بنك البحرين الإسلامي BisB

Simplicity through Innovation

Annual Report 2019

We are here to make life simpler by streamlining all of your business transactions

OVERVIEW

BUSINESS REVIEW

CONSOLIDATED FINANCIAL STATEMENTS

RISK AND CAPITAL MANAGEMENT DISCLOSURE

Bahrain Islamic Bank B.S.C.
Diplomatic Area
P.O. Box 5240, Manama, Kingdom of Bahrain
Tel: (+973) 17 515 151
Fax: (+973) 17 535 808
Email: contactcentre@bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

His Royal Highness
Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King
Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince
Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister

Corporate Profile

Incorporated in 1979 as the first Islamic Bank in the Kingdom of Bahrain, and the fourth in the GCC. Bahrain Islamic Bank (BisB) has played a pivotal role in the development of the Islamic Banking industry and the Kingdom's economy.

The Bank operates under an Islamic Retail Bank license from the Central Bank of Bahrain and is listed on the Bahrain Bourse.

At the end of 2019, the Bank's paid up capital was BD 106 million, while total assets stood at BD 1,224 million. The Bank's modern branch network comprises 4 branches, 4 innovative financial malls, 1 Digital branch and 54 ATMs located throughout the Kingdom.

A steadfast focus on continuous innovation, strong corporate governance and risk management, employee development, and the use of state of the art technology to deliver superior customer service, has cemented Bahrain Islamic Bank's position as the leading Shari'a–compliant Bank.

4 BRANCHES

4 FINANCIAL MALLS

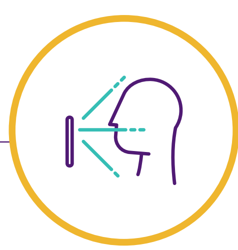
54 ATMs

1 DIGITAL BRANCH

Our Brand Promise

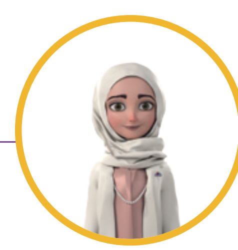
Fueled by Bahraini devotion, we craft new ways of **Simplifying Your Money Matters**

Face ID



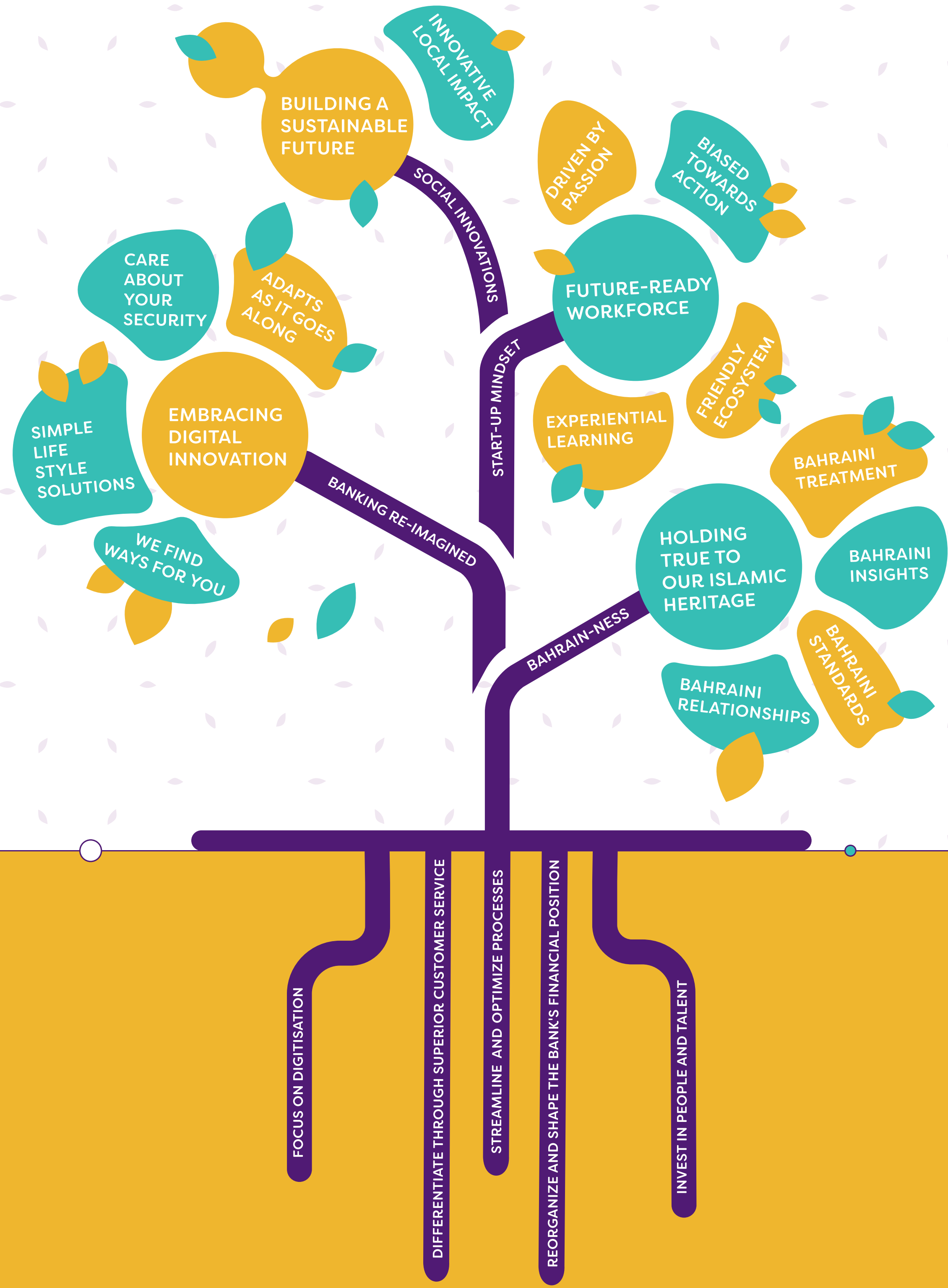
Selfie

Finger ID



Dana

Our Guiding Principles



Brand Values

Bahraini

In light of our local religion, we follow the values and norms of Islam by being generous, modest, polite and respectful of others. We are hospitable and treat everyone with warmth. We desire to establish trust and build relationships with people before doing business. Family at home and at work is important to us and we are loyal to them. We care about the people we interact with and offer a helping hand. We are modern, intelligent and very literate.

Innovative

We move mountains to create more effective processes, products and ideas. Being innovative does not necessarily mean inventing something new, it is about challenging the status quo and adapting to changes in demands to deliver better products or services to everyone around us.

Simple

We strive for clarity and consistency, making decisions pragmatically and focusing on the bare essentials. We acknowledge that banking is complicated, so we go out of our way to find streamlined solutions to simplify the lives of everyone around us.

Bold

We think big, we're never afraid to cross boundaries in order to drive transformational growth. Without compromising on our values, we challenge the norms in order to make our mark, differentiating ourselves from the competition so we can continue to be recognized as the leading Islamic Bank in the Kingdom of Bahrain.

Financial Highlights

Total Islamic Financing
BD Millions

2019	779
2018	767
2017	742

Investment in Sukuk
BD Millions

2019	214
2018	207
2017	228

Net Return on Equity of Investment Accountholders
BD Millions

2019	10.1
2018	13.2
2017	11.3

Fee and Commission Income, net
BD Millions

2019	5.9
2018	5.4
2017	5.7

Net Profit Income
BD Millions

2019	34.7
2018	33.9
2017	32.9

Book Value Per Share
Bahraini fils

2019	114
2018	111
2017	121

Operational Highlights

1

Enhancing Our Customers' Banking Experience

Our continued commitment to making banking easier for our customers through simplifying their money matters was reinforced by the introduction of a further range of cutting-edge products and services, stimulated by our ongoing comprehensive digital transformation. Every facet of our business has been positively impacted, from points of customer contact, to seamless internal coordination and efficiencies, as digitisation has become an intrinsic core pillar of the bank's strategy.

2

Retail Banking

Mobile banking and the BisB Online portal have transformed the manner in which the Bank reaches its customers. Via our portal, availment of top-up financing is accessible in less than four minutes, and the ability to onboard customers through 'Selfies' has made banking even easier than before. Additionally, we have introduced contactless debit and credit cards, and replaced all of our ATMs and Cash Deposit Machines, simplifying further our customers' experience.

3

Corporate and Financial Institutional Division

Our online banking platform is the Bank's core strength in improving the end-user experience, eliminating the need to invest in expensive infrastructure. The efficiency in processing financial and administrative processes is complemented by stronger risk and regulatory compliance management. Our revised risk appetite has reshaped our business, adapting to market conditions and the local and regional economy.

4

Human Capital

The emphasis on recruiting, developing and retaining qualified Bahraini talent is paramount in our Human Capital strategy. Online courses for all personnel have resulted in more than 300 staff participating in training disciplines in AML, FATCA, Block Chain and Trade Finance. Employee engagement has been enhanced with a new programme called 'My Voice' with a participation rate of 94%. Further system automation permits the uploading of trackable staff performance appraisals.

5

Brand, Marketing and Corporate Communications

The new brand promise of simplifying our customers' money matters, crafted in the previous year, was shared widely with our customers and business partners, and fully embedded throughout the Bank in 2019, reinforcing our values and guiding principles. We introduced 'Dana', our online virtual employee, placed 'Thought Leadership' articles on LinkedIn, brought aboard our innovation ambassador, social media influencer, 'Omar Farooq' and gave life to our hashtag '#BisB'.

Board of Directors Report

6%

Growth in profit income

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

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

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

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

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

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

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

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

Dr. Esam Abdulla Fakhro
Chairman of the Board

The success of NBB acquisition of additional 49.75% shares in BisB.

Board of Directors

Dr. Esam Abdulla Fakhro
Chairman of the Board of Directors

Non-Executive & Non-Independent Director
Appointed on 23 March 2016.

Dr. Esam Fakhro is a holder of PhD Degree in Mechanical Engineering from London University. He was awarded the Bahrain Medal – First Class. He is also a member of the Supreme Council for Education Development, and a member of the Board of Trustees of AMA International University. Dr. Fakhro was a former member of the Economic Development Board. Previously, he chaired the Aluminum Bahrain Co. (ALBA), in addition to chairing the Bahrain Chamber of Commerce & Industry, and the Federation of GCC Chambers. Dr. Fakhro was a former member of Mumtalakat Company. Currently, he chairs Abdullah Yousif Fakhro & Sons Group in the field of transport and electronics, as well as foods and financial services. Dr. Fakhro is also the Chairman of the Board of Directors of the Bahrain Cinema Company. In addition, he assumes the post of the Deputy Chairman of National Bank of Bahrain, and the Qatar Bahrain Cinema Company. He is also a member of the Board of Directors of Trafco and Bahrain Livestock Company.

General Ebrahim Abdullah Al-Mahmoud
Vice Chairman of the Board of Directors

Non-Executive & Non-Independent Director
Appointed on 28 May 2017.

General Ebrahim Abdulla Al Mahmood currently serves as CFO of Bahrain Defense Force (BDF) after having held many positions, such as: Director of Military Consumer Association, Head of Internal Audit Division, Head of Financial Control Division and Assistant Financial Controller. General Ebrahim Al Mahmood is the Vice Chairman of Bahrain Aluminum Extrusion Company (Balexco), a Board Member of the Military Pension Fund and the Military Consumer Association. General Ebrahim Al Mahmood is a certified Arab accountant and holds a master's degree in public administration from the Portland State University, USA, and a B.Sc. in Economics from the University of Kuwait. In addition to his participation in many training courses in the areas of management, leadership and development, he has a professional experience of more than 38 years.

Board of Directors (Cont'd)

Mr. Khalid Yousif Abdul Rahman
Board Member

Non-Executive & Non-Independent Director
Appointed on 23 March 2016.

Mr. AbdulRahman is Vice Chairman and Chief Executive Officer of Yousif AbdulRahman Engineer Holding Company W.L.L. He is also Chairman of Food Supply Company Limited, Vice Chairman of National Establishment of Technical and Trade Services, Vice Chairman of National Transport Company, and Vice Chairman of Awal Dairy Company. He is a member of the Board of several major companies in Bahrain, including the National Bank of Bahrain and Bahrain Ship Repairing & Engineering Company. He gained his B.Sc in Mechanical Engineering from Plymouth Polytechnic, UK, and is a registered member of Bahrain Society of Engineers and the Committee for Organizing Engineering Professional Practice (COEPP) Mechanical Engineering Cat. B. Mr. AbdulRahman has over 40 years of professional experience.

Mr. Muhammad Zarrug Rajab
Board Member

Non-Executive & Non-Independent Director
Re-appointed on 23 March 2016.

Mr. Muhammad Zarrug Rajab holds a Bachelors degree in Accountancy and is a fellow member of the Institute of Chartered Accountants in England & Wales. He also held senior posts in Libya, including the Auditor General, the Minister of Treasury, Head of Libyan Peoples' Congress, the Prime Minister from 1983 to 1985, Governor of Libyan Central Bank, and Libyan Foreign Investment. Muhammad Rajab has over 45 years of professional experience.

Board of Directors (Cont'd)

Mr. Khalid Abdulaziz Al Jassim
Board Member

Non-Executive & Independent Director
Elected on 21 March 2019

Mr. Khalid Abdulaziz Al Jassim has an extensive professional career which includes his position as Head of Marketing at National Chemical Industries Corporation (NACIC), a subsidiary of SABIC in Saudi Arabia, and working within the consultancy division at Arthur Andersen Bahrain, where his responsibilities included the formation of policies and procedures for the Civil Aviation Authority of Bahrain as well as setting growth plans for the Government of Bahrain.

In 1998, Mr. Khalid joined Arcapita where his responsibilities included forming the Bank's vision and strategy, establishing the placement team, and overseeing the Information Technology and Administration Departments. Mr. Khalid was promoted to Executive Director in less than four years. In addition, he secured his position as head of placement in the MENA region and a member of both the Management Investment Committee and Management Administration Committee. Mr. Khalid currently functions on the Board of several local and international companies, most recently he was appointed to serve on the board of BisB as an independent director.

Khalid Al Jassim holds an Executive MBA from Pepperdine University, California, and a Computer Science and Mathematics Degree from California State University, Long Beach, California. Having also completed several Executive Education programs at Stanford University, Harvard and London Business School in addition to his professional experience; Khalid's background has crafted him into a multi-dimensional and multi-skilled entrepreneurial leader with skills in communication, financial investment, and team building.

Mr. Mohammed Abdulla Al Jalahama
Board Member

Non-Executive & Independent Director
Elected on 21 March 2019.

Mr. Mohammed Abdulla Al Jalahama is currently the Treasurer of the Kuwait Awqaf Pension Fund. He has been a board member on several government organizations in Kuwait. He was also a board member of Bangladesh Islamic Bank and Al Madar Finance and Investment Company. He holds a Bachelor's Degree in Business Management from the Concordia University in the USA.

Board of Directors (Cont'd)

Mr. Abdulla Ahmed Kamal
Board Member

Non-Executive & Non-Independent Director
Appointed on 24 February 2019.

Abdulla Ahmed Kamal is the Head of Operations for Osool Asset Management B.S.C. (c). He is also a Board Member at Bahrain Car Parks Co. B.S.C. He has an extensive experience of 15 years in the field of Audit, Assurance Services, and Business Risk Consultancy. Prior to joining Osool, Abdulla worked with Ernst & Young where he was involved with and managed various audit and consultancy projects, including external audit, internal audit, corporate governance, risk and control assessment, operational risk, and compliance programmes. Abdulla graduated from the University of Bahrain with a BSc in Accounting. He is a member of the Association of Chartered Certified Accountants (ACCA) and a member of the Institution of Internal Auditors (IIA). He is also a Certified Associate Professional Risk Manager (APRM).

Mr. Marwan Khaled Tabbara
Board Member

Non-Executive & Independent Director
Elected on 21 March 2019.

Mr. Marwan Khaled Tabbara is a co-founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain. He also serves as a Board Member of Bahrain Bourse, Bahrain Development Bank, and Bahrain Flour Mills. Prior to Stratum, he worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, where he supported large private and public sector clients on transactions within the Middle East and internationally. Mr. Tabbara holds a Masters of Engineering Management and a Bachelors of Science in Electrical Engineering and Economics from Duke University in the United States of America.

Mr. Mohamed Abdulla Nooruddin
Board Member

Non-Executive & Independent Director
Elected on 21 March 2019.

