi

Mr. Omar Abdi Ali

Dr. Amani Khaled Bouresli

Sheikh 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' REPORT CONTINUED

For the year ended 31 December 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

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.

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-2.5.2.A 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

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 59 to 104 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2019 (Audited)	Year ended 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 59 to 104 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2019 and 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 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**

		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 59 to 104 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2019 (Audited)	Year 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 59 to 104 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2019 and 2018
(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.

	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 59 to 104 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

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:

(ia) New accounting standard: Issued and not effective

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.

(ib) New accounting standard: Issued and effective

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

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. 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(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.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(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 improvement	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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) Intangible assets (continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(v) Revenue recognition (continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

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.

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).

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);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

1. Financings & receivables (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(y) Impairment (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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.

10. FIXED ASSETS

	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. INTANGIBLE ASSETS (continued)

	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).

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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.

20. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	Year ended 31 December 2019	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	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22. OTHER INCOME

	Relating to owners	
	Year ended 31 December 2019	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	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**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24. PROVISION FOR IMPAIRMENT (continued)

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**

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 **Financial assets - amortized cost**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24. PROVISION FOR IMPAIRMENT (continued)

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%).

25. OVERSEAS TAXATION

	Relating to owners	
	Year ended 31 December 2019	**Year ended 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

32. RISK MANAGEMENT (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

32. RISK MANAGEMENT (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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	96,357	88,358	184,715	97,034	64,823	161,857
	146,770	**124,758**	**271,528**	**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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

(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**

	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32. RISK MANAGEMENT (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	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 institutions	(378)	(1,304)	-	-	(1,682)
Other Income - Management fees	(595)	-	-	-	(595)
Expenses					
Administrative and general expenses	207	-	18	-	225

	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	(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019
(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.

Public Disclosures

At 31 December 2019

Contents

PUBLIC DISCLOSURES

At 31 December 2019

1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (C)'s (Ithmaar Bank/Bank/Group) consolidated financial statements for the year ended 31 December 2019, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Bank's ICAAP policy provides the required guidelines and methodologies to assess the Bank's capital requirements for Pillar 1 and Pillar 2 risks and thereby ensure that the Bank meets the capital requirements as mandated by the CBB in line with the CA module for Pillar 1 risks and the IC Module for all pillar 2 risks. Capital management also ensures that shareholders' value is protected and enhanced.

The Bank adopts a Pillar I + Pillar II approach for capital estimation as recommended under CBB guidelines. Under this approach, the Bank calculates the Pillar I capital or minimum regulatory capital requirements in accordance to CBB's capital adequacy guidelines as prescribed in the CA module of the CBB rulebook. Secondly, additional capital or pillar II capital requirement is calculated separately based on an "add-on" approach, where the additional capital requirements are added onto the calculated Pillar I capital requirements, to arrive at the Bank's internal capital requirements as per CBB guidelines. To ensure that the business model is thoroughly examined and subject to sufficient analysis, ICAAP is supported with comprehensive Stress Testing.

A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar Bank supporting both current and future activities. Ithmaar Bank's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit, Governance and Risk Management Committee (AGRMC) and the Board of Directors.

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted 800%.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Regulatory Capital components

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,460,791	111,468	67%	Pakistan	Banking	Aggregation
Dilmunia Development Fund I L.P.	59,194	50,340	66%	Cayman Islands	Real estate	Risk weight

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	2,978,946
FAS 30 Transitional impact	32,007
Aggregation	34,716
Balance sheet as in Regulatory Return	**3,045,669**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2019

Assets	As per published financial statements	As per Consolidated PIRI	Reference
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	1,497,391	1,497,391	
Musharaka financing	239,452	239,452	
Sukuk and investment securities	523,702	523,702	
Assets acquired for leasing	148,084	148,084	
Other assets	55,544	55,544	
Investment in real estate	2,398	2,398	
Development Properties	75,838	75,838	
Fixed assets	22,235	22,235	
Intangible assets	33,576	33,576	
General Provision	-	32,007	
Aggregation	-	34,716	
Total Assets	**2,978,946**	**3,045,669**	**-**
Liabilities & Unrestricted Investment Accounts (URIA)			
Unrestricted Investment Accounts	1,063,928	1,063,928	
Other liabilities	1,768,540	1,768,540	
Total Liabilities & URIA	**2,832,468**	**2,832,468**	-
Minority Interest	67,307	67,307	
Owners' Equity			
Share capital	100,000	100,000	
Reserves	7,590	7,590	
Accumulated losses	(28,419)	(28,419)	
of which eligible for CET1	-	(48,989)	
General Provision	-	32,007	
Aggregation	**-**	34,716	
Total Owners' Equity	**79,171**	**145,894**	
Total Liabilities + Owners' Equity	**2,978,946**	**3,045,669**	