Mr. Mohamed Abdulla Nooruddin is the Chairman of Newbury Investments W.L.L., a private entity established in the Kingdom of Bahrain that provides financial and investment advisory services. He is also a Board member at Al Baraka Bank-Egypt and Tadhamon Capital. He is also an Ex-Board Member of Ibdar Bank. In the past, Mr. Nooruddin has held several executive positions at Arcapita Bank, First Islamic Investment Bank, Bahrain International Bank and Gulf International Bank. He holds a BSc in Business Administration from the University of Bahrain.

Shari'a Supervisory Board

Shaikh Dr. Abdul Latif Mahmood Al Mahmood

Chairman of Shari'a Supervisory Board

- Former Head of Arabic Language and Islamic Studies Department at the University of Bahrain.
- Member of the Supreme Council for Islamic Affairs, Bahrain.
- Member of the Shari'a Supervisory Board of Bahrain Central Bank, Oman Central Bank, AlBaraka Banking Group ,Takaful International, and ABC Islamic Bank Kingdom of Bahrain and London.
- Preacher at a number of Bahrain's Masjeds since 1973.
- He gives lessons in Quran interpretation, jurisprudence, principles of jurisprudence and preaching.
- He participated and spoke in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Mohammed Jaffar Al Juffairi

Vice Chairman of Shari'a Supervisory Board

- Studied at Al Ahliya University of Najaf, and joined the Hawza studies for higher education in Shari'ah sciences (Comparative Studies).
- Judge of the High Shari'a Court of Appeal and seconded as President of the High Shari'a Court, Ministry of Justice, Kingdom of Bahrain.
- Former Member of the Zakat Committee, Ministry of Justice.
- He participated in a number of Islamic committees, courses, seminars and conferences.

Shari'a Supervisory Board (Cont'd)

Shaikh Adnan Abdulla Al Qattan

Shari'a Supervisory Board Member

- Chairman of Shari'a section, Cassation Court, Ministry of Justice and Islamic Affairs and Awqaf, Kingdom of Bahrain.
- Vice Chairman of the Royal Charity Organization.
- Chairman of the Pilgrimage Mission, of the Kingdom of Bahrain.
- Puisne Justice of the High Shari'a Court.
- Preacher of Ahmed Al Fateh Islamic Masjed.
- He participated in a number of Islamic committees, courses, seminars and conferences.
- He worked as a lecturer at the Islamic Studies Department, University of Bahrain.
- Member of the Shari'a Supervisory Board of Alsalam Bank, Ibdar Bank, and LMC.

Shaikh Dr. Nedham Mohamed Saleh Yacoubi

Shari'a Supervisory Board Member

- Member of the Shari'a Supervisory Board Central Bank of Bahrain, Abu Dhabi Islamic Bank, UAE., Sharjah Islamic Bank, UAE, Ithmaar Bank, Kingdom of Bahrain, Gulf Finance House, Kingdom of Bahrain, Khaleeji Commercial Bank Bahrain, ABC Islamic Bank, Kingdom of Bahrain , ABC Islamic Bank, London and others.
- Member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Holds a number of Academic degrees and awards, First Degree Award of Capability for Islamic services within and outside Bahrain 2007, from the King of Bahrain, Euro Money Award for innovation in Islamic banking supervision, Malaysia 2007, Malaysia Award for contribution to Islamic banking.
- He participated and is a speaker in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Dr. Essam Khalaf Al Enizi

Shari'a Supervisory Board Member

- Professor of Comparative Jurisprudence and Faculty of Shari'a and Islamic Studies, University of Kuwait.
- Member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI),
- Member of the Shari'a Supervisory Board at Boubyan Bank – State of Kuwait, Alahli Bank, Investment Dar – State of Kuwait, Kuwait Zakat House.
- He participated and is a speaker in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Face ID

Automated Face ID Authentication

Chief Executive Officer Report

As our industry continues to evolve at unprecedented speed, staying competitive is becoming more challenging than ever. Banks will continue to struggle to keep up with existing, and new regulations, which are not only capital intensive but also can be extremely disruptive if these organisations are not agile enough to keep up, or even stay ahead of the curve.

So, in 2019, a new phase of the Bank's transformation journey began with the theme 'Simplifying Your Money Matters.' As an organisation, we have realised early that, in the face of increasing competition, regulatory pressures, demographics and consumer behaviour, we needed to take a drastically different path. One which focuses on the customer first by offering a seamless and cost-effective banking experience, while retaining prudent risk, compliance and governance practices. We have realised that 'simplification' is key. This involves, first, simplifying our internal processes and practices through automation and eliminating silos within the bank, which in turn enables us to continue digitising our customer experience delivery channels. As millennials and 'generation Z' continue to rely heavily on mobile and smart phones, the aim of our 'Simplification' approach is to mirror the seamless, reliable and predictable end-user experience in banking, as much as it is in other services.

Our mobile banking for corporates as well as individuals, remains among the best in the region. In 2019, this service became more sophisticated and user-friendly by offering customers to open new accounts in less than five minutes, by simply using a selfie through their mobile phones, without any human intervention. Customers can also avail top-up financing by also using their mobile phones in less than four minutes.

The latest example of Simplifying our customers money matters came in the fourth quarter by launching a first of its kind KYC update, again by using a mobile phone, thus eliminating the need to physically visit a branch or even provide a single piece of paper. As a result, the bank has become known as an innovation and technology leader in the industry. I am proud of the tremendous effort the BisB team has put forth during this transformation journey.

On the business front, BisB continues to generate more sustainable quality earnings from our core business. Profit income as well as profit before impairment, have both surpassed the 2019 budget. Other critical areas of the bank continue to show significant improvement at levels of industry best practices. Our Governance and Compliance function has been strengthened to world class standards. We continue to invest in our Bahraini talents through proper training and a clear succession plan at various levels of the organisation. Information security remains a high priority.

Finally, the recent acquisition of an additional 49.75% of BisB shares by NBB was consummated successfully and smoothly. The management of BisB is optimistic that the new partnership between two of Bahrain's leading institutions is expected to generate synergies and increase foot-print and product and service coverage of both institutions, insha'Allah. I would like to extend my sincere thanks and appreciation to the management teams on both sides for their professionalism, hard work and diligence to have made this acquisition a success.

Hassan Amin Jarrar
Chief Executive Officer

In 2019, a new phase of the Bank's transformation journey began with the theme 'Simplifying Your Money Matters.' As an organisation, we have realised early that, in the face of increasing competition, regulatory pressures, demographics and consumer behaviour, we needed to take a drastically different path.

Executive Management

Hassan Amin Jarrar
Chief Executive Officer

Mr. Hassan Amin Jarrar is one of the most prominent banking leaders in the region with more than 30 years of international, regional and local banking experience. Prior to joining Bahrain Islamic Bank on July 1, 2015 as Chief Executive Officer, Mr. Jarrar held the position of Chief Executive Officer of Standard Chartered Bank, Bahrain. Mr. Jarrar's diverse career in Banking includes extensive experience in retail, SME, and Corporate Banking in the Middle East and the US. Regionally, he served as Head of Corporate and SME Banking at Abu Dhabi Commercial Bank, and Head of Corporate Banking at Mashreq Bank, Abu Dhabi. Internationally, he has over two decades of experience in key management positions in leading banking institutions in the USA, namely Security Pacific Bank, and Bank of America. He is the Chairman of Liquidity Management Center "LMC" and serves on the Boards of Bahrain Bourse, the Bahrain Association of Banks, and Tamkeen. Mr Jarrar holds a BSc in Finance from California State University, San Jose.

Wesam Abdul Aziz Baqer
Chief Corporate & Institutional Banking

Mr. Wesam Baqer has an experience in a diverse career in Corporate Banking, Private Banking, and Business Development. Mr. Baqer joined BisB in 2008 as Head of the Corporate Banking. Previously, he held the same position at National Bank of Kuwait. Prior to that, he managed corporate relationships with HSBC for 8 years. He is a Certified Financial Advisor (CeFA), and a member of the Chartered Institute of Bankers, Board member in BIBF Islamic Advisory committee, Member in Finance, Tax, and insurance committee in BCCI and Chairman of Islamic Banking Committee in BAB. Mr. Baqer is a Board Member representing BisB in various companies across Bahrain, and is an active member in several local charities and community service societies. Mr. Baqer completed an Executive Management Leadership Diploma from Darden Graduate School of Business, University of Virginia, in the US. He also holds an MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland, and a BS in Business Administration from the University of Bahrain.

Executive Management (Cont'd)

Dalal Ahmed Abdulla Al Qais
Chief Retail Banking

Before joining BisB back in October 2017, Ms. Dalal Al Qais gained extensive experience in customer-lead roles spanning across various realms of finance. During her 16 years at Standard Chartered Bank Bahrain, Ms. Al Qais was exposed to a diverse range of areas of focus including retail banking, Small & Medium Enterprise banking, and wealth management. She later earned her position as Head of the Bank's Consumer Banking Division, which encompassed both local and regional responsibilities covering Bahrain, Qatar and Oman.

Paving the way for future leaders, Ms. AlQais earned a milestone achievement at BisB as the first Bahraini female to hold an executive position. Combined with a fine-tuned and in-depth knowledge of consumer banking digitization channels, she earned immense success in leading the BisB's retail division, establishing goals and implementing strategies to achieve growth, digitisation, operational efficiency and a transformative customer experience. Ms. Qais holds a BSc in Management & Marketing from the University of Bahrain and an MSc in Finance.

Ameer Abdul Ghani Dairi
Chief Financial Officer

Mr. Ameer A.Ghani Dairi has over 19 years of experience in financial management and a broad commercial banking background in Bahrain. He joined BisB in 2007. Mr. Dairi holds a BSc in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, and a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US.

Also Mr. Dairi has been awarded certificates in data science and analytics from Berkeley University of California as well as leadership from Ivey Business School, Canada. He also serves as representative of BisB as a Board Member in LMC and Abaad Real Estate Company.

Executive Management (Cont'd)

Fahim Ahmed Shafiqi
Chief Risk Officer

Mr. Fahim Ahmed has over 20 years of international experience gained through various roles in Corporate Banking and Risk Management spanning the markets of Pakistan, GCC, Africa and the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He holds a Diploma in Islamic Finance (CDIF) and an MBA from the University of Warwick, UK.

Mazar Rashid Mohammed Jalal
Chief Compliance & Governance

Mazar Rashid Mohammed Jalal has over 19 years of experience in the financial services industry, covering Asset Management, Risk Management, Corporate Governance and Compliance. Prior to joining BisB, he was Head of Compliance at Kuwait Finance House, Bahrain. Mazar has had an extensive experience with various Central Bank regulators in the field of compliance and corporate governance, AML procedures, and FATCA, among others. He holds a BSc in Accounting from the University of Bahrain, and a Diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance, UK and Wales, with which he also has an Associate Fellowship. In 2014, he acquired the International Diploma in Compliance with distinction.

Executive Management (Cont'd)

Mr. Khaled Waheeb Alnaser
Chief Internal Audit

Mr. Khaled Waheeb Alnaser has over 10 years' experience in the fields of external audit, financial reporting and control, internal control, and internal audit. Prior to joining BisB in 2014 he worked in EY as an external auditor with focus on Islamic financial institutions. He joined BisB as a Senior Manager in Financial Control in charge of financial reporting and payables, then moved to establish and head the Internal Control department prior to joining Internal Audit and holding his current position as Chief Internal Audit. He is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), Certified Islamic Professional Accountant (CIPA) from Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and a Chartered Global Management Accountant (CGMA). Mr. Alnaser also completed a Leadership Development Program from Darden School of Business, University of Virginia, in the US.

Osama Nasr
Chief Information Officer

Mr. Osama Nasr has over 20 years of experience in Information Technology (IT) and he is currently the Chief Information Officer in BisB. Mr. Osama has held various IT leadership roles in BisB and in a number of specialized companies abroad. In addition to his current role at BisB, he is a Non-Executive member of Global Payment Services- GPS W.L.L. Mr. Osama Nasr holds a Masters degree in Information System Management from the University of Liverpool in the United Kingdom.

Executive Management (Cont'd)

Mahmood Qannati
Chief Corporate Communications & Marketing Officer

Mr. Qannati has over 18 years of extensive experience in Marketing, Communications and Branding on both a local and regional level, and having worked across various sectors including banking, telecommunications, automotive and aviation. During his time in the United Arab Emirates, Mr. Qannati worked in prominent and established institutions, leading Standard Chartered Bank as the Regional Head of Marketing & Branding for the entire Middle East, Africa and Pakistan region, as well as serving as the Middle East Chief Marketing Officer at Cigna Insurance, UAE. He has also held several senior positions on a local level, gaining experience in marketing and communications at HSBC Bank, Bahrain International Airport and Batelco. Mr. Qannati holds a Master's degree in Marketing Information Systems from the University of Sunderland and a Bachelor's degree in Marketing from the University of Bahrain.

Dawood Khalil Al Ashhab
Chief Shared Services Officer

Mr. Dawood Al Ashhab brings to the Bank a wealth of international banking experience and an in depth knowledge of Human Resource (HR) Management best practices. Prior to joining BisB, Mr. Al Ashhab managed the HR team at Standard Chartered Bank on a regional level, covering the Bank's Bahrain, Oman, Qatar, Jordan and Saudi Arabia offices. Mr. Al Ashhab holds a BS in Public Administration and is a coach certified by the prestigious Gallup University, UK. He is also a member of the Society of HR Management (SHRM).

Executive Management (Cont'd)

Maisa Jawdat Shunnar
Chief Strategy Implementation & Transformation

Mrs. Maisa Shunnar has over 20 years of experience having worked in international markets across the USA and Middle East. Prior to holding her current position in BisB, Mrs. Shunnar worked in the National Bank of Abu Dhabi (NBAD) as a Transformation Manager overseeing the aggregated change activity within the Bank. She drove major changes across the Bank such as the centralization of the non-core business activities and establishing the shared services center. Previously, Mrs. Shunnar headed the Business Process Re-engineering (BPR) Department in the Information & eGovernment Authority in Bahrain and she served as the Manager of Performance and Productivity Improvements for EDS on the Gulf Air Account. Prior to moving to the Middle East, Mrs. Shunnar worked in Shell Oil & Gas as Systems Support, for the City of Houston in the State of Texas, USA. Mrs. Shunnar is a certified and accredited trainer for the United Nations on Business Process Re-engineering. Mrs. Shunnar holds a Bachelor Degree in Business Administration majoring in Computer Information Systems from the University of Houston, US and a Master's degree in Business Communication and Leadership from Jones International University, US. She also have acquired a multiple of professional certificates in Fintech and Digital Certificates from Oxford and Columbia Business Schools and a Diploma in Islamic Finance from CIMA, UK.

Hussain Ebrahim Al Banna
Head of Treasury Department

Mr. Hussain Al Banna has more than 15 years of conventional and Islamic banking experience in various capacities. He joined BisB in 2008 and is currently heading the treasury department with a mandate of handling Foreign Exchange (FX), Money Market (MM) as well as the Bank's sukuk portfolio. His banking career started in 2004 when he joined BNP Paribas as an Officer in the Regional Treasury Operations. In 2005, he was selected for the Executive Management Trainee Program at Bank of Bahrain and Kuwait (BBK) where he gained in-depth knowledge of FX, MM, Asset Liability Management (ALM), Corporate Treasury sales and handled over US$ 700 million fixed income bond portfolio within the Treasury & Investments department. He holds a BS in Banking and Finance from the University of Bahrain and has successfully completed a diploma in Treasury and Capital Markets from Bahrain Institute of Banking and Finance (BIBF).