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 3: Common disclosure template as at 31 December 2019

Common Equity Tier 1 capital: instruments and reserves:	**Amount**
Directly issued qualifying common share capital plus related stock surplus	**100,000**
Retained earnings	**(48,989)**
Accumulated other comprehensive income (and other reserves)	**5,049**
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	65,066
Common Equity Tier 1 capital before regulatory adjustments	**121,126**
Total regulatory adjustments to Common equity Tier 1	**121,126**
Tier 1 capital (T1 = CET1 + AT1)	**121,126**
Tier 2 capital: instruments and provisions:	
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	13,535
Provisions	11,233
Tier 2 capital (T2)	**24,768**
Total capital (TC = T1 + T2)	**145,894**
Total Risk Weighted Assets (RWA)	**1,079,303**
Capital ratios and buffers:	
Common Equity Tier 1 (as a percentage of risk weighted assets)	**11.22%**
Tier 1 (as a percentage of risk weighted assets)	**11.22%**
Capital Adequacy Ratio (CaR)	**13.52%**
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
of which: capital conservation buffer requirement	2.5
of which: bank specific countercyclical buffer requirement	N/A
of which: D-SIB buffer requirement	N/A
National minimum including CCB (where different from Basel III)	
CBB Common Equity Tier 1 minimum ratio	9.0
CBB Tier 1 minimum ratio	10.5
CBB total capital minimum ratio	12.5

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio (including conservation buffer)	Total Capital Ratio (including conservation buffer)
Bank's consolidated	11.22%	13.52%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	15.66%	17.68%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Ithmaar Bank's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar Bank and seeks to minimize the potential adverse effects on its financial performance. Ithmaar Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by Bank of International Settlements, international best practices and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) wherever applicable.

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

Ithmaar Bank's Risk Management Charter lays the foundations for a risk governance structure. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Process (ICAAP) report of Ithmaar Bank. The risk strategy is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the AGRMC. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for all transactions. Furthermore, the culture of Risk is embedded in the Business through a rigorous set of controls, checks and balances. As part of Ithmaar Bank's continuous improvement initiatives, Ithmaar Bank reviews existing risk policies and procedures and develops new policies and procedures by benchmarking the same to changes or new requirements in the regulatory and external environment. The Board reviews and approves the Business Discretionary Powers policy which establishes the approval authorities and limits for specific transactions.

7.2.2 Equity Risk in Banking Book

Ithmaar Bank's exposure to equity risk in the Banking book relates to its investment exposures. Ithmaar Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management committee or Board level committees depending on the asset value.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

7. Risk Management (Continued)

7.2.3 Material Transactions- Board Approval

All financing and investment exposures above a defined value requires the approval of the Board. Additionally, all related party transactions and irrespective of their value require the approval of the Board.

7.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank and to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies are in place. The risk policies set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

7.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. Ithmaar Bank has established a General Financing Policy which details the core business principles, which are central to the Bank's Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

7.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

Ithmaar Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a internal credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The internal credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers. The Bank has in place policy guidelines to map the external ratings to internal ratings.

A centralized credit risk management system is in place where all corporate credit and financial institutions proposals are independently reviewed by the Risk Management Department (RMD) before the same are approved by appropriate approval authorities.

All credits exposures are at least reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

In respect of corporate performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application for the computation of ECL based on risk parameters configured in the application.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

7. Risk Management (Continued)

7.4.1.2 Retail credit risk

Retail credit is offered to customers primarily based on approved product programs which defines the risk acceptance criteria. Overdue amounts in the retail credit portfolio are closely monitored to mitigate the possibility of the individual accounts from slipping into non-performing status. The retail credit product programs are regularly reviewed to ensure their compliance with existing regulatory guidelines and enhance marketability. In all its initiatives, the interest of the customer is accorded as Top Priority.

The retail credit portfolio is reviewed at monthly intervals.

In respect of retail performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application, for the computation of ECL based on risk parameters configured in the application.

Unrestricted FUM assets

The Funds under Management Policy provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. The Risk Appetite Framework is in place, this policy provides guidelines on the threshold limits. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any proposed exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit risk management process that enables Ithmaar Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. The Risk Management Department is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. The Risk Management Department seeks information from different business units and Financial Control Division on a regular basis to perform this function. The Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Risk Appetite Framework provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the AGRMC at quarterly intervals.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

7. Risk Management (Continued)

7.4.5 Credit Risk Mitigation

Ithmaar Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals 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 collaterals are 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.

Ithmaar Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar 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.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

In case of assets pledged as part of Ijara contracts, the Bank considers the pledged assets as collateral at a value determined post the valuation of the assets. The valuation guidelines and the haircuts applied on the pledged assets are as per the Credit Risk Mitigation Policy of the Bank.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charges over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets;
- Pledge of unlisted securities such as shares, bonds and debentures;
- Registered assignment of life insurance endowment policies - to the extent of cash surrender - value;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks;
- Assignment of contract proceeds, lease, or rent;
- Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

7. Risk Management (Continued)

7.4.5.1 Collateral valuation

Collaterals 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 collaterals are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

7.4.5.2 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.

7.4.5.3 Collateral Concentration

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

7.4.5.4 Collateral Management

Documents related to collaterals provided to Ithmaar Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. An adequate MIS supporting the management of the collateral is in place.

The Bank has defined practices for disposal or enforecement of collateral. On the Debtors default, the Bank (i.e. the secured party) can either take possession of the collateral or file a case against the debtor for enforcement of security. The Bank sends a reasonable authenticated notification of disposal through the court. The notice is intended to provide the debtor and other interested parties , an opportunity to monitor the disposition of the collateral. A specific amount of time is normally given to the borrowers during which they can pay off the debt or the property will be sold through the court. The final settlement of the matter will be in line with the decision taken by the court/judge.

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any installment is past due for 90-days or more. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. Ithmaar Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

In respect of General Provisions, the Bank has subscribed to the provisions of FAS30 for the computation of Expected Credit Losses (ECL), as per the directives of Central Bank of Bahrain. In order to enable the computation of the ECL, a detailed policy FAS30 Expected Credit Policy' is in place. The Bank has automated the computation of the ECL by implementing a software application called the Loan Impairment Calculator with effect from 1 January 2018.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

7. Risk Management (Continued)

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar Bank. Definition also includes Issuer of securities held as collateral by Ithmaar Bank. The Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. The Credit Risk Mitigation Policy provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

Policy guidelines for expected credit losses is enumerated in the 'FAS30 – Expected Credit Losses' policy of the Bank.

7.4.8 ECAI Ratings

Ithmaar Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Standard and Poors, Moodys and Fitch ratings are considered while assigning the corresponding risk weights for the exposures. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy. ECAI ratings are applied, where applicable, to all credit and investment exposures.

7.4.9 Related party transactions

As per the Bank's policies, connected counterparties ' includes companies or persons connected with the Bank, including, in particular; controllers of the bank (and their appointed board representatives) as defined in Chapter GR-5 of the CBB Rulebook; subsidiaries, associates and related parties of the bank as defined by IFRS; holders of controlled functions in the bank as defined by Module LR-1A of the CBB Rulebook and their close family members as defined by IFRS - IAS 24; members of the Shari'a Supervisory Board.

The erstwhile Ithmaar Bank B.S.C. (now Ithmaar Holding B.S.C.) has undergone major reorganization in 2017. As part of this reorganization, Ithmaar Holding B.S.C. and its wholly owned subsidiaries Ithmaar Bank B.S.C. (C) and IB Capital B.S.C.(C) have executed certain contracts between three entities and as most of the Directors are common for all three entities, there is an apparent conflict of interest as these contracts were approved by Directors who represented both entities who were party to the contracts. Given the reorganization requirements, ownership structure and Directors being common, contracts between these entities are considered as related party transactions but the conflict of interest is not considered to be applicable to ensure minimum quorum for voting.

Declarations of Interest:

On taking office, Members of the Board of Directors of the Bank are required to disclose all interests and relationships which could or might be seen to affect their ability to perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit. This declaration of interest is updated on an annual basis.