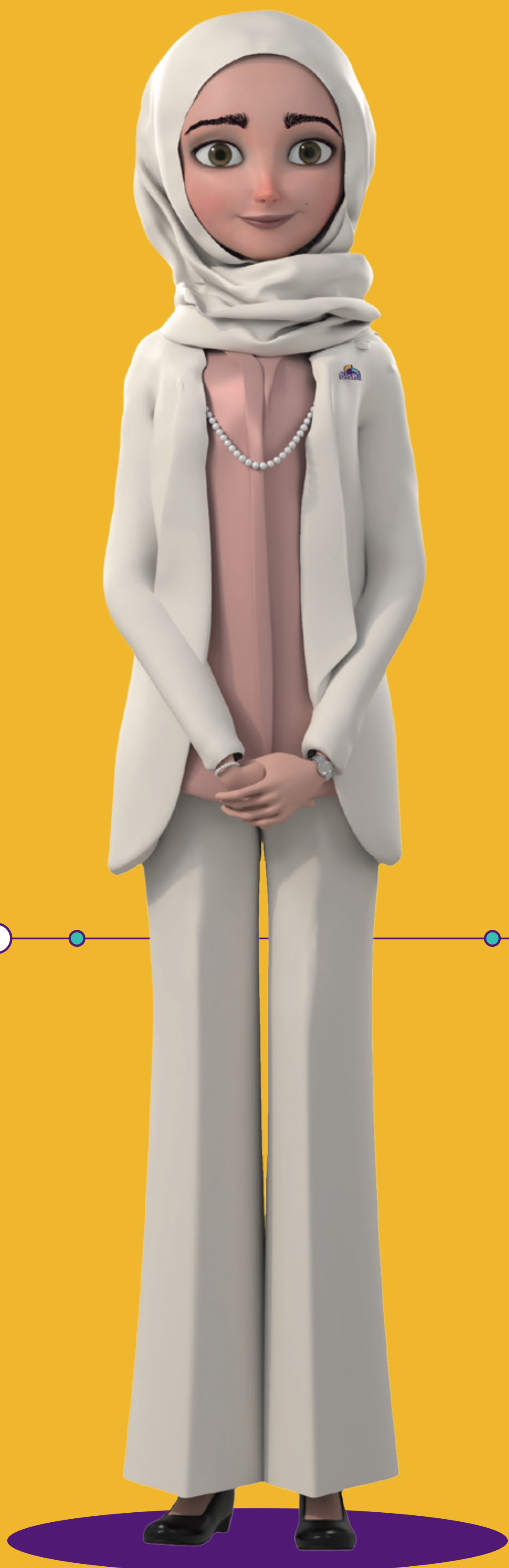
Eman Ali Abdulla Ebrahim
Head of Central Operations

Ms. Eman Ali Abdulla Ebrahim has more than 21 years of experience in Banking Operations, including front and back office coordination for Trade Finance, Treasury and Islamic Finance. She is well-versed in conventional and Islamic banking operations, as well as banking products and services support. Eman joined BisB in 2006, after completing eight years with Ahli United Bank in customer service and related support functions.

Dana

First Virtual
Employee

Head of
Simplification



Review on Operations

The bank's innovation lab is the preferred space for brainstorming sessions, experimenting with services, developing products and providing innovative solutions.

Review on Operations (Cont'd)

Retail Banking

Much of the activity for the Retail Banking Group revolved around further integration of digital technology into every part of our business. Product and service offerings to our customer base included the ability to avail top-up financing through the BisB portal in less than four minutes, the first of its kind in Bahrain.

We introduced contactless debit and credit cards. All of our ATMs and Cash Deposit Machines were replaced. The launch of mobile banking onboarding through customer 'Selfies' has simplified further the point of contact experience for our clients.

We have built alliances with major government organisations such as BAPCO for the promotion of the Sadeem fuel card, as well as our tie-up in a joint alliance with Shukran – AlRashid Group.

The thrust of multiple campaigns throughout the year enhanced sales and through-the-door acquisition.

Corporate and Financial Institutional Division

Our intended strategy is to focus on digitisation to gain a competitive advantage over large local rivals in the banking industry. We are committed to move forward beyond our core into relevant digital banking methods to provide our customers with a differentiated banking experience. We firmly believe that adopting digital directions to our products and services is a trajectory to success in this dynamic ecosystem. BisB pursued the digital direction long before other banks, providing us with the advantage of retaining and attracting new customers, while capitalising on hurdles during our implementation phase to arrive at our fully-fledged online banking platform, thus enhancing the Bank's reputation and image.

The main digital service launched by BisB is the online banking platform. The platform is a disruptive innovation introduced by the Bank to improve the end-user experience through efficient and cost-effective measures of instigating banking transactions. Most importantly, the online banking platform eliminates the need to invest in the expensive physical infrastructure to cater for our products and services. The online banking platform is currently considered BisB's core strength to create sustainable outcomes.

We firmly believe that we gain much from efficient financial and administrative processes, especially in the rise of intensified regulatory compliance demands, both in the case of Central Bank of Bahrain specific directives and adhering to the existing policies and procedures of the Bank. Thus, in 2019, we have shed our focus on our current procedures and applied segregation of duties to separate the account opening process from the C&IB team to contribute to stronger risk management practices within functions and units. We also seek to distinguish ourselves and keep up with the general trend to focus on control of people and processes within BisB to avoid an exposure or risk to our banking practices.

With regard to our training platform, we aim to set the tone at the top by encouraging the behaviour of continuous improvement to achieve wealth of experience and professional knowledge. Likewise, we aim to maintain a steep learning curve within the department through collaboration with our HR training and development programs and Tamkeen. Almost each and every employee in the C&IB department is engaged in training programs and professional courses and certification for personal and career benefits and development. The training initiative supports the individuals within the department to gain clarity in their thinking, to challenge and to help other colleagues to change limited beliefs by becoming a source of support in bringing out the talent and potential of their team.

We encounter risk everyday as we pursue our banking services. However, we have defined clearly the amount of risk we are willing to accept in pursuit of the value returned. We can safely say that we have embedded risk management as a part of our C&IB culture to balance risks and opportunities in our daily operations. The revised risk appetite has been mandated to us by the Board to reshape the business and risk by adapting to certain events including the overall market conditions and general economic behaviour in the Kingdom of Bahrain. Thus, our intended strategy is related to the pursuit of yearly objectives, whilst effectively monitoring the process to ensure proper compliance.

Treasury

Uncertainty has been a constant in the global economy during 2019.
2019 started with hopes of a trade truce, only for those to be dashed by waves of tariff increases, an escalating U.S. - China trade war, and U.S. threats against Mexico, Canada and Europe. Acrimony between Japan and Korea, and the risk of a hard Brexit all conspired to drag growth to its lowest level since the great financial crisis a decade ago.

Decelerating economic activity in the second half of 2019 provided a backdrop for three policy rate cuts by the Federal Reserve, as several drivers of growth faded. Simultaneously, the world witnessed the highest level of negative yielding government bonds, totalling USD17 trillion.

Within the region, GCC economies continued their push to diversify from oil. As a result, non-oil revenue share increased. Oil started the year at USD 45 per barrel and reached a high close to USD 70 per barrel. Additionally, geopolitical tensions caused oil to witness the single biggest one day surge in more than a decade.

In Bahrain, progress was seen as the government's budget pointed to a smoother fiscal adjustment than indicated earlier by the GCC sponsored Fiscal Balance Program. Funding costs remained contained, and as a result, the rating of the Kingdom was affirmed with a stable outlook.

Despite market conditions, BisB maintained healthy liquidity and continued to focus on reducing the cost of funding by fully repaying USD 175 million of repurchase agreements, thereby lowering the costs associated with its interbank liabilities, while simultaneously improving regulatory metrics, such as Liquidity Coverage Ratio and Net Stable Funding Ratio.

In terms of portfolio management, the Sukuk portfolio grew 3% to BHD 214 million with the sovereign portfolio constituting more than 95% of the Sukuk book.

The department also opted to implement a new Treasury, ALM and risk management system which helps to meet all the new regulatory and international liquidity standards.

Review on Operations (Cont'd)

We continued to build employee engagement, employee experience, and to improve productivity through focusing on accountabilities. At the staff engagement level this programme is called **'My Voice'**.

Review on Operations (Cont'd)

Human Resources

Human capital, without a doubt, remains our most valuable resource. Recruitment, retention and development of qualified Bahraini remains at the very top of our people agenda. At over 93% Bahranisation rate, we are proud that BisB is one of the highest organizations in the country recruiting and investing in Bahrainis. The year 2019 has seen further intensive investment in our staff and management across the Bank. We continued to build employee engagement, employee experience, and improve productivity through focusing on accountabilities.

On staff engagement level, 'My Voice' survey has been launched achieving a participation rate of 94%, in which a communication on a departmental level was initiated an action plan taken to increase the engagement level further.

Several development initiatives towards bridging the gap between Fintech and innovation were taken place to include sending middle and senior managers to Fintech programmes in Georgetown University and the University of Oxford. Focusing on the financial mastery of our staff, 76 employees attended the Finance for non Finance simulation about business finance and strategy provided by Zodiak®. As a further development of our successors and creating a deeper national talent pool, we participated in CFO Grooming programme Central Bank of Bahrain's Waqf Fund.

Through our online learning portal, BisB Academy, learning opportunities extended for all BisB staff, with an opportunity to register in any of more than 500 tutorials offered. About 300 employees have benefited from the online courses provided by the academy in various topics like AML, FATCA, Block Chain, and Trade Finance.

As we look to invest in future Bahraini talents, BisB hosted 28 interns during the year, as well as 14 secondary school trainees under the Ministry of Education's Takween Programme.

Remarkable progress in our HR system automation has been achieved by implementing the Performance Management System where all Performances can be retrieved and tracked at any time. The system allows an interactive communication between the staff and their line managers in setting job objectives and development plans with the ability to monitor them on a real-time basis.

Corporate Communications, Marketing and Brand

2019 was a historic year for the Bank. A focal point between the past and the future, BisB celebrated its 40th anniversary. There couldn't be a more significant time to celebrate the future of the Bank through revealing its new brand promise. The Bank invested most of 2018 inculcating and embedding that new brand promise, its guiding principles, and most importantly, its values, in the minds and hearts of its staff. In 2019, this new brand architecture was shared with its public and stakeholders. BisB has truly embraced the idiom of operating as a technology company offering banking services to its clients. Marketing, corporate communication and content reflected that.

Initiatives through the year were prolific - the introduction of Dana, our well-received online virtual employee; the regular placement of Thought Leadership/Opinion Pieces on LinkedIn: the hashtag #BisB; embracing Generation Z; and our innovation ambassador and social media influencer, 'Omar Farooq'.

Risk Management

At the heart of the Bank's activities is the risk management function, through which the ongoing identification, measurement, monitoring and reporting of all of the Bank's inherent risks is conducted; the risks considered are identified in the Bank's risk appetite, alongside corresponding strategies defined for each risk. The Board of Directors, under the guidance of the Board Risk Committee, sets the Bank's risk appetite framework. These elements foster a sound risk management culture at the Bank, for which all of the individuals in the institution are accountable for in their related area of expertise.

The risk culture is effected through appropriate policies, controls, and risk monitoring systems, and the Board ensures that this is implemented effectively. This framework includes internal limits for the various types of risk to which the Bank may be exposed. Moreover, appropriate management information systems are in place to monitor risk exposures, and accordingly report the same to the relevant stakeholders. The fundamental objective of the risk framework is to ensure that the risk appetite, and the associated returns, are commensurate with the risks taken, thereby creating and simultaneously preserving shareholder value. In this light, the Bank's risk management framework takes into account the regulations set forth by the Central Bank of Bahrain, in addition to the provisions of the Basel Accord and industry best practices.

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

Risk Management (Cont'd)

Risk management philosophy

The risk management philosophy of BisB is to identify, capture, monitor and manage the various dimensions of risk. The objective is to protect asset values, income streams, and optimize portfolio quality so that the interests of the Bank's stakeholders are safeguarded, while optimising shareholders' returns, and maintaining risk exposure within the parameters set by the Board.

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

Board Risk Committee

During 2019, the Bank established the Board Risk Committee ("BRC"), constituting of three seasoned independent Board members. The Committee's role is to institute and supervise an effective risk management framework within the Bank. The Committee also monitors the Bank's risk profile and its ongoing and potential exposures to various types of risks, in order to ensure that all risks are identified, measured, managed, and mitigated.

Risk management framework

The Bank's risk management framework embraces all levels of authorities, organisational structure, people and systems required for the smooth functioning of risk management policies within the Bank.

During the course of 2019, the Bank has instated the Board Risk Committee, the ultimate governing body that is responsible for overseeing the Bank's risk management function. During this brief period, the Board Risk Committee supported the Board of Directors in effecting turnkey risk deliverables, such as effecting the risk appetite framework (and the associated monitoring mechanism) in addition to overseeing risk governance. Such duties were fulfilled under the supervision and approval of the Board of Directors, who retains ultimate responsibility and authority for all risk matters, including establishing overall policies and procedures.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Corporate and Retail Credit Review & Analysis, and Credit Administration. The Risk Management umbrella includes critical functions such as Operational Risk in addition to Market & Liquidity Risk oversight. C&RM also encompasses critical functions in the Bank, such as retail collections.

Following the milestones of the previous year, C&RM is well on its way of upgrading its current risk management infrastructure following the regulations effected by the Central Bank of Bahrain. The regulations are related to the Basel III accord, and specifically tackle liquidity risk, reputational risk, the Bank's internal capital adequacy and assessment process, in addition to enhancing the existing stress-testing framework. The regulations specifically focus on enterprise-risk management.

Key developments are detailed below:

- Formation and activation of the Board Risk Committee
- Implementing a Bank-wide Risk Appetite Statement that addresses the Bank's material risks, and set Board-approved capacity and tolerance thresholds for the same
- Revising the ICAAP framework, with special attention paid to enhanced Pillar II risk identification and calculation
- Strengthening of the Liquidity Risk Management of the Bank, by means of enhanced monitoring of the Liquidity Coverage Ratio, the Net Stable Funding Ratio, associated liquidity concentration, and funding gap metrics
- Implemented more sophisticated stress testing methodologies, and to link the same to the Bank's business strategy and risk systems
- Implemented a Bank-wide reputational risk assessment and monitoring framework, and the associated step-in risk assessment process as required by the Central Bank of Bahrain and Basel
- Enhancement in the MIS and the risk reporting to the Board and the Management, by instituting the Risk Management Dashboard that provides a summarized traffic-light based monitoring mechanism of key risk indicators linked to the Bank's risk appetite
- Ensuring the ongoing compliance with the policies of the Bank, in addition to regulatory requirements, and monitoring the enterprise-wide risk through various systems and processes

Note: Additional information on the Bank's risk management framework, policies, processes and procedures is included in the Notes to the Consolidated Financial Statements and the Risk and Capital Management Disclosure sections of this annual report.

Remuneration Disclosures

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the Board of Directors and the policy came into effect as of January 2014.

The key features of the proposed remuneration framework are summarised below:-

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank.

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 success, and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all BisB's employees is fundamental to success. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee(NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance 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 within the Bank; and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarized in the performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all 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 NRC believes the latter contributes to the long-term sustainability of the business.

Remuneration Disclosures (Cont'd)

NRC role and focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following: -

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts, of risk on behalf of the Bank.
- Ensure that for Material Risk-Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Bahrain Commercial Companies Law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting as well as Ministry of Commerce, Industry and Tourism. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of staff'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 the Bank's 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 of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level 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 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 NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out 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 NRC.

Remuneration Disclosures (Cont'd)

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business are as they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRC considers whether the variable remuneration policy is in line with the Bank's risk profile, and ensures that through the Bank's 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 assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total

Remuneration Disclosures (Cont'd)

Risk assessment framework (Cont'd)

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 the bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

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

(a) The cost and quantity of capital required to support the risks taken.

(b) The cost and quantity of the liquidity risk assumed in the conduct of business.

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase / reduce the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of non-cash awards.
- Recovery through malus and clawback arrangements.

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations.

The intention is to allow the Bank to respond appropriately 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 made by the Bank's Board of Directors.

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

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior 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.

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 period of 3 years.

Upfront shares:

The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.

Deferred shares:

The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Remuneration Disclosures (Cont'd)

Deferred Compensation

The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront share awards	10%	Immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRC, based on its assessment of the role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2019	2018
Sitting fees	*221	*153
Remuneration	**282	282

*Includes NRC sitting fees as of 31 December 2019 amounted to BD 12 thousand (2018 : BD 15 thousand).

**Subject to AGM and regulatory approval.

(b) Shari'a's Supervisory Board

BD 000's	2019	2018
Remuneration, Fees and Expenses	66	65

Remuneration Disclosures (Cont'd)

(c) Employee Remuneration

2019

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	12	1,507	-	-	-	128	-	26	128	3	1,792
- Control & Support	24	2,176	-	-	-	152	14	-	57	7	2,406
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	325	8,069	-	-	-	983	-	-	-	-	9,052
Total	361	11,752	-	-	-	1,263	14	26	185	10	*13,250

*Includes end of service compensations & includes staff cost of employees who have left the bank during the year.

2018

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	6	914	-	-	-	141	-	34	168	-	1,257
- Control & Support	17	1,463	-	-	-	177	25	-	100	14	1,779
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	342	8,816	-	-	-	848	-	-	-	-	9,664
Total	365	11,193	-	-	-	1,166	25	34	268	14	*12,700

*Includes end of service compensations.