Approval of Related Party Transactions:

- All related party transactions are approved by the Board of Directors.
- Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.
- Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.
- Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per CBB rulebook and the Limit Management Policy of the Bank.
- In particular, Members of the Board of Directors of the Bank disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors inform the Bank when there are changes in his / her interests, and the Shareholders affairs unit update the Register of Interests at least on an annual basis.

During 2019, Directors having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on banks	32,630	4,079
Claims on corporate portfolio	112,981	14,123
Investments in equity securities	1,501	188
Holding of real estate	32,870	4,109
Regulatory retail portfolio	221	28
Past due facilities	5,940	743
Other assets	13,758	1,720
Aggregation	521,571	65,196
Total	**721,472**	**90,186**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	64,177	8,022
Regulatory retail portfolio	92,439	11,555
Past due facilities	20,550	2,569
Total	**177,166**	**22,146**

URIA assets are risk weighted as per the counterparty classification in line with CBB regulations using alpha factor of 30% in accordance with CA module CA-1.1.11.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	253,124	235,131
Commodity and other placements with banks, financial and other institutions	127,602	106,829
Murabaha and other financings	1,497,391	1,590,628
Musharaka financing	239,452	213,152
Assets acquired for leasing	148,084	151,472
Investments	526,100	552,816
Other assets	55,544	67,315
Development Properties	75,838	77,567
Fixed assets	22,235	20,019
Intangible assets	33,576	38,445
Total on balance sheet credit exposure	**2,978,946**	**3,053,374**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	187,674	224,099
Financing commitments, Undrawn facilities and other credit related liabilities	623,438	733,306
Total off balance sheet credit exposure	**811,112**	**957,405**
Total credit exposure	**3,790,058**	**4,010,779**
Total credit exposure financed by URIA	**1,288,958**	**1,218,578**
Total credit exposure financed by URIA (%)	**34.01%**	**30.38%**

The average gross credit exposure represent average balances for 2018 and 2019
Exposures amounting to BD3.6 million are covered by guarantee.

10. Geographical distribution of credit exposures:

	Asia	Middle East	Europe	Others	Total
On-balance sheet items					
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
Assets acquired for leasing	-	148,084	-	-	148,084
Investments	489,011	37,089	-	-	526,100
Other assets	26,191	29,353	-	-	55,544
Development Properties	-	75,838	-	-	75,838
Fixed assets	21,495	740	-	-	22,235
Intangible assets	4,520	29,056	-	-	33,576
Total on balance sheet items	**1,478,777**	**1,467,163**	**28,615**	**4,391**	**2,978,946**
Off balance sheet items	**779,283**	**31,829**	**-**	**-**	**811,112**
Total credit exposure	**2,258,060**	**1,498,992**	**28,615**	**4,391**	**3,790,058**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. Industrial distribution of credit exposures:

	Banks and Financial Institutions	Trading and manufacturing	Property and construction	Services	Individuals	Textile	Others	Total
On-balance sheet items								
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
Assets acquired for leasing	1,163	14,850	-	76	131,995	-	-	148,084
Investments	341,576	6,252	3,045	175,133	-	-	94	526,100
Other assets	25,176	183	13,053	4,448	11,900	-	784	55,544
Development Properties	-	-	75,838	-	-	-	-	75,838
Fixed assets	21,495	-	740	-	-	-	-	22,235
Intangible assets	33,576	-	-	-	-	-	-	33,576
Total on balance sheet items	**1,396,929**	**451,163**	**129,487**	**402,991**	**511,226**	**27,462**	**59,688**	**2,978,946**
Off balance sheet items	**233,389**	**328,597**	**13,637**	**59,372**	**7,330**	**44,210**	**124,577**	**811,112**
Total credit exposure	**1,630,318**	**779,760**	**143,124**	**462,363**	**518,556**	**71,672**	**184,265**	**3,790,058**

12. Contractual Maturity breakdown of credit exposures & funding liabilities:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
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	199,803	1,199	-	1,497,391
Musharaka financing	42,787	6,133	56,118	77,269	46,679	10,466	-	239,452
Assets acquired for leasing	103	76	227	2,081	4,982	66,102	74,513	148,084
Investments	3,106	304,988	45,554	8,418	164,034	-	-	526,100
Other assets	34,724	4,448	12,284	4,088	-	-	-	55,544
Development Properties	-	-	-	75,838	-	-	-	75,838
Fixed assets	-	-	-	10,888	11,347		-	22,235
Intangible assets	-	-	-	-	4,203	22,373	7,000	33,576
Total on balance sheet items	**695,391**	**382,459**	**266,798**	**1,021,597**	**431,048**	**100,140**	**81,513**	**2,978,946**
Off balance sheet items	**450,883**	**143,485**	**102,711**	**111,852**	**2,181**	**-**	**-**	**811,112**
Total credit exposure	**1,146,274**	**525,944**	**369,509**	**1,133,449**	**433,229**	**100,140**	**81,513**	**3,790,058**
Customers' 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
Equity of unrestricted investment accountholders	187,470	364,686	358,348	153,424	-	-	-	1,063,928
	1,498,259	**464,988**	**517,955**	**246,358**	**-**	**-**	**-**	**2,727,560**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2019 were as follows:

Affiliated companies	594,986
Directors & key management	5,774
Total	**600,760**

14. Past due and impaired financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	61,312	43,885	17,427
Agriculture	5,072	2,782	2,290
Construction	5,700	2,201	3,499
Finance	18,181	14,390	3,791
Trade	32,847	21,626	11,221
Personal	28,686	4,603	24,083
Real estate	3,123	1,587	1,536
Other sectors	29,794	1,862	27,932
Total	**184,715**	**92,936**	**91,779**
Ageing analysis			
Over 3 months up to 1 year	51,299	16,591	34,708
Over 1 year up to 3 years	23,428	7,626	15,802
Over 3 years	109,988	68,719	41,269
Total	**184,715**	**92,936**	**91,779**

Details of impairment provisions at 31 December 2019	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	87,729	8,173	95,902
Charge for the year	15,283	2,200	17,483
Write back during the year	(5,917)	(63)	(5,980)
Utilised during the year	(4,073)	(3,676)	(7,749)
Exchange differences and other movements	(6,346)	(374)	(6,720)
At 31 December	**86,676**	**6,260**	**92,936**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

15. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	105,454	72,405	33,049
Middle East	79,261	20,531	58,730
Total	**184,715**	**92,936**	**91,779**

16. Details of credit facilities outstanding that have been restructured during the year ended 31 December 2019:

Restructured financings during the year ended 31 December 2019 aggregated to BD3.2 million (31 December 2018: BD7.6 million). This restructuring had an impact of BD0.3 million (31 December 2018: BD1.3 million) on present earnings during the year ended 31 December 2019. Further, this restructuring is expected to have positive impact of BD0.2 million (31 December 2018: BD0.5 million).on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

17. Credit exposures which are covered by eligible financial collateral:

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	271,551	4,931
Regulatory retail portfolio	385	91
Past due financings	5,885	1,087
Total	**277,821**	**6,109**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	445,338	14,491
Regulatory retail portfolio	410,879	40
Past due financings	55,913	38
Total	**912,130**	**14,569**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	10	-	-	10	0
Foreign Exchange Contracts	4,924	-	-	4,924	4,795
Total	**4,924**	**-**	**-**	**4,924**	**4,795**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

18. 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.

The Market Risk Management Policy address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the AGRMC.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below

18.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department. Foreign exchange risk management in Ithmaar Bank is ensured through regular measurement and monitoring of open foreign exchange positions. The foreign exchange transactions carried out by Ithmaar Bank are on behalf of customers, are on a back-to-back basis, and no proprietary positions are assumed by the Bank.

18.1.2 Profit rate risk:

Profit rate risk is the risk that Ithmaar Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar Bank's results may not allow Ithmaar to distribute profits in line with the market rates.

18.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of Ithmaar Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk:

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy is approved by the Board and amendments to the policies are approved by the Board. The senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1 The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.

2 A limit structure has been established to monitor and control the market risk in its portfolio.

3 Each new product/process is reviewed to manage the market risk.

4 Appropriate measurement techniques are in place to proactively measure and monitor market risk.

5 Stress testing is conducted regularly to assess the impact of changes in the market variables.

6 Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. Market Risk (Continued)

18.3 Market risk management measurement and monitoring

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight forex open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management Department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar Bank's overall exposure to market risk. Reports of such review is submitted to the ALCO and the AGRMC.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the ALCO and AGRMC. The reports provide Ithmaar Bank's ALCO and AGRMC an update on the market risk exposure in the books.