Remuneration Disclosures (Cont'd)

Deferred awards disclosures

2019

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	91	4,957,743	710	801
Adjustment based on final award price of 2018	-	71,457	-	-
Awarded for the year	26	1,662,106	199	225
Paid out / released / pay-back during the year	(29)	(1,619,257)	(215)	(244)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	-	-	-
Closing balance	88	5,072,049	694	782

Number of shares for 2019 deferred share awards has been calculated using the year end share price as the award share price in accordance with the Share plan policy of the Bank will be determined at a later date.

2018

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	75	3,730,964	469	544
Awarded for the year	34	2,250,743	293	327
Paid out / released during the year	(18)	(1,205,294)	(162)	(180)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	181,330	110	110
Closing balance	91	4,957,743	710	801

Corporate Social Responsibility

CSR "Jood"

Throughout 2019, BisB expanded its participation and activities in support of its Corporate Social Responsibility (CSR) programmes.

True to our desire to align the CSR with social innovation, we renamed our CSR programme 'Jood' with focus on investment in initiatives which foster education and innovation in a digital age, creating a positive and sustainable impact on our local communities.

Jood is structured as an over-arching umbrella, covering the following:

- Donations
- Sponsorships
- Volunteering activities
- Zakat Amounts

Many and varied Jood initiatives were undertaken by the Bank's personnel during the year.

On the educational front, in partnership with the Ministry of Education, BisB sponsored its Iqraa campaign, aimed at motivating school children to read. A further alliance with Injaz, conducted two Innovations Camps for BIBF students and the Royal University for Women.

Our staff manned road intersections, serving Iftar meal boxes to motorists as they travelled home during the Holy Month of Ramadan. We also delivered Iftar meals and maintained houses to needy families and others. Other support was given to our less fortunate neighbours during the heavy rains period. Through Jood, we also bought Eid clothes for orphaned children.

In medical and care, we supported the Ministry of Health in buying devices for heart-scanning, and also devoted time for the 'Yoko' elderly care centre.

Our Islamic affiliation continued in sponsoring the AAIOFI and WIBC Conferences.

The Bank's sponsorship to the 26th Annual World Islamic Banking Conference (WIBC)

"Jood" team participation in providing gifts for labors on the occasion of Labor Day.

"Jood" team participation in Iftar Campaign

Corporate Governance Review

Corporate Governance Framework

Bahrain Islamic Bank B.S.C. ("BisB" or the "Bank") is committed to upholding the highest standards of corporate governance by way of balancing entrepreneurship, regulatory compliance, and industry best practices, while creating value for all stakeholders. It also involves having the right checks and balances in place throughout the organization to ensure that the Bank's processes are within an adequate, efficient and robust internal control and governance framework.

Statement of Responsibility

The Board is ultimately accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders. The Board has established the following Committees to assist it in carrying out its responsibilities:

1. Board Credit Committee ("BCC");
2. Audit, Compliance & Governance Committee ("ACGC");
3. Nomination & Remuneration Committee ("NRC"); and
4. Board Risk Committee ("BRC").

The Board's Executive Committee has been renamed to BCC during 2019. Moreover, an independent BRC has been established. That, in addition to the establishment of a Board Independent Committee as per Central Bank of Bahrain's (CBB) requirements stipulated in Takeovers, Mergers & Acquisitions Module of Volume 6, following National Bank of Bahrain's (NBB) offer to further raise their shareholding in BisB.

BisB's corporate governance framework is built on a code of business conduct, policies, procedures, internal controls, risk management, Shari'a review and audit, internal and external audit and compliance functions. The framework is based on effective communications, transparent disclosures, performance measurement and accountability. An independent Internal Audit function is established within the Bank that reports directly functionally to the ACGC.

Code of Business Conduct

BisB conducts its business in accordance with the highest standards of ethical behavior. A Code of Business Conduct has been developed, based on the CBB's Principles of Business regulations, to govern the personal and professional conduct of the directors and employees of the Bank. The code is based on the following principles:

1. Integrity
2. Conflicts of Interest
3. Due Skill, Care and Diligence
4. Confidentiality
5. Market Conduct
6. Customer Assets
7. Customer Interest
8. Relations with Regulators
9. Adequate Resources
10. Management, System & Controls

Corporate Governance Review (Cont'd)

The requirements under each of the above principles are made available to the Board and employees of the Bank. The Board monitors any exceptions to the above principles by way of reviewing formal reports issued to the Board's ACGC.

Compliance

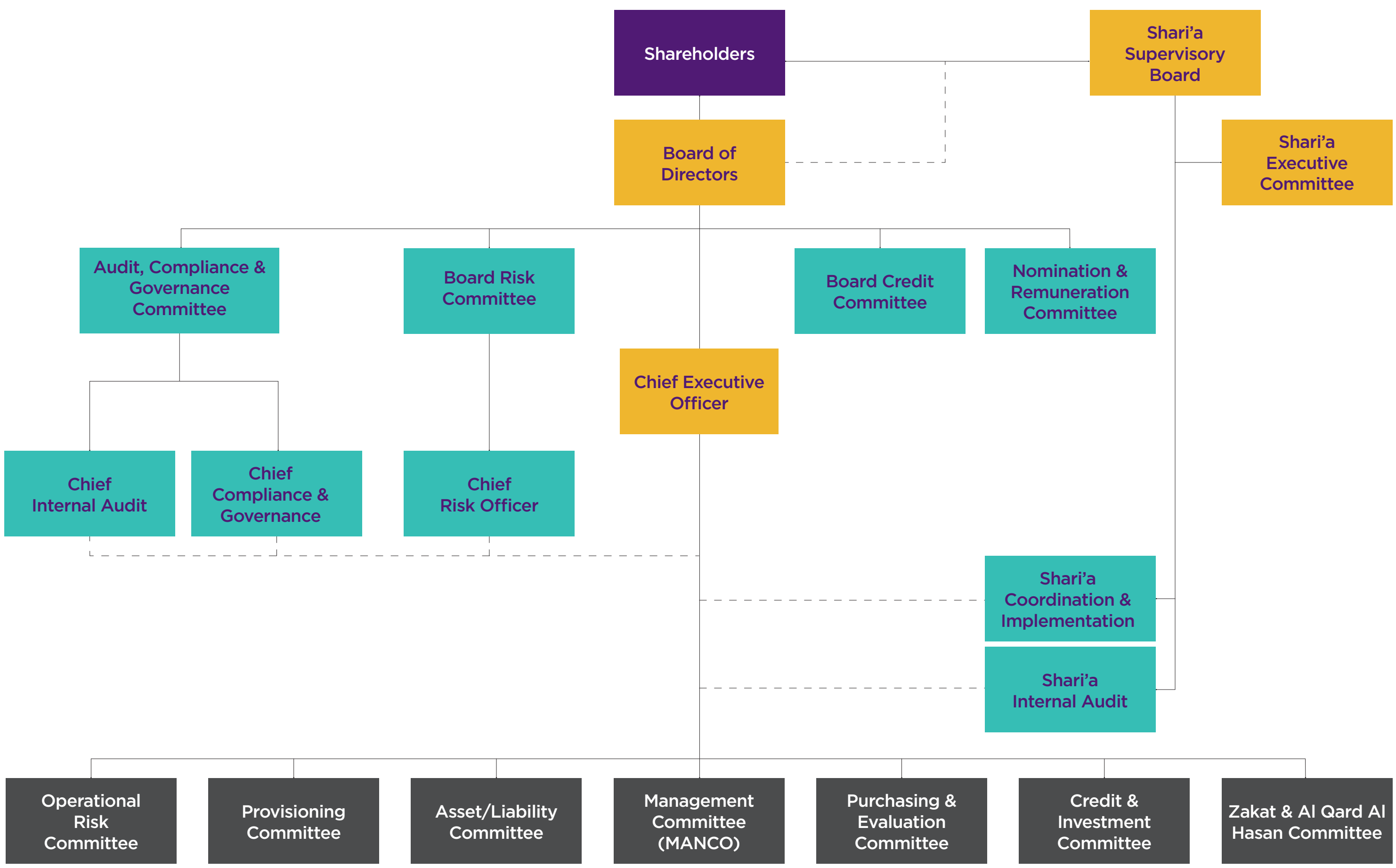
Compliance is an independent function that reports to the ACGC. The Compliance function, guided by the Board approved Policies, works with various business and controlled functions of the Bank to ensure compliance with the applicable rules and regulations of the CBB.

Given the digital business strategy of the Bank, as well as the expanding regulatory scrutiny and enforcement, the Compliance & Governance Department of the Bank is keeping up with the digital advancements by also taking on an active role in directly participating in the risk management process.

Communications

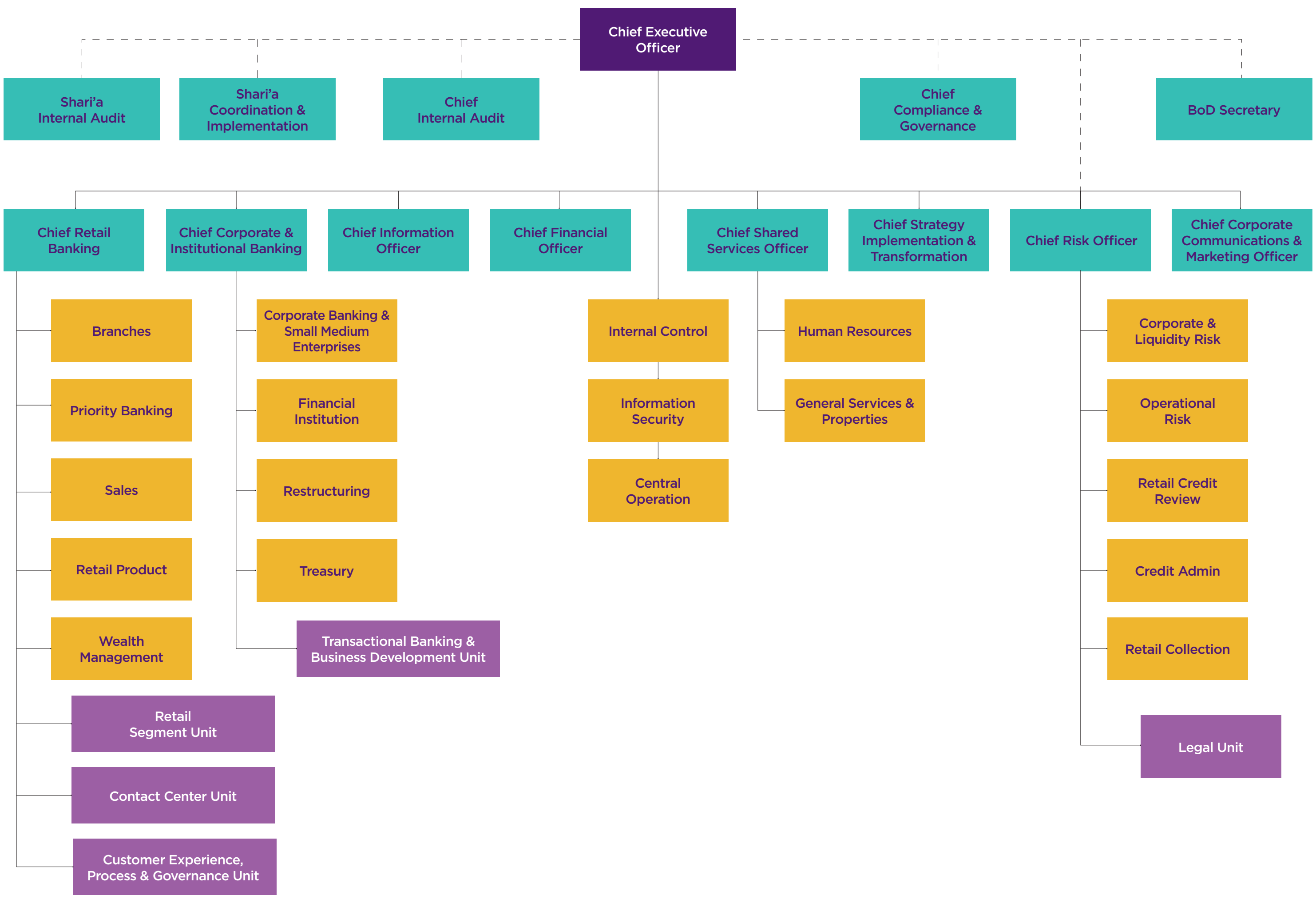
BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include the annual report, website and regular announcements in the appropriate local media.

Governance Structure



Corporate Governance Review (Cont'd)

Bank's Structure



Corporate Governance Review (Cont'd)

Board of Directors

Composition

No.	Director	Designation	Start Date	Term
1	Dr. Esam Abdulla Fakhro	Non-Executive & Non-Independent	23rd March 2016	Second
2	Gen. Ebrahim Abdulla Al Mahmood (Until 27th January 2020)	Non-Executive & Non-Independent	28th May 2017	Second
3	Mr. Khaled Yusuf AbdulRahman	Non-Executive & Non-Independent	23rd March 2016	Second
4	Mr. Talal Ali Al Zain (Until 21st March 2019)	Non-Executive & Independent	23rd March 2016	-
5	Mr. Khalil Ebrahim Nooruddin (Until 21st March 2019)	Non-Executive & Independent	23rd March 2016	-
6	Mr. Ebrahim Husain Ebrahim Aljassmi (Until 21st March 2019)	Non-Executive & Independent	23rd March 2016	-
7	Mr. Othman Ebrahim Naser Al Askar (Until 21st March 2019)	Non-Executive & Independent	23rd March 2016	-
8	Mr. Muhammad Zarrug Rajab (Until 30th January 2020)	Non-Executive & Non-Independent	23rd March 2016	Third
9	Mr. Khalid Abdulaziz Al Jassim	Non-Executive & Independent	21st March 2019	First
10	Mr. Mohammed Abdulla Al Jalahama	Non-Executive & Independent	21st March 2019	First
11	Mr. Abdulla Ahmed Kamal (Until 27th January 2020)	Non-Executive & Non-Independent	21st March 2019	First
12	Mr. Marwan Khaled Tabbara	Non-Executive & Independent	21st March 2019	First
13	Mr. Mohammed Abdulla Nooruddin	Non-Executive & Independent	21st March 2019	First

The detailed profiles of the Board members are available on the Bank's website.

Board of Directors' Responsibilities

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of its stakeholders, and to balance the interests of its diverse constituencies, including associated concerns, employees and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgement in what they reasonably believe to be in the best interests of the Bank.

The Board will approve and oversee the implementation of the Bank's strategies and will review and approve the Bank's strategic plan. As part of its strategic review process, the Board will review major action and business plans, set performance objectives and oversee major investments, divestitures and acquisitions. The Board is also ultimately responsible to ensure effective risk management function, regulatory compliance, adequate internal controls as well as compliance with Shari'a rulings. Every year, at an annual Board strategy session, the Board will formally reassess the Bank's objectives, strategies and plans.

One of the Board's most important responsibilities is identifying, evaluating and selecting candidates for the Board of Directors. The Board will seek members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contributions they can make to the Board.

The Board may not necessarily carry out all these responsibilities but should ensure that these have been delegated to various board committees or executive management committees to act on their behalf and communicate periodic reports to the Board for their review.

Induction of New Directors

The Bank provides an orientation program for new Directors which shall include presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors.

Corporate Governance Review (Cont'd)

Code of Conduct

The Bank adopts a Code of Conduct and other internal policies and guidelines to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct applies to all employees of the Bank as well as to Directors.

Review of Internal Control Processes and Procedures

Audit, Compliance & Governance Committee assists the Board in fulfilling its oversight responsibility relating to the performance of the internal audit function, which regularly reviews and ensures adherence to internal control processes and procedures.

Board Membership

The Board of Directors' membership term is three years, subject to renewal. Shareholders owning 10% or more of the share capital can nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the Ordinary General Meeting for the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

Membership of the Board of Directors can be terminated in the following cases:

- If a member fails to attend at-least 75% of the meetings without a reasonable excuse;
- If he/she tenders his/her resignation in writing;
- If he/she fails to fulfill any related conditions referred to the Bank's Memorandum of Association;
- If he/she is appointed or elected in violation of the provisions of the CBB Law and/or Bahrain Commercial Companies Law;
- If he/she abuses his/her membership for carrying on other business that competes with or is detrimental to the company's business; or
- If the shareholder who nominates him/her applied for his/her removal.

Board Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	24-Feb	25-Feb	28-Apr	04-May	08-Aug	04-Nov	07-Nov	09-Dec
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓	✓	✓	✓	✓
Gen. Ebrahim Abdulla Al Mahmood	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Talal Ali Al Zain (Until 21st March 2019)	✓	✓	-	-	-	-	-	-
Mr. Khalil Ebrahim Nooruddin (Until 21st March 2019)	✓	✓	-	-	-	-	-	-
Mr. Ebrahim Husain Ebrahim Aljassmi (Until 21st March 2019)	✓	✓	-	-	-	-	-	-
Mr. Othman Ebrahim Naser Al Askar (Until 21st March 2019)	✓	✓	-	-	-	-	-	-
Mr. Khalid Yousif Abdul Rahman	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Muhammad Zarruq Rajab	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdulla Ahmed Kamal	-	-	✓	✓	✓	✓	✓	✓
Mr. Mohamed Abdulla Nooruddin	-	-	✓	✓	✓	✓	✓	✓
Mr. Khalid Abdulaziz Al Jassim	-	-	✓	✓	✓	✓	✓	✓
Mr. Mohammed Abdulla Al Jalahma	-	-	✓	✓	✓	✓	✓	✓
Mr. Marwan Khaled Tabbara	-	-	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

Corporate Governance Review (Cont'd)

Board Committees' Members

Board Committee	Members	Objectives
Board Credit Committee (BCC)	**Gen. Ebrahim Abdulla Al Mahmood** Chairman Members • Khalid Yousif Abdul Rahman • Muhammad Zarrug Rajab	The BCC reviews and approves/recommends Credit Proposals to the Board for approval.
Audit, Compliance and Governance Committee (ACGC)	**Khalid Abdulaziz Al Jassim** Chairman Members • Mohammed Abdulla Al Jalahma • Abdulla Ahmed Kamal	The ACGC oversights the integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of audit findings, provisions and impairments as well as compliance with legal and regulatory requirements.
Nomination and Remuneration Committee (NRC)	**Dr. Esam Abdulla Fakhro** Chairman Members • Mohamed Abdulla Nooruddin • Marwan Khaled Tabbara	The NRC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. It is also entrusted to identify and recommend persons occupying senior positions including board members.
Board Risk Committee (BRC)	**Marwan Khaled Tabbara** Chairman Members • Mohamed Abdulla Nooruddin • Khalid Abdulaziz Al Jassim	The BRC is formed to assist the Board of Directors in overseeing the risk management framework of the Bank.

Board Credit Committee Meetings and Attendance
Minimum Number of Meetings Required = 4

Members	24-Jan	17-Mar	07-Aug	03-Nov
Gen. Ebrahim Abdulla Al Mahmood	✓	✓	✓	✓
Khaled Yusuf Abdul Rahman	✓	✓	✓	✓
Khalil Ebrahim Nooruddin (Until 21st March 2019)	✓	✓	-	-
Muhammad Zarrug Rajab	-	-	✓	✓
Hassan Jarrar	✓	✓	✓	✓

✓ Participated via phone/video link

Corporate Governance Review (Cont'd)

Audit, Compliance & Corporate Governance Committee Meetings and Attendance

Minimum Number of Meetings Required = 4

Members	07-Feb	04-May	20-Jun	07-Aug	29-Sep	03-Nov	08-Dec
Ebrahim Husain Ebrahim Aljassmi (Until 21st March 2019)	✓	-	-	-	-	-	-
Othman Ebrahim Naser Al Askar (Until 21st March 2019)	✓	-	-	-	-	-	-
Muhammad Zarrug Rajab	✓	-	-	-	-	-	-
Khalid Abdulaziz Al Jassim	-	✓	✓	✓	✓	✓	✓
Mohammed Abdulla Al Jalahma	-	✓	✓	✓	✓	✓	✓
Abdulla Ahmed Kamal	-	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

Nomination & Remuneration Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	06-Feb	26-Jun	25-Sep	02-Dec
Dr. Esam Abdulla Fakhro	✓	✓	✓	✓
Talal Ali Al Zain (Until 21st March 2019)	✓	-	-	-
Ebrahim Husain Ebrahim Aljassmi (Until 21st March 2019)	✓	-	-	-
Mohamed Abdulla Nooruddin	-	✓	✓	✓
Marwan Khaled Tabbara	-	✓	✓	✓

Board Risk Committee Meetings and Attendance

Minimum Number of Meetings Required = 2

Members	20-May	16-Jun	03-Jul	04-Sep	03-Oct	13-Nov	28-Nov	04-Dec
Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	✓
Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓
Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

Board Independent Committee Meetings and Attendance

Minimum Number of Meetings Required = N/A

Members	01 Aug	19 Aug	05 Sep	12 Sep	26 Sep	03 Oct	15 Oct	21 Oct	31 Oct	06 Nov	18 Nov	28 Nov	04 Dec	26 Dec
Marwan Khaled Tabbara	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mohamed Abdulla Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Khalid Abdulaziz Al Jassim	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ Participated via phone/video link

Corporate Governance Review (Cont'd)

Evaluation of the Board and Each Committee

The Nomination and Remuneration Committee carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results.

Board of Directors' Remuneration and Sitting Fees

The Board of Directors are paid an annual remuneration as approved by the shareholders at the Ordinary General Meeting. While the amount of the remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the Directors to the Bank, are considered for determining the total remuneration. In addition, Directors are paid sitting fees for attending the various subcommittees of the Board of Directors. Non-resident Directors are also entitled to travel expenses. Further details on the remunerations paid to Board as well as Senior Management are available under the remuneration disclosures of the annual report.

Shari'a Supervisory Board

Objective

The main objective of Shari'a Supervisory Board is to advise the Bank on any Shari'a matter and to ensure compliance with the Shari'a tenets and requirements in their operations. The Shari'a Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and AAOIFI. The profiles of the Shari'a Supervisory Board are listed on page 16 of this annual report.

The Shari'a Supervisory Board has established a Shari'a Coordination & Implementation function to assist the Bank in its day to day management of business. The Shari'a Supervisory Board has also established an independent Internal Shari'a Audit function that reports any exceptions to the Shari'a fatwas and guidelines.

Shari'a Supervisory Board Meetings

Members	20-Mar	16-Jun	15-Sep	09-Dec	12-Dec
Sh. Dr. Abdul Latif Al Mahmood	✓	✓	✓	✓	✓
Sh. Mohammed Al Juffairi	✓	✓	✓	✓	✓
Sh. Adnan Al Qattan	✓	✓	✓	✓	✓
Sh. Dr. Nedham Yacoubi	✓	✓	✓	×	✓
Sh. Dr. Essam Al Enizi	✓	✓	✓	×	✓

Executive Management

The management structure that clearly defines roles, responsibilities and reporting lines, is available in the annual report of the Bank. Within the management structure there are separate committees responsible to meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

Name & Designation	Profession	Experience in years	Qualification
Hassan Amin Jarrar Chief Executive Officer	Banking	31	BSc in Finance from California State University, San Jose.
Wesam A.Aziz Baqer Chief Corporate & Institutional Banking	Banking	18	MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland. BSc in Business Administration from the University of Bahrain Certified Financial Adviser (CeFA).
Dalal Ahmed Al Qais Chief Retail Banking	Banking	18	MBA in Finance from AMA University. BSc in Business Management from the University of Bahrain.
Ameer Abdul Ghani Dairi Chief Financial Officer	Accounting	19	CPA from New Hampshire Board of Accountancy. Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, USA. BSc in Accounting from University of Bahrain.

Corporate Governance Review (Cont'd)

Executive Management (Cont'd)

Name & Designation	Profession	Experience in years	Qualification
Fahim Ahmed Shafiqi Chief Risk Officer	Banking	21	MBA from University of Warwick, UK. Diploma in Islamic Finance (CDIF).
Eman Ali Abdulla Ebrahim Head of Central Operations	Banking	23	Associate Diploma in Accounting, University of Bahrain.
Hussain Ebrahim Al Banna Head of Treasury	Banking	16	BSc in Banking & Finance from the University of Bahrain. Treasury & Capital Markets Diploma, BIBF.
Dawood Khalil Al Ashhab Chief Shared Services Officer	Human Resources	20	BS in Public Administration. Certified coach from the Gallup University, UK.
Mahmood Qannati Chief Marketing & Corporate Communication	Marketing	19	MSc in Computer Based Information Systems from the University of Sunderland. BSc in Marketing from the University of Bahrain.
Osama Ali Nasr Chief Information Officer	Information Technology	22	MSc in Information Systems Management from the University of Liverpool. BSc in Computer Science from Al-Isra University, Jordan.
Mazar Rashed Jalal Chief Compliance & Governance	Banking	19	BSc in Accounting from the University of Bahrain. International Compliance Associate Diploma from UK. Diploma in Islamic Banking and Insurance from UK, Wales.
Mohammed Ayada Mattar Money Laundering Reporting Officer	Banking	15	Masters in Finance from AMA International University. Certified Anti-Money Laundering Specialist. Diploma in Governance, Risk & Compliance from International Compliance Association.
Maisa Jawdat Shunnar Chief Strategy Implementation & Transformation	Strategy Implementation & Transformation	20	Masters of Business Communication & Leadership, Jones International University, Colorado, USA. BSc in Business Administration majoring in Computer Information Systems from University of Houston (Texas, USA).
Hamad Farooq Al- Shaikh Head of Shari'a Coordination & Implementation	Banking	15	Master degree of Shari'a At ALEmam ALAwzaie University in Lebanon. Chartered Islamic Finance Professional. Advanced Diploma in Islamic Commercial Jurisprudence. Bachelor Degree in Law and Shari'a from Qatar University.
Eman Mohammed AlBinghadeer Head of Internal Shari'a Audit	Banking	15	Professional Diploma in Shari'a Auditing – CIBAFI. CSIA – Certified Specialist in Islamic Accounting – CIBAFI. CIB – Certified Islamic Banker – CIBAFI. CSAA – Certified Shari'a Adviser and Auditor – AAOIFI. Diploma in Computing and Business Studies – Bournemouth University and Technology Centre – UK.
Khaled Waheeb Al Naser Chief Internal Audit	Auditing & Banking	13	Certified Public Accountant - CPA. Certified Internal Auditor - CIA. Certified Islamic Professional Accountant - CIPA. BSC Managerial Accounting – NYIT. CGMA – AICPA/ CIMA. COSO Internal Control - COSO.

Corporate Governance Review (Cont'd)

Management Committees

Committee(s)	Members	Objectives
Management Committee (MANCO)	**Hassan Amin Jarrar** Chairman Members • Wesam A.Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Fahim Ahmed Shafiqi • Eman Ali Abdulla Ebrahim • Dawood Khalil Al Ashhab • Osama Ali Nasr • Mazar Rashed Jalal • Maisa Jawdat Shunnar • Mahmood Qannati	MANCO is the highest management body that reviews the Bank's strategy implementation. In addition, the committee also plays a significant role in establishing the policies, procedures and frameworks covering risk management, compliance, retail and corporate banking. The Committee also monitors the performance of business, support and control functions of the Bank.
Asset & Liability Committee (ALCO)	**Ameer Abdul Ghani Dairi** Chairman Members • Hassan Amin Jarrar • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi • Hussain Ebrahim Al Banna • Wesam A.Aziz Baqer	The purpose of Asset & Liability Committee is to act as a decision making body and guiding force responsible for balance sheet planning from risk return perspective, including strategic management of yield and liquidity risks.
Credit & Investment Committee (C&IC)	**Hassan Amin Jarrar** Chairman Members • Wesam A.Aziz Baqer • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi (Dissenting Vote) • Ameer Abdul Ghani Dairi	C&IC determines the Credit & Investment Policy of the Bank and identifies possible risks assumed by the Bank for different types of transactions. The C&IC has the authority to make a decision on approval or rejection or proposed transactions within its authority as well as to monitor the performance and quality of the Bank's credit & Investment portfolios.
Qard Al Hassan, Donation & Zakah Committee	**Hamad Farooq AlShaikh** Chairman Members • Khaled Waheeb AlNasser (Until October) • Nada Ishaq Abdul Karim • Hamad Al Bassam • Nayef Nasser Al Nasser (From September) • Aysha Ali Al Nasser (From October)	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Provisioning Committee (PC)	**Ameer Abdul Ghani Dairi** Chairman Members • Fahim Ahmed Shafiqi • Khalid Mahmood (Observer - until June) • Khaled Waheeb Al Naser (Observer - from June) • Salah Yaseen (Voting member)	Provisioning Committee reviews the Bank's provisions as well as formulates policies with a view to maintain the strategic risk level objectives.
Operational Risk Committee (ORC)	**Fahim Ahmed Shafiqi** Chairman Members • Sohail Kabeer • Wesam A.Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Eman Ali Abdulla Ebrahim • Dawood Khalil Al Ashhab • Osama Ali Nasr • Mazar Rashed Jalal	The purpose of the Operational Risk Committee is to: a) Oversee and review the Bank's operational risk framework. b) Assist the management in fulfilling its operational risk management responsibilities as defined by applicable laws and regulations.
Purchasing & Evaluation Committee*	**Hamad Mohammed Al Bassam** Chairman Members • Maitha Abdulla Saad Faraj • Aysha Ali AlNasser	The Bank has formed a Purchasing & Evaluation Committee that independently oversees the vendor management and procurement process.

*Established in 2019.

Corporate Governance Review (Cont'd)

Succession Planning
Succession planning in the Bank is driven by our Business strategy and forward looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's Nomination & Remuneration Committee to ensure availability of a practical and executable succession plan.

Related Party Transactions and Conflict of Interest
Under the Bahrain Commercial Companies Law and CBB's regulations, the Bank is required to disclose potential conflicts as well as refrain from participating in any conflicted decisions. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank. In addition, exposures to major shareholder, directors and senior management are governed by the regulations of the CBB.

Related party transactions are entered into in compliance with Article 189 of the Commercial Companies Law. All material service providers are selected following a satisfactory tendering process which is governed by the vendor management policy of the Bank. Any director or member of the senior management conflicted is excluded throughout the decision making process. Details of related party transactions, carried out at arm's length, are disclosed in Note 26 of the financial statements.

Material Transactions Requiring Board Approval
The Board has delegated certain authorities to the Executive Management to ensure smooth and effective day to day management, however, all material financing transactions, as provided in the delegation of authority matrix of the Bank, are subject to Board approval. Furthermore, major decisions such as change in strategy, changes in the organization structure, capital expenditures, amending policies and hiring executive management is subject to either Board or relevant Board committees.

Exceptions to CBB's Corporate Governance Regulations
Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained to the shareholders and to the CBB. Exceptions to guidance are explained as follows:

Reference	Explanation
HC-1.3.13	HC-1.3.13 states that no one person should hold more than three directorships in public companies in the Kingdom of Bahrain, with the provision that no conflict of interest may exist. Dr. Esam Abdulla Fakhro, the Chairman of the Board, holds more than three directorships in public companies in the Kingdom of Bahrain. The Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as he provides adequate attention to his responsibilities and there is no conflict of interest between his other directorships and that of the Bank.
HC-1.4.6	HC-1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Dr. Esam Abdulla Fakhro is nominated by the NBB which is a Controller of the Bank. Accordingly, Dr. Fakhro is reported as a Non-Independent Director. The Board is of the view since BisB has no business transactions with NBB, there exist no conflict of interest and therefore, the chairmanship of Dr. Fakhro is appropriate.
HC-1.8.2	HC-1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC-1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the Audit Committee. The Board is of the view that this does not compromise the high standards of corporate governance as the Audit Committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfil its responsibilities.
HC-5.3.2	HC-5.3.2 states that the Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. The Remuneration Committee of the Bank is combined with the Nomination Committee as allowed under HC-1.8.5. The Chairman of the Nomination & Remuneration Committee, Dr. Esam Abdulla Fakhro, is treated as Non-Independent on the basis that his nomination is through NBB, a Controller of the Bank. The Board is of the view that since the remuneration of the Board is governed by the Bahrain Commercial Company Law, there exist no conflict of interest in Dr. Fakhro being the Chairman of the NRC.

Employments of Relatives
The Bank has a policy in place on employment of relatives to prevent the potential conflict of interest. As a matter of policy, employment of relatives is not allowed, however, in case of any exception, the approval of the Board's Nomination & Remuneration Committee is sought.

Remuneration of the External Auditors
KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2019. The details of the audit fee paid to the auditors during the year 2019 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

Corporate Governance Review (Cont'd)

Information on Products & Services & Availability of Financial Information

New product information, announcements and information related to all stakeholders are made available in a timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. In addition, the Consolidated Financial Statements of at least past 5 years in addition to all supplementary disclosures required by CBB regulations, are available in the Bank's website.

Customer Complaints

The Quality Assurance Department is responsible for managing customer complaints. BisB customers may use the Bank's website or the call center for lodging a complaint. All complaints are logged, monitored and reported to the CBB. A user friendly guide is made available to customers by way of a conspicuous notice and Bank's website.