18.7 Stress Testing

Ithmaar Bank conduct stress testing of its portfolio as part of the ICAAP process in accordance with stress testing module of the CBB

The Bank's stress testing framework is embedded in the overall risk management process. The Bank has established an adequate governance process for effective oversight and implementation of the stress testing framework.

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted assets			Capital requirement		
	31 December 2019	**Maximum Value**	**Minimum Value**	**31 December 2019**	**Maximum Value**	**Minimum Value**
Foreign exchange risk	4,775	4,775	2,401	597	597	300
Aggregation						
Foreign exchange risk	3,611	3,611	215	451	451	27
Profit Rate Risk (Trading Book)	12,151	12,151	8,505	1,519	1,519	1,063
Equity Position Risk	27,429	27,429	27,529	3,429	3,429	3,441
Total	**47,966**	**47,966**	**38,650**	**5,996**	**5,996**	**4,831**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

20. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2019 amounted to BD37.2 million (31 December 2018: BD31.6 million) (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2019 were as follows:

	Long/(Short)
Pakistani Rupee	40,228
United States Dollars	205,511

21. Equity position in Banking book

At 31 December 2019, the Group's sukuk and investment securities aggregated to BD447.8 million (31 December 2018: BD490.1 million). Out of the total investment securities, BD54.8 million (31 December 2018: BD21.6 million) were listed investment securities and the remaining BD393 million (31 December 2018: BD468.5 million) represented unlisted investment securities.

Cumulative realized loss from sale of investment securities during the year ended 31 December 2019 amounted to BD1.2 million (31 December 2018: BD0.5 million). Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD3.7 million (31 December 2019: BD3.4 million).

At 31 December 2019, capital requirements using standardized approach aggregated to BD0.3 million (31 December 2018: BD0.2 million) for listed investment securities and BD0.1 million (31 December 2018: BD0.1 million) for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

22. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk:

- Maturity mismatch: The non-alignment of maturities/re-pricing dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar Bank in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar Bank's counterparties, to make prepayments or early withdrawals can leave Ithmaar Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

22.2. Profit rate risk strategy

The Board of Ithmaar Bank approves and reviews the profit rate risk strategy and amendments to the Market risk policies. The ALCO is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch gap between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar Bank wishes to engage in

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22. Profit Rate Risk in the Banking Book (Continued)

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs).
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar Bank will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. Ithmaar Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the AGRMC.

22.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. The impact of every 200 basis point change is as follows:

	USD	PKR	AED
Total profit rate exposure	254,483	166,754	123,442
Rate shock (assumed) (+/-)	2.00%	2.00%	2.00%
Total estimated impact (+/-)	**5,090**	**3,335**	**2,469**

23. 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.

Ithmaar Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar Bank is able to manage the operational risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar Bank.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

23.2 Operational risk monitoring and reporting

Report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar Bank's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process are identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile.

The AGRMC is periodically updated on the operational risk profile which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

23. Operational Risk (Continued)

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associated activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile.

23.4 Business Continuity Plan

Ithmaar Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

Disaster Recovery Sites has been set up at Galali Branch and West-Riffa Branch. The premises are well equipped with the required infrastructure. A Business Continuity Steering Committee has been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar Bank.

23.5 Information Security

Ithmaar Bank's Information Security and compliance function within RMD role is to prevent disruptions of the Information Security systems as it would impact Bank's business objective, its operations and also impede the main pillars of Information Security (Confidentiality, Integrity, and Availability).

The function continually strengthens and improves the overall capabilities of the information security management system by ensuring that Ithmaar Bank's Information Security process is complete, reliable and adhering to international standards.

It is also ensured that information security related operations continue to be carried out in line with international standards such as (IEC/ISO 27001 and PCI-DSS). It is also ensured that on-going training and awareness on information security is provided to the employees of the Bank. Towards this end on-line training and awareness sessions on information security is provided to the employees of the Bank.

The Bank is IEC/ISO 27001 and PCI-DSS certified, this reflects the importance assigned to information security by the Bank.

The Information Security Function actively preforms various task in terms of:

- Cyber and Information security training
- Security Certification compliance and assurance
- Review and preparation of Information security policies and procedures
- Incident response management
- Active monitoring and auditing of Applications and systems
- Provides reports and assistance to the information security steering committee
- Engagement in Bank's on-going projects
- Bank's compliance with Bahrain Information security laws and Regulatory requirements

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019

23. Operational Risk (Continued)

23.6 Reputation Risk

The Reputational Risk Management is defined as the risk arising risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organization and exposure to reputational risk is essentially a function of the adequacy of the bank's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on bank-related transactions. Reputational risk also may affect a bank's liabilities, since market confidence and a bank's ability to fund its business are closely related to its reputation.

Bank has developed a framework and has identified various factors that can impact its reputation. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/ nonfiduciary clients.

The bank also adopts risk mitigation approaches that refers to shaping products, business transactions and other processes that may result in a reputational risk.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 31 December 2019 aggregated to BD16.9 million (31 December 2018: BD16.8 million).

25. Liquidity Risk

Liquidity risk is the risk that Ithmaar 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 Treasury, with oversight from the ALCO. ALCO is responsible for setting the framework and for effective monitoring of Ithmaar Bank's liquidity risk. Ithmaar Bank'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. The Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The Liquidity Risk Management Policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and various other liquidity ratios as required under the provisions of the LM Module and the funding maturity profile on a regular basis. Risk Management Department submits a quarterly report to the AGRMC which includes an analysis of Ithmaar Bank's adherence to various liquidity risk metrics established in the Risk Appetite Framework of the Bank.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.2. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar Bank based on certain Board approved parameters is also performed and presented to the AGRMC on a quarterly basis.

25.3. Liquidity Contingency Management

Ithmaar Bank has also a Liquidity Contingency Policy which provides guidelines to manage either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

25.4. Liquidity ratios:

	31 December 2019
Liquid assets to total assets	12.78%
Short term assets to short term liabilities	52.29%

25.5. Liquidity ratios:

The LCR of Ithmaar Bank as of 31st December 2019 was 160.73%. The average 90 day LCR as of 31st December 2019 was 145%. The detailed breakdown of the average 90 day LCR as of 31st December 2019 is detailed below.

	Description	Total Unweighted Value (average)	Total Weighted Value (average)
HIGH-QUALITY LIQUID ASSETS (HQLA)			
1	Total HQLA	-	430,383
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	190,099	5,703
3	Stable deposits	794,371	78,297
4	Less stable deposits	-	-
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	59,107	14,777
7	Non-operational deposits (all counterparties)	586,431	310,109
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	2,531	2,531
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	135,387	10,912
14	Other contractual funding obligations	57,887	57,887
15	Other contingent funding obligations	433,823	21,691
16	TOTAL CASH OUTFLOWS	-	501,905
CASH INFLOWS			
17	Secured lending (eg reverse repos)	44,811	-
18	Inflows from fully performing exposures	285,799	204,560
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	330,610	204,560
21	**TOTAL HQLA**	-	430,383
22	**TOTAL NET CASH OUTFLOWS**	-	297,346
23	**LIQUIDITY COVERAGE RATIO (%)**	-	145%

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio:

The Net stable Funding Ratio (NSFR) of the Bank as of 31 December 2019 was 115%. The detailed breakdown of the NSFR as of 31 December 2019 is detailed below.

		Unweighted Values (i.e. before applying relevant factors)				
No.	Item	Nov specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	**Capital:**	**121,126**	**-**	**-**	**24,768**	**145,894**
2	Regulatory Capital	121,126	-	-	-	121,126
3	Other Capital Instruments	-	-	-	24,768	24,768
4	**Retail deposits and deposits from small business customers:**	**841,207**	**203,016**	**272,529**	**145,826**	**1,343,339**
5	Stable deposits	199,120	29,955	19,623	10,078	246,342
6	Less stable deposits	642,087	173,061	252,906	135,748	1,096,997
7	**Wholesale funding:**	**-**	**480,924**	**274,615**	**339,248**	**629,540**
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	480,924	274,615	339,248	629,540
10	**Other liabilities:**	**-**	**327,628**	**-**	**10,650**	**10,650**
11	NSFR Shari'a-compliant hedging contract liabilities	-	26,683	-	-	-
12	All other liabilities not included in the above categories	-	300,945	-	10,650	10,650
13	**Total Available Stable Funding (ASF):**	-	-	-	-	**2,129,423**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	9,690
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	**Performing loans and securities:**	**-**	**513,543**	**111,752**	**1,362,308**	**1,486,458**
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	113,240	8,118	588,328	609,373
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	400,303	103,634	610,144	770,591
20	'- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	150,570	97,871