Whistleblower Policy

The Board has adopted a Whistleblower Policy which provides all employees an opportunity to raise any observation regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank and to prohibit managerial personnel from taking any adverse action against employees for doing so.

Major Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
NBB	Bahraini	309,206,266	29.06%	Majority Sovereign
Social Insurance Organization - Military Pension Fund	Bahraini	154,604,587	14.53%	Sovereign
Social Insurance Organization	Bahraini	154,604,585	14.53%	Sovereign
Islamic Development Bank	Saudi	153,423,081	14.42%	Sovereign
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	Sovereign

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	72.76%	774,240,213
Kingdom of Saudi Arabia	15.29%	162,712,541
Kuwait	8.73%	92,853,697
United Arab Emirates	2.95%	31,373,681
Qatar	0.13%	1,381,185
Others	0.14%	1,497,270
Total	**100.00%**	**1,064,058,587**

Corporate Governance Review (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons

Directors	Shares as of 31st December 2018	Sold During 2019	Acquired During 2019	Shares as of 31st December 2019
Dr. Esam Abdulla Fakhro	52,500	-	300,000	352,500
Muhammad Zarrug Rajab*	140,943	-	-	140,943
Khalid Yousif Abdulrahman**	-	-	-	-
Mohammed Abdulla Al Jalahma	-	-	-	-
Abdulla Ahmed Kamal	-	-	-	-
Marwan Khaled Tabbara	-	-	-	-
Khalid AbdulAziz Al Jassim	-	-	-	-
Mohamed Abdulla Nooruddin	-	-	-	-
Gen. Ebrahim Abdulla Al Mahmood	-	-	-	-
Talal Ali Al Zain (Until 21st March 2019)	-	-	-	-
Khalil Ebrahim Nooruddin (Until 21st March 2019)	-	-	-	-
Ebrahim Husain AlJassmi (Until 21st March 2019)	201,646	-	-	201,646
Othman Ebrahim Al Askar (Until 21st March 2019)	92,496	92,496	-	-

*Muhammad Zarruq Rajab owns 140,943 nominee shares of BisB on behalf of IDB
**Khalid Yousif Abdulrahman owns 32.5% of shares in Yusuf A.Rahman Engineer(Holding) Co.WLL which owns 536,020 number of shares in BisB

Shari'a Supervisory Board	Shares as of 31st December 2018	Sold During 2019	Acquired During 2019	Shares as of 31st December 2019
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	177,580	3,154	-	174,426
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	13,237	-	-	13,237
Shaikh Mohammed Jaffar Al Juffairi	-	-	-	-
Shaikh Adnan Abdulla Al Qattan	-	-	-	-
Shaikh Dr. Essam Khalaf Al Enizi	-	-	-	-

Corporate Governance Review (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons (Cont'd)

Approved Persons	Shares as of 31st December 2018	Sold During 2019	Acquired During 2019	Shares as of 31st December 2019
Hassan Amin Jarrar Chief Executive Officer	827,057	100,000	216,901	943,958
Wesam A.Aziz Baqer Chief Corporate & Institutional Banking	156,528	-	11,992	168,520
Dalal Ahmed Al Qais Chief Retail Banking	-	-	-	-
Ameer Abdul Ghani Dairi Chief Financial Officer	-	-	-	-
Fahim Ahmed Shafiqi Chief Risk Officer	65,936	65,936	-	-
Dawood Khalil Al Ashhab Chief Shared Services Officer	-	-	-	-
Eman Ali Abdulla Head of Central Operations	-	-	-	-
Hamad Farooq AlShaikh Head of Shari'a Coordination & Implementation	-	-	-	-
Eman Mohammed AlBinghadeer Head of Shari'a Internal Audit	-	-	-	-
Mahmood Qannati Chief Marketing & Corporate Communications	4,500	-	-	4,500
Hussain Ebrahim Al Banna Head of Treasury	-	-	-	-
Osama Ali Nasr Chief Information Officer	12,675	-	-	12,675
Maisa Jawdat Shunnar Chief Strategy Implementation & Transformation	-	-	-	-
Khaled Waheeb AlNasser Chief Internal Audit	-	-	-	-
Nayef Naser Yusuf Acting Head of Special Assets	14,383	-	-	14,383
Mazar Jalal Chief Compliance & Governance	-	-	-	-
Mohammed Ayada Matar Money Laundering Reporting Officer	-	-	-	-
Hamad Hussain Al Qattan Deputy Money Laundering Reporting Officer	-	-	-	-

Corporate Governance Review (Cont'd)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons (Cont'd)

Mohamed Jamal Aish Deputy Money Laundering Reporting Officer	-	-	-	-
Salman Mazen Matar Head of Internal Control	-	-	-	-
Ali Yousif Al Aradi Head of Branches	-	-	-	-
Ammar Fuad Alsabah Head of Financial Institution	-	-	-	-
Faisal Al Abdulla Head of Priority Banking	-	-	-	-
Hussain Ali Bahram Head of Wealth Management	-	-	-	-
Mohammed Shawqi Albinmohammed Head of Sales	-	-	-	-
Mohammed A.Rahman Alabbasi Head of Retail Collection	-	-	-	-
Sohail Kabiruddin Head of Operational Risk	-	-	-	-
Siddharth Kumar Head of Corporate & Liquidity Risk	-	-	-	-
Salah Dawood Alansari Head of Credit Administration	-	-	-	-
Saleh Isa Almehri Head of Retail Credit Review	-	-	-	-
Afnan Ahmed Saleh Head of Human Resources	-	-	-	-
Mohammed Isa Hammad Head of Information Security	-	-	-	-
Hamad Mohamed Albassam Head of General Services	-	-	-	-

As of 31st December 2019, the total number of shares held by Board of Directors, Shari'a Supervisory Board members and the Approved Persons of the Bank are 1,825,142 which represents 0.17% of the total issued shares of the Bank. The shares held by the Approved Persons includes shares granted by the Bank under the Share Incentive Scheme.

Shari’a Supervisory Board Report

For the year ended on 31/12/2019

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

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

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

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

First: Supervision and Revision of the Bank's Business

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

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

Second: Shari’a Audit of the Bank’s Business

1) Shari’a Internal Audit

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

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

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

The 14 reports submitted by Internal Shari’a Audit Department to the Shari’a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Shari’a Board annual approved audit plan. The Shari’a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Shari’a principles and Fatwas and decisions of the Shari’a Board.

2) Independent External Shari’a Compliance Audit

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

Third: Shari’a Governance

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

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

Fourth: Shari’a Supervisory Board Operations

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

Fifth: Financial Statements and Zakat Calculation Methods

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

Based on the above, the Shari’a Supervisoy Board decides that:

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

We pray that Allah may grant all of us further success and prosperity.
Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Shaikh. Dr. A. Latif Mahmood Al Mahmood
Chairman

Shaikh. Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh. Adnan Abdulla Al Qattan
Member

Shaikh. Dr. Nedham M. Saleh Yacoubi
Member

Shaikh. Dr. Essam Khalaf Al Onazi
Member

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on other regulatory requirements

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

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

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

c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro

Partner Registration No. 213

11 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

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

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

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Dr. Esam Abdulla Fakhro
Chairman

Khalid Yousif Abdul Rahman
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY

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

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

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

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

Abaad Real Estate Company SPC ("Abaad")

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

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

a. Basis of preparation

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

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

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

b. Statement of Compliance

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a. New standards, amendments, and interpretations

i) New standards, amendments, and interpretations issued and effective:

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

ii) New standards, amendments and interpretations issued but not yet effective:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

ii) New standards, amendments and interpretations issued but not yet effective: (Continued)

(i) FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicable, for the Islamic financial institutions from both perspectives i.e. the principal (investor) and the agent.

Principal (Investor)

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

Pass through approach

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

Wakala venture approach

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

Agent

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

Off-balance sheet approach

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

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

On-balance sheet approach

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

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

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

Transitional provisions

An entity may opt not to apply this standard only on such transactions:

- which were already executed before the adoption date of this standard for the entity; and
- their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

ii) New standards, amendments and interpretations issued but not yet effective: (Continued)

(ii) FAS 33 – Investment in Sukuk, shares and similar instruments

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

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

The standard classifies investments into equity type, debt type and other investment instruments. Investments in equity instruments must be at fair value and will not be subject to impairment allowance as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

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

Transitional provisions

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

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

(iii) FAS 34 – Financial Reporting for Sukuk-holders

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

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

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

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

Transitional provisions

An entity may opt not to apply this standard only on such transactions:

- which were already executed before the adoption date of this standard for the entity; and
- their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

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

b. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Cash and cash equivalents

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

d. Placements with and borrowings from financial institutions

i) Placements with financial institutions

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

ii) Borrowings from financial institutions

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

e. Financing assets

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

f. Murabaha financing

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

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

g. Musharaka financing

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

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

h. Investment securities

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

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

i) Debt type instruments carried at amortised cost

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

ii) Equity type instruments carried at fair value through equity

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Measurement principles

i) Fair value measurement

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

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

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

ii) Amortised cost

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

j. Investment in associates

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

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

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

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

k. Ijarah Muntahia Bittamleek

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

l. Investment in real estate

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Property and equipment

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

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

n. Equity of investment accountholders

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

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

o. Investment risk reserve

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

p. Profit equalisation reserve

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

q. Zakah

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

r. Provisions

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

s. Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t. Derecognition of financial assets and liabilities

i) Financial assets

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

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

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

ii) Financial liabilities

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

u. Treasury shares

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

v. Earnings prohibited by Shari'a

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

w. Offsetting

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

x. Income recognition

i) Murabaha and Wakala

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

ii) Musharaka

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

iii) Sukuk

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

iv) Placements with financial institutions

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

v) Ijarah Muntahia Bittamleek

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

x. Income recognition (Continued)

vi) Dividend income

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

vii) Fee and commission income

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

y. Foreign currencies

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

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

z. Impairment of exposures subject to credit risk

The Group recognizes expected credit losses (ECLs) on the following:

- Bank balances and placements with banks;
- Financing assets;
- Ijarah Muntahia Bittamleek and ijarah rental receivables;
- Investment in Sukuk – debt type securities at amortised cost;
- Financial guarantee contracts issued; and
- Commitments to finance.

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

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

  When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

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

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB rule book. For these assets, lifetime ECL is recognised. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

i) Measurement of ECL

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

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

ii) Restructured exposures

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

iii) Credit-impaired exposures

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

v) Write-off

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

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

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

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

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

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

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

i) Impairment of exposures subject to credit risk

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL, and selection and approval of models used to measure ECL is set out in note 2. z and note 27.
- Impairment on Ijarah rental receivables: key assumptions used in estimating recoverable cash flows is set out in note 2. z.
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 2. z and note 27.

ii) Going concern

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

iii) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through consolidated statement of income. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2.h].

iv) Impairment of equity investments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

cc. Trade date accounting

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

dd. Customers’ current accounts

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

ee. Employees’ benefits

i) Short-term benefits

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

ii) Post-employment benefits

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

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

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

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

iii) Share based employee incentive scheme

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

ff. Financial guarantees

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

gg. Repossessed assets

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

hh. Statutory reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii. URIA protection scheme

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

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

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

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

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

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. FINANCING ASSETS

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

5.1 Murabaha

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. FINANCING ASSETS (Continued)

5.2 Musharaka

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

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

5.3 The movement on impairment allowances is as follows:

2019	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
At 1 January 2019	**2,157**	**3,146**	**24,536**	**29,839**
Net movement between stages	**205**	**(286)**	**81**	**-**
Net charge for the year	**(747)**	**(1,303)**	**9,465**	**7,415**
Write-off	**-**	**-**	**(7,784)**	**(7,784)**
At 31 December 2019	**1,615**	**1,557**	**26,298**	**29,470**

2018	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2018	2,367	9,486	15,345	27,198
Net movement between stages	1,302	(4,304)	3,002	-
Net charge for the year	(1,512)	(2,036)	9,295	5,747
Write-off	-	-	(3,106)	(3,106)
At 31 December 2018	2,157	3,146	24,536	29,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENT SECURITIES

a. Debt type instruments*

	2019 BD'000	2018 BD'000
Quoted Sukuk – carried at amortised cost		
Gross balance at beginning of the year	**160,727**	176,806
Acquisitions	**35,999**	41,891
Disposals and redemptions	**(6,253)**	(57,970)
Gross balance at the end of the year	**190,473**	160,727
Impairment allowance	**(7)**	(23)
Net balance at the end of the year	**190,466**	160,704
Unquoted Sukuk – carried at amortised cost		
Gross balance at beginning of the year	**58,725**	62,581
Acquisitions	**60**	33,699
Disposals and redemptions	**(23,258)**	(37,534)
Foreign currency translation changes	**7**	(21)
Gross balance at the end of the year	**35,534**	58,725
Impairment allowance	**(12,187)**	(12,196)
Net balance at the end of the year	**23,347**	46,529

b. Equity type instruments

	2019 BD'000	2018 BD'000
Unquoted shares – at cost less impairment		
Gross balance	**28,436**	28,436
Impairment allowance	**(10,204)**	(9,784)
Net balance at the end of the year	**18,232**	18,652
Unquoted managed funds – at cost less impairment		
Gross balance	**14,168**	14,168
Impairment allowance	**-**	-
Net balance at the end of the year	**14,168**	14,168
Total net investment securities	**246,213**	240,053

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INVESTMENT SECURITIES (Continued)

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

2019	**Stage 1 BD'000**	**Stage 2 BD'000**	**Stage 3 BD'000**	**Total BD'000**
At 1 January 2019	**52**	**-**	**12,167**	**12,219**
Net charge for the year	**(32)**	**-**	**-**	**(32)**
Foreign exchange movement	**-**	**-**	**7**	**7**
At 31 December 2019	**20**	**-**	**12,174**	**12,194**

2018	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2018	96	-	11,481	11,577
Net charge for the year	(44)	-	707	663
Foreign exchange movement	-	-	(21)	(21)
At 31 December 2018	52	-	12,167	12,219

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

7. INVESTMENT IN ASSOCIATES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. INVESTMENT IN ASSOCIATES (Continued)

Investment in associates comprise of:

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

8. IJARAH MUNTAHIA BITTAMLEEK

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. PROPERTY AND EQUIPMENT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. INVESTMENT IN REAL ESTATE

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

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

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

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

11. OTHER ASSETS

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

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

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

12. BORROWINGS FROM FINANCIAL INSTITUTIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. OTHER LIABILITIES

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

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

14.1 Equity of investment accountholders balances

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

14.2 Assets in which IAH funds were invested

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

14.3 Profit distribution by account type

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

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

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

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

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

14.4 Equity of Investment Accountholders Reserves

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

14.5 Return on equity of investment accountholders

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. OWNERS' EQUITY

a. Share capital

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

b. Treasury Shares

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

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

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

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

c. Reserves

i) Statutory reserve

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

ii) General reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. OWNERS' EQUITY (Continued)

c. Reserves (Continued)

iii) Real estate fair value reserve

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

iv) Investment fair value reserve

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

d. Additional information on shareholding pattern

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

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

See subsequent event note 33.