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.6. Net Stable Funding Ratio (Continued)

		Unweighted Values (i.e. before applying relevant factors)				
No.	**Item**	**Nov specified maturity**	**Less than 6 months**	**More than 6 months and less than one year**	**Over one year**	**Total weighted value**
21	Performing residential mortgages, of which:	-	-	-	-	-
22	'- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	13,266	8,623
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
24	**Other assets:**	**-**	**330,163**	**-**	**1,499**	**331,662**
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Shari'a-compliant hedging assets	-	-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	5,337	-	-	5,337
29	All other assets not included in the above categories	-	324,826	-	1,499	326,325
30	Off Balance Sheet items	-	608,232	-	-	30,412
31	**Total RSF**					**1,858,222**
32	**Net Stable Funding Ratio (%)**					**115%**

26. Legal contingencies

At 31 December 2019, the Group had contingent liabilities towards customer and other claims aggregating to BD83.2 million (31 December 2018: BD91.9 million). The management is of the view that these claims are not likely to result into potential liabilities.

During the period, the Bank was subject to one financial penalty of BD 60,000 relating to disclosures on certain charges.

27. Displaced Commercial Risk

Ithmaar Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. As per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are borne by the IAHs, Ithmaar Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar Bank may forgo its share of profits as modareb to match the IAHs.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

27. Displaced Commercial Risk (Continued)

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank:

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar Bank. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risks.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	31 December 2019		31 December 2018		31 December 2017	
	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount	Percentage to URIA assets	Amount
Income from unrestricted investment accounts	6.4%	82,551	5.9%	67,949	5.1%	62,190
Less: return to unrestricted investment accounts	-4.2%	(54,359)	-3.6%	(40,959)	-2.7%	(33,214)
Group's share of income from unrestricted investment accounts as a Mudarib	2.2%	**28,192**	2.4%	**26,990**	2.4%	**28,976**

For the year ended 31 December 2019 the return generated from unrestricted investment accountholders based on the average balance outstanding during the year stood at 4.6% per annum (2018: 4.9%). The return paid to unrestricted investment accountholders based on the average balance outstanding during the year at 3.1% per annum (31 December 2018: 2.7%).

29. Average declared rate of return on General Mudaraba deposits

	31 December 2019	31 December 2018	31 December 2017
30 Days	1.41	1.20	1.10
90 Days	1.81	1.60	1.60
180 Days	2.06	1.85	1.85
360 Days	2.80	2.50	2.50
3 Years	3.04	2.70	2.70

PUBLIC DISCLOSURES CONTINUED

At 31 December 2019
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30. Movement in Profit Equalization Reserve and Investment Risk Reserve:

	31 December 2019
Profit Equalization Reserve	7,351
Investment Risk Reserve	-

At 31 December 2019, the ratio of profit equalization reserve and provisions against equity of unrestricted investment accountholders stood at 0.7% and 2% respectively.

31 December 2019, the ratio of financings to URIA stood at 81%.

31 December 2019, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	55.77%
Musharaka financing	27.19%
Assets acquired for leasing	17.04%

The following table summarizes the breakdown of URIA and impairment provisions

	31 December 2019
Exposure : Banks	333,136
Exposure : Non-Banks	955,822
Provisions : Non-Banks	(16,914)

31. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

Deposits and Unrestricted Investment Accounts held with the Bank in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB in accordance with Resolution No.(34) of 2010.

CORPORATE INFORMATION

Name of Company	Ithmaar Bank B.S.C. (Closed)
Legal Form	Ithmaar Bank B.S.C. (Closed) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain and provides retail, commercial, treasury and financial institutions, and other banking services.
Company Registration Number	CR 99336
Registered Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 17585000
Facsimile	+973 17585151
Email	info@ithmaarbank.com
Website	www.ithmaarbank.com
Accounting Year End	31 December
Compliance Officer	Balu Tiruvilandur Ramamurthy – Head, Compliance and AML
Company Secretary	Ali Ahmed Mohamed – Acting Board Secretary
Auditors	PricewaterhouseCoopers ME Limited, P.O. Box 60771, Manama, Kingdom of Bahrain