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

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

	2019			2018		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**123,447,266**	**3,226**	**11.60%**	136,999,164	3,241	12.87%
1% and less than 5%	**92,406,481**	**5**	**8.68%**	78,854,583	4	7.41%
5% and less than 10%	**76,366,321**	**1**	**7.18%**	76,366,321	1	7.18%
10% and less than 50%	**771,838,519**	**4**	**72.54%**	771,838,519	4	72.54%
	1,064,058,587	**3,236**	**100.00%**	1,064,058,587	3,250	100.00%

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

Categories:

	2019		2018	
	Number of shares	**Number of directors**	Number of shares	Number of directors
Less than 1%	**493,443**	**2**	487,535	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. OWNERS' EQUITY (Continued)

d. Additional information on shareholding pattern (Continued)

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

	2019		2018	
	Number of shares	**Percentage of Shareholding**	Number of shares	Percentage of Shareholding
Directors	**493,443**	**0.046%**	487,535	0.046%
Shari'a supervisory members	**187,663**	**0.018%**	190,817	0.018%
Senior management	**1,125,153**	**0.106%**	1,202,534	0.113%
	1,806,259	**0.170%**	1,880,886	0.177%

e. Proposed appropriations

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

16. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments (Continued)

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

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

17. CAPITAL ADEQUACY

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17. CAPITAL ADEQUACY (Continued)

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

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

18. INCOME FROM FINANCING

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

19. INCOME FROM INVESTMENT SECURITIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

20. INCOME FROM INVESTMENT IN REAL ESTATE

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

21. OTHER INCOME

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

22. OTHER OPERATING EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

23. IMPAIRMENT ALLOWANCE, NET

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

24. ZAKAH

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

25. EARNINGS PER SHARE

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26. RELATED PARTY TRANSACTIONS

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

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

	2019				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Financing assets	-	-	1,261	-	1,261
Investment in associates	-	18,750	-	-	18,750
Other assets	-	-	-	266	266
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,857	390	109	2,356
Other liabilities	-	-	297	-	297
Equity of investment accountholders	-	-	959	1,159	2,118
Placements from non-financial institutions and individuals	44,930	-	50	-	44,980
Income					
Income from financing	-	-	103	-	103
Income from investment in real estate	-	-	-	(72)	(72)
Share of results of associates, net	-	(133)	-	-	(133)
Return on equity of investment accountholders	(1,113)	-	(1)	(51)	(1,165)
Expense on placements from non-financial institutions and individuals	(470)	-	-	-	(470)
Expenses					
Other expenses	-	-	(366)	-	(366)
Staff costs	-	-	-	(1,552)	(1,552)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26. RELATED PARTY TRANSACTIONS (Continued)

	2018				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Financing assets	–	–	1,615	–	1,615
Investment in associates	–	21,643	–	–	21,643
Other assets	–	–	–	285	285
Liabilities and Equity of investment accountholders					
Borrowings from financial institutions	–	–	–	–	–
Customers' current accounts	–	177	425	77	679
Other liabilities	–	–	500	–	500
Equity of investment accountholders	48,972	–	695	980	50,647
Income					
Income from financing	–	–	105	–	105
Share of results of associates, net	–	86	–	–	86
Return on equity of investment accountholders	(1,512)	–	(33)	(35)	(1,580)
Expense on borrowings from financial institutions	(532)	–	–	–	(532)
Expenses					
Other expenses	–	–	(484)	–	(484)
Staff costs	–	–	–	(1,405)	(1,405)

Compensation of the key management personnel is as follows:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT

a. Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The risks and the processes to mitigate these risks have not significantly changed from the previous year.

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

b. Risk management objectives

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

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

c. Structure and Organization of the Risk Management Function

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

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

i. Establishing overall policies and procedures; and

ii. Delegating authority to the Board Risk Committee, the Board Credit Committee, the Credit and Investment Committee, the Chief Executive Officer and further delegation to the management to approve and review.

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

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

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

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

d. Risk Measurement and Reporting Systems

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk

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

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

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

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

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

ii) Generating the term structure of Probablity of Default (PD)

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macro economic factors used in this analysis are shortlisted from the list given below:

(i) Gross domestic product, constant prices;

(ii) Total investments;

(iii) Gross national savings;

(iv) Inflation, average consumer prices;

(v) Volume of imports of goods and services;

(vi) Volume of exports of goods and services (including oil);

(vii) Population;

(viii) General government revenue;

(ix) General government total expenditure;

(x) General government net lending / borrowing; and

(xi) General government net debt.

Based on consideration of a variety of external actual and forecasted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

ii) Generating the term structure of PD (Continued)

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:

(i) Auto finance;

(ii) Mortgage finance;

(iii) Tasheel Finance and Others; and

(iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on Days Past Due (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.

iii) Determining whether credit risk has increased significantly

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

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

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

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

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

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

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

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

iv) Definition of 'Default'

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

v) Incorporation of forward looking information

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

Macro-economic variables are 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.

vi) Measurement of ECL

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 Group carries out ECL estimation on a collective basis.

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

(i) Probability of Default (PD);

(ii) Loss Given Default (LGD); and

(iii) Exposure At Default (EAD).

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

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

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

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody’s / Standard & Poor’s (S&P) / Fitch or any other external ratings.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

vii) Modified exposures subject to credit risk

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

When the terms of an exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

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

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

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

viii) Credit Risk Mitigation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

viii) Credit Risk Mitigation (Continued)

Collateral coverage by type of credit exposure:

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

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

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

ix) Gross maximum exposure to credit risk

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

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure of any collateral held or other credit enhancements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

x) Risk concentrations of the maximum exposure to credit risk

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

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

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2019 BD'000	31 December 2018 BD'000	**31 December 2019 BD'000**	31 December 2018 BD'000	**31 December 2019 BD'000**	31 December 2018 BD'000
Geographical region						
Middle East	**1,209,632**	1,261,461	**1,099,707**	1,154,492	**167,993**	157,684
North America	**4,591**	5,751	**2,128**	258	**-**	-
Europe	**9,315**	13,285	**165**	7,265	**-**	-
Other	**22**	20	**637**	753	**-**	-
	1,223,560	1,280,517	**1,102,637**	1,162,768	**167,993**	157,684
Industry sector						
Trading and Manufacturing	**126,011**	124,846	**27,384**	46,076	**27,363**	39,771
Aviation	**-**	-	**143**	129	**-**	-
Real Estate	**154,318**	173,360	**70,571**	79,832	**37,470**	40,790
Banks and Financial Institutions	**128,343**	206,594	**154,377**	249,184	**2,060**	1,403
Personal / Consumer Finance	**456,862**	431,497	**548,970**	528,079	**35,004**	34,935
Governmental Organizations	**299,387**	273,518	**143,835**	157,989	**51,930**	20,159
Others	**58,639**	70,702	**157,357**	101,479	**14,166**	20,626
	1,223,560	1,280,517	**1,102,637**	1,162,768	**167,993**	157,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk

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

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	394,602	6,010	-	400,612
Acceptable risks	78,756	23,295	-	102,051
Watch list	235	3,713	-	3,948
Non performing	-	-	97,710	97,710
Gross exposure	473,593	33,018	97,710	604,321
Less: ECL	(1,615)	(1,557)	(26,298)	(29,470)
Financing assets carrying amount	471,978	31,461	71,412	574,851
Ijarah Muntahia Bittamleek & Ijarah rental receivables				
Low risks	162,208	2,023	-	164,231
Acceptable risks	5,791	9,426	-	15,217
Watch list	-	9,384	-	9,384
Non performing	-	-	30,362	30,362
Gross exposure	167,999	20,833	30,362	219,194
Less: ECL	(208)	(2,786)	(11,797)	(14,791)
Ijarah Muntahia Bittamleek & Ijarah rental receivables carrying amount	167,791	18,047	18,565	204,403
Investment in Sukuk				
Low risks	204,351	-	-	204,351
Acceptable risks	9,093	-	-	9,093
Watch list	-	-	-	-
Non performing	-	-	12,563	12,563
Gross exposure	213,444	-	12,563	226,007
Less: ECL	(20)	-	(12,174)	(12,194)
Investment in Sukuk carrying amount	213,424	-	389	213,813
Placements with financial institutions				
Low risks	76,071	-	-	76,071
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	76,071	-	-	76,071
Less: ECL	(3)	-	-	(3)
Placements with financial institutions carrying amount	76,068	-	-	76,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk *(Continued)*

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Balances with Banks				
Low risks	9,893	-	-	9,893
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
Gross exposure	9,893	-	-	9,893
Less: ECL	-	-	-	-
Balances with Banks carrying amount	9,893	-	-	9,893
Other Receivables				
Low risks	-	-	-	-
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	1,666	1,666
Gross exposure	-	-	1,666	1,666
Less: ECL	-	-	(333)	(333)
Other Receivables carrying amount	-	-	1,333	1,333
Total funded exposures subject to credit risk carrying amount	939,154	49,508	91,699	1,080,361
Commitments				
Gross exposure	45,882	194	1,228	47,304
Less: ECL	(56)	(1)	-	(57)
Commitments carrying amount	45,826	193	1,228	47,247

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

(ii) The following table shows the movement in ECL in various stages:

	31 December 2019			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2019	2,789	5,596	47,639	56,024
Transfer to Stage 1	503	(268)	(235)	-
Transfer to Stage 2	(277)	1,314	(1,037)	-
Transfer to Stage 3	(119)	(1,315)	1,434	-
Net movement between stages	107	(269)	162	-
Charge for the year (net)	(994)	(983)	10,679	8,702
Write-off	-	-	(7,885)	(7,885)
Foreign exchange movement	-	-	7	7
At 31 December 2019	1,902	4,344	50,602	56,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk *(Continued)*

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

	31 December 2018			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Financing assets (Funded exposure)				
Low risks	358,750	22,913	–	381,663
Acceptable risks	113,067	31,572	–	144,639
Watch list	344	7,084	–	7,428
Non performing	–	–	76,185	76,185
Gross exposure	472,161	61,569	76,185	609,915
Less: ECL	(2,157)	(3,146)	(24,536)	(29,839)
Financing assets carrying amount	470,004	58,423	51,649	580,076
Ijarah Muntahia Bittamleek & Ijarah rental receivables				
Low risks	157,789	1,469	–	159,258
Acceptable risks	11,723	927	–	12,650
Watch list	–	9,653	–	9,653
Non performing	–	–	18,853	18,853
Gross exposure	169,512	12,049	18,853	200,414
Less: ECL	(399)	(2,320)	(10,824)	(13,543)
Ijarah Muntahia Bittamleek & Ijarah rental receivables carrying amount	169,113	9,729	8,029	186,871
Investment in Sukuk				
Low risks	199,326	–	–	199,326
Acceptable risks	7,583	–	–	7,583
Watch list	–	–	–	–
Non performing	–	–	12,543	12,543
Gross exposure	206,909	–	12,543	219,452
Less: ECL	(52)	–	(12,167)	(12,219)
Investment in Sukuk carrying amount	206,857	–	376	207,233
Placements with financial institutions				
Low risks	137,455	–	–	137,455
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	137,455	–	–	137,455
Less: ECL	(5)	–	–	(5)
Placements with financial institutions carrying amount	137,450	–	–	137,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

e. Credit Risk (Continued)

xi) Credit quality of exposures subject to credit risk *(Continued)*

	31 December 2018			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3* BD'000	Total BD'000
Balances with Banks				
Low risks	15,014	–	–	15,014
Acceptable risks	–	–	–	–
Watch list	–	–	–	–
Non performing	–	–	–	–
Gross exposure	15,014	–	–	15,014
Less: ECL	–	–	–	–
Balances with Banks carrying amount	15,014	–	–	15,014
Other Receivables				
Low risks	–	–	–	–
Acceptable risks	1,423	1,802	–	3,225
Watch list	–	–	–	–
Non performing	–	–	101	101
Gross exposure	1,423	1,802	101	3,326
Less: ECL	(5)	(127)	(101)	(233)
Other Receivables carrying amount	1,418	1,675	–	3,093
Total funded exposures subject to credit risk carrying amount	999,856	69,827	60,054	1,129,737
Commitments				
Gross exposure	40,820	405	159	41,384
Less: ECL	(171)	(3)	(11)	(185)
Commitments carrying amount	40,649	402	148	41,199

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

(iv) The following table shows the movement in ECL in various stages:

	31 December 2018			
	Stage 1 BD'000	Stage 2 BD'000	Stage 3 BD'000	Total BD'000
At 1 January 2018	3,012	11,184	39,570	53,766
Transfer to Stage 1	2,471	(1,323)	(1,148)	–
Transfer to Stage 2	(111)	2,708	(2,597)	–
Transfer to Stage 3	(27)	(4,837)	4,864	–
Net movement between stages	2,333	(3,452)	1,119	–
Charge for the year (net)	(2,556)	(2,136)	10,077	5,385
Write-off	–	–	(3,106)	(3,106)
Foreign exchange movement	–	–	(21)	(21)
At 31 December 2018	2,789	5,596	47,639	56,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

f. Liquidity Risk

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

i) Maturity profile of Group's assets and liabilities

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

i) Maturity profile of Group's assets and liabilities (Continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

f. Liquidity Risk (Continued)

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

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

g. Market Risk

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

i) Profit rate risk

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

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

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

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

ii) Equity price risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

27. RISK MANAGEMENT (Continued)

g. Market Risk (Continued)

iii) Foreign exchange risk

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

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

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

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

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

iv) Commodity risk

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

h. Operational Risk

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

28. SEGMENTAL INFORMATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

28. SEGMENTAL INFORMATION (Continued)

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

Segment information is disclosed as follows:

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

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

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

29. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

30. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

31. SHARI'A SUPERVISORY BOARD

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

32. SOCIAL RESPONSIBILITY

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

33. SUBSEQUENT EVENTS

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

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

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

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

34. COMPARATIVE FIGURES

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

RISK AND CAPITAL MANAGEMENT DISCLOSURE

CONTENTS

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 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"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume 2 for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with an Islamic retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and to meet the agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory Scope of Consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements and the regulatory statement of financial position.

Table – 1. Statement of Financial Position (PD- 1.3.14)

	Statement of Financial position as per published financial statements 31 December 2019 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2019 BD'000	Reference
ASSETS			
Cash and balances with banks and Central Bank	**61,629**	**61,629**	
Gross placements with financial institutions	76,071	76,071	
Less: Expected credit loss (stage 3)	-	-	
Less: Expected credit loss (stage 1 and stage 2)	(3)	-	
Net placements with financial institutions	**76,068**	**76,071**	
Gross financing assets	604,321	604,321	
Less: Expected credit loss (stage 3)	(26,298)	(26,298)	
Less: Expected credit loss (stage 1 and stage 2)	(3,172)	-	
Net financing assets	**574,851**	**578,023**	
Gross investment securities	268,610	268,610	
Less: Expected credit loss (stage 3)	(22,377)	(22,377)	
Less: Expected credit loss (stage 1 and stage 2)	(20)	-	
Net investment securities	**246,213**	**246,233**	
Ijarah Muntahia Bittamleek	**179,857**	**179,857**	
Gross ijarah rental receivables	39,337	39,337	
Less: Expected credit loss (stage 3)	(11,797)	(11,797)	
Less: Expected credit loss (stage 1 and stage 2)	(2,994)	-	
Net ijarah rental receivables	**24,546**	**27,540**	
Investment in associates	**18,750**	**18,750**	
Investment in real estate	**18,756**	**18,756**	
Property and equipment	**13,591**	**13,591**	
Gross other assets	9,632	9,632	
Less: Expected credit loss (stage 3)	(333)	(333)	
Less: Expected credit loss (stage 1 and stage 2)	-	-	
Net other assets	**9,299**	**9,299**	
TOTAL ASSETS	**1,223,560**	**1,229,749**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Statement of Financial Position Under the Regulatory Scope of Consolidation (Continued)

Table – 1. Statement of Financial Position (PD- 1.3.14) (Continued)

	Statement of Financial position as per published financial statements 31 December 2019 BD'000	Statement of Financial position as per Regulatory Reporting 31 December 2019 BD'000	Reference
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions	**188,551**	**188,551**	
Placements from non-financial institutions and individuals	**253,610**	**253,610**	
Borrowings from financial institutions	**29,566**	**29,566**	
Customers' current accounts	**181,692**	**181,692**	
Other liabilities	**21,516**	**21,459**	
of which: Expected credit loss - Off balance sheet exposures (stage 3)	-	-	
of which: Expected credit loss - Off balance sheet exposures (stage 1 and stage 2)	57	-	
of which: Other liabilities	21,459	21,459	
Total Liabilities	**674,935**	**674,878**	
Equity of Investment Accountholders	**427,702**	**427,702**	
Owners' Equity			
Share capital	**106,406**	**106,406**	**a**
Treasury shares	**(892)**	**(892)**	**b**
Shares under employee share incentive scheme	**(281)**	**(281)**	**c**
Share premium	**180**	**180**	**d**
Statutory reserve	**4,736**	**4,736**	**e**
Real estate fair value reserve	**2,049**	**2,049**	**f**
Investment securities fair value reserve	**718**	**718**	**g**
Expected credit loss	**-**	**6,246**	**h**
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	-	6,246	**i**
of which: amount ineligible for Tier 2 capital	-	-	**j**
Profit for the year	**6,214**	**6,214**	**k**
Retained earnings brought forward	**1,793**	**1,793**	**l**
Total Owners' Equity	**120,923**	**127,169**	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**1,223,560**	**1,229,749**	

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Capital Adequacy

The primary objectives of the Group’s capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue Sukuk etc.

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

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. Allocation of assets between equity shareholders and profit sharing investment accounts are based on the profit distribution on equity investment accountholders policy approved by the Board.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance, every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain’s Public Disclosures Module.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Capital Adequacy (Continued)

Table – 2. Capital Structure (PD-1.3.13, and 1.3.14)

The following table summarises the eligible capital as of 31 December 2019 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	T2 BD'000	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	106,406	-	a
General reserves	-	-	
Legal / statutory reserves	4,736	-	e
Share premium	180	-	d
Retained earnings brought forward	1,793	-	l
Current year profits	6,214		k
Unrealized gains and losses on available for sale financial instruments	718	-	g
Less:			
Employee stock incentive program funded by the bank (outstanding)	281	-	c
Treasury shares	892	-	b
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	118,874	-	
Assets revaluation reserve - property, plant, and equipment		2,049	f
Expected credit loss (ECL) - stages 1 & 2		6,246	i
Total Available AT1 & T2 Capital		8,295	
Total Capital		127,169	

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	741,068
Total Market Risk Weighted Assets	1,263
Total Operational Risk Weighted Assets	114,095
Total Regulatory Risk Weighted Assets	856,426
Investment risk reserve (30% only)	-
Profit equalization reserve (30% only)	374
Total Adjusted Risk Weighted Exposures	856,052
TOTAL CAPITAL ADEQUACY RATIO	14.86%
Minimum requirements:	
CET 1 ratio	9.0%
Tier 1 ratio	10.5%
Total Capital ratio	12.5%
Amounts below the thresholds for dededuction	
i) Non-significant investment in capital of financial entities	5,650
ii) Significant investment in capital of financial entities	4,906
	10,556

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Capital Adequacy (Continued)

Table – 3. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2019 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH[3] BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	40,065	21,564	61,629	4,793	-	4,793	599	-	599
Murabaha and Wakala receivables - interbank	76,071	-	76,071	25,679	-	25,679	3,210	-	3,210
Murabaha receivables*	286,145	198,005	484,150	249,122	51,716	300,838	31,140	6,465	37,605
Musharaka receivables*	55,481	38,392	93,873	46,975	9,752	56,727	5,872	1,219	7,091
Investment in Sukuk	126,381	87,452	213,833	8,628	1,791	10,419	1,079	224	1,303
Investment in equity and funds	32,400	-	32,400	114,040	-	114,040	14,255	-	14,255
Ijarah Muntahia Bittamleek and ijarah rental receivables*	122,577	84,820	207,397	79,047	16,409	95,456	9,881	2,051	11,932
Investment in associates	18,750	-	18,750	38,948	-	38,948	4,869	-	4,869
Investment in real estate	18,756	-	18,756	37,512	-	37,512	4,689	-	4,689
Property and equipment	13,591	-	13,591	13,591	-	13,591	1,699	-	1,699
Other assets	9,299	-	9,299	14,402	-	14,402	1,800	-	1,800
	799,516	430,233	1,229,749	632,737	79,668	712,405	79,093	9,959	89,052
Unfunded									
Commitments and contingent liabilities	167,993	-	167,993	28,663	-	28,663	3,583	-	3,583
Total Credit Risk Weighted Assets	967,509	430,233	1,397,742	661,400	79,668	741,068	82,676	9,959	92,635
Total Market Risk Weighted Assets	1,263	-	1,263	1,263	-	1,263	158	-	158
Total Operational Risk Weighted Assets	114,095	-	114,095	114,095	-	114,095	14,262	-	14,262
Total Risk Weighted Assets	1,082,867[1]	430,233[2]	1,513,100	776,758	79,668	856,426	97,096	9,959	107,055

* The risk weighted assets are net of credit risk mitigant.
[1] The exposure is gross of expected credit loss Stages 1 & 2 of BD 3,658 thousand.
[2] The exposure is gross of expected credit loss Stages 1 & 2 of BD 2,531 thousand.
[3] For assets funded through IAH only 30% of exposure is considered.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Capital Adequacy (Continued)

Table – 4. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2019 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	**101**
Total of Market Risk - Standardised Approach	**101**
Multiplier	**12.5**
Risk Weighted Exposures for CAR Calculation (BD'000)	**1,263**
Total Market Risk Exposures (BD'000)	**1,263**
Total Market Risk Exposures - Capital Requirement (BD'000)	**158**

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2019 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	**60,851**
Multiplier	**12.5**
	760,632
Eligible Portion for the purpose of the calculation	**15%**
Total Operational Risk Exposure (BD'000)	**114,095**
Total Operational Risk Exposures - Capital Requirement (BD'000)	**14,262**

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2019 for total capital and CET 1 capital:

	Total capital ratio	**CET 1 capital ratio**
Top consolidated level	**14.86%**	**13.89%**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management

4.1 Group-wide Risk Management Objectives

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

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business.

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

4.2 Strategies, Processes and Internal Controls

4.2.1 Group's risk strategy

The Group maintains a risk strategy document that is reviewed on an annual basis. It also maintains a comprehensive Risk Management Framework that is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The Risk Management Framework identifies risk objectives, policies, strategies, and risk governance both at the Board and management level. With regards to capital management, the Group aims to ensure financial stability by allocating enough capital to cover unexpected losses.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

There are appropriate internal controls in place to ensure that integrity of the risk management identification, monitoring and reporting systems. This is conducted through periodic internal audit, in addition to external validation, when required.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it, in addition to ongoing review of existing credit risk exposures. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions. The Group periodically carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its trading portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2019, the group did not have any trading portfolio.

4.2.4 Operational risk

The Group has carried out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions. Operational risk key risk indicators are monitored and reported on a periodic basis to all relevant stakeholders in the Group.

The Group has established clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security, and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Group, where possible.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. Currently, acquiring additional equity investments are off-strategy.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.2 Strategies, Processes and Internal Controls (Continued)

4.2.6 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to investment accountholders is based on profit sharing agreements.

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

4.2.7 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with rates affected by its competitors.

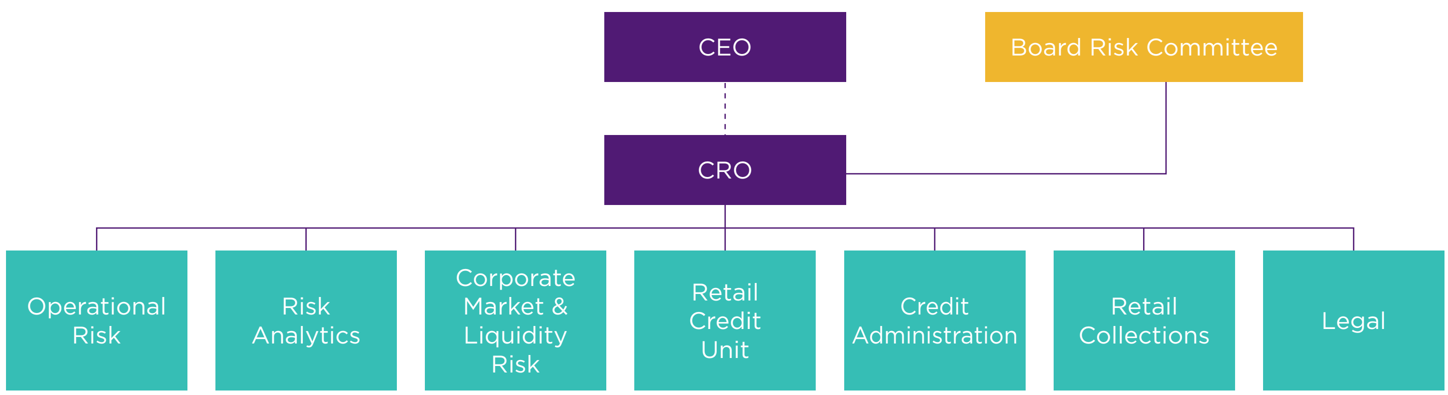
The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market expected returns.

The Group manages its Displaced Commercial Risk as outlined in the Group's Profit Distribution On Equity of Investment Accountholders Policy. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk committee), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



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

a. Establishing overall policies and procedures; and

b. Delegating authority to Board Risk Committee, Board Credit Committee, Credit and Investment Management Committee, the Chief Executive Officer and further delegation to management to approve and review.

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

RISK AND CAPITAL MANAGEMENT DISCLOSURE
FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are secured by suitable tangible collateral whereever deemed necessary.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Corporate counterparties are regularly assessed by the use of a credit risk classification system. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review Unit ("CRU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. In addition, the Group has been using Moody's Risk Analyst system since 2016 which has multiple rating models and generates ratings at obligor level after taking into consideration quantitative and qualitative factors. This has further strengthened the approval process. The credit approval decision is made based on such ratings and terms and conditions are decided.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/facilities are reviewed on an annual basis by CRU, or more frequently based on the client's credit condition.

Retail credit is assessed by the Retail Credit Unit prior to booking against the Bank's approved retail financing credit criteria.

4.5.2 Types of credit risk

Exposures subject to credit risk comprise of due from banks and financial institutions, murabaha financing, musharaka financing, Ijarah Muntahia Bittamleek, investment in Sukuk, commitments to finance and financial instruments resulting in contingencies (guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit) and other assets.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha financing

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured either by the object of the Murabaha contract (in case of real estate finance) or by a total collateral package securing the facilities given to the Murabeh.

Musharaka financing

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah Muntahia Bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Credit impaired exposures

The Group defines facilities as credit impaired facilities which are overdue for a period of 90 days or more, any exposure against which specific impairment provision is held irrespective of whether the customer is currently in arrears or not, and customers which are classified in stage 3 and are in cooling off period in line with CBB guidelines. It is a Group policy to classify all facilities of a counterparty as credit impaired if one or more facilities meets the conditions for credit impaired facilities.

As a policy, the Group places any facility where there is reasonable doubt about the collectability of the receivable on a non-accrual basis, irrespective of whether the customer concerned is currently in arrears or not. In such cases, income is recognised to the extent that it is actually received.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.3 Credit impaired exposures (Continued)

For general and specific impairment assessments, The Group classifies its credit exposures into Stage 1, Stage 2 and Stage 3, based on impairment methodology followed, as described below:-

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

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

Stage 3 (lifetime ECL credit impaired): for credit-impaired exposures, the Group recognises the lifetime ECL. Default identification process such as DPD of 90 more is used as Stage 3.

Measurement of ECL

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

(i) probability of default (PD);

(ii) loss given default (LGD); and

(iii) exposure at default (EAD).

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

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to 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 rating classes, then this will lead to a change in the estimate of the associated PD.

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

Debt type instruments portfolio, nostro and interbank placements portfolio is assessed for SICR using external ratings. The Group obtains PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

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

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

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the internal ratings used by the Group and the corresponding internal rating is allocated to the exposure accordingly to transfer it in the Group's banking book.

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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

4.5.7 Credit risk mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-compliance with credit contracts, through sale of collaterals, netting agreements, and guarantees. The Group uses on-balance sheet netting as a credit risk mitigation technique only if there is a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable, and is able to determine at any time those assets and liabilities with the same counterparty that are subject to the netting agreement.

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

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

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or as per the suitable valuation methodology as outlined in the Bank's Credit Risk Mitigation Policy. The value of such security is considered only to the extent of the outstanding exposure of relevant credit facilities.

Financing to value percentage of securities and list of acceptable securities to the bank are governed through Board approved policies.

From time to time, the Credit and Investment Committee reviews and approves the financing to value percentage of securities. It has also approved a list of acceptable securities.

The majority of the Group's current credit portfolio is secured through mortgage of real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

4.5.7.1 General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;

b. Such assets should be easily convertible into cash, if required (liquidity);

c. There should be a reasonable market for the assets (marketability); and

d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.7 Credit risk mitigation (Continued)

4.5.7.1 General policy guidelines of collateral management (Continued)

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. **Valuation of shares and financial securities:** The Group performs in-house valuation on the following types of securities:
   - For shares listed in active markets, quoted bid prices are utilized;
   - For unquoted shares and stakes in collective investment undertakings (CIUs), valuation is determined based on (i) present value of future cashflows and/or (ii) net asset value as and when financials are available; and
   - For sukuk, collateral is valued based on net realizable value.

b. **Valuation of real estate:** Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers:
   - Real Estate; and
   - Equipment and machinery.

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators. In the case of real estate, re-evaluations are conducted at least annually.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities should be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

4.5.7.2 Guarantees

In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrevocable, legal opinion has been obtained from a legal counsellor domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, if the guarantor / prime obligor is domiciled outside Bahrain and all guarantees should be valid until full settlement of the facilities. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3 Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodians approved by the Group. Adequate systems and controls exist to confirm the assets held with each custodian.

The release of collateral without full repayment of all related financial obligations can be done only if the approved level of security coverage is maintained post the release otherwise it requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

4.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

4.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

4.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over the other(s).

4.5.8.4 Connected counterparties

Connected counterparties' includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; and members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any unconnected counterparty (single/group) exposure exceeds 15% of Group's Capital Base;

b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed based on commercial terms.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements as of 31 December 2019. All related party transactions have been made on commercial terms.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure (before deducting credit risk mitigant) as of 31 December 2019 and average gross funded and unfunded exposures over the year ended 31 December 2019:

	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded		
Cash and balances with banks and Central Bank	61,629	65,398
Placements with financial institutions	76,068	95,991
Financing assets	574,851	575,165
Investment in Sukuk	213,813	232,748
Investment in equity and funds	32,400	32,399
Ijarah Muntahia Bittamleek and ijarah rental receivables	204,403	199,096
Investment in associates	18,750	20,389
Investment in real estate	18,756	21,320
Property and equipment	13,591	13,527
Other assets	9,299	9,941
Total	1,223,560	1,265,974
Unfunded		
Commitments and contingent liabilities	167,993	148,455
Total	1,391,553	1,414,429

*Average balances are computed based on quarter end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2019, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Other BD'000	Total BD'000
Cash and balances with banks and Central Bank	4,579	312	56,716	22	61,629
Placements with financial institutions	-	-	76,068	-	76,068
Financing assets	-	8,613	566,238	-	574,851
Investment in Sukuk	-	390	213,423	-	213,813
Investment in equity and funds	-	-	32,400	-	32,400
Ijarah Muntahia Bittamleek and ijarah rental receivables	-	-	204,403	-	204,403
Investment in associates	-	-	18,750	-	18,750
Investment in real estate	-	-	18,756	-	18,756
Property and equipment	-	-	13,591	-	13,591
Other assets	12	-	9,287	-	9,299
Total	4,591	9,315	1,209,632	22	1,223,560
Unfunded					
Commitments and contingent liabilities	-	-	167,993	-	167,993
Total	4,591	9,315	1,377,625	22	1,391,553

*Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2019 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	-	25,649	-	-	35,980	-	61,629
Placements with financial institutions	-	68,568	-	-	7,500	-	76,068
Financing assets	125,966	21,351	64,853	313,537	16,681	32,463	574,851
Investment in Sukuk	-	390	5,295	-	208,126	2	213,813
Investment in equity and funds	-	6,354	26,046	-	-	-	32,400
Ijarah Muntahia Bittamleek and ijarah rental receivables	46	-	31,766	141,628	30,817	146	204,403
Investment in associates	-	4,579	2,498	-	-	11,673	18,750
Investment in real estate	-	-	18,756	-	-	-	18,756
Property and equipment	-	-	-	-	-	13,591	13,591
Other assets	-	1,452	5,103	1,697	282	765	9,299
Total	126,012	128,343	154,317	456,862	299,386	58,640	1,223,560
Unfunded							
Commitments and contingent liabilities	27,364	2,060	37,470	35,004	51,930	14,165	167,993
Total	153,376	130,403	191,787	491,866	351,316	72,805	1,391,553

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2019:

	Gross BD'000	Stage 3 ECL BD'000	Net* BD'000
Counterparties			
Counterparty # 1	11,199	941	10,258
Counterparty # 2	10,756	2,143	8,613
Counterparty # 3	7,273	1,455	5,818
Counterparty # 4	6,077	989	5,088
Counterparty # 5	3,724	3,335	389
	39,029	8,863	30,166

*Gross of expected credit loss stage 1 and 2 of BD 158 thousand.

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has the following exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2019

	Gross BD'000	Stage 3 ECL BD'000	Net** BD'000
Counterparties*			
Counterparty # 1	186,004	-	186,004
Counterparty # 2	43,481	-	43,481
Counterparty # 3	33,453	-	33,453
Counterparty # 4	30,209	-	30,209
Counterparty # 5	24,456	-	24,456
Counterparty # 6	19,122	-	19,122
	336,725	-	336,725

*Represents exempted large exposures.
**Gross of expected credit loss stage 1 and 2 of BD 58 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2019. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and Central Bank	**26,114**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35,515**	**61,629**
Placements with financial institutions	**76,068**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,068**
Financing assets	**32,808**	**20,362**	**31,917**	**42,826**	**183,732**	**172,595**	**62,902**	**24,518**	**3,191**	**-**	**574,851**
Investment in Sukuk	**-**	**-**	**11,647**	**13,377**	**29,961**	**57,794**	**101,034**	**-**	**-**	**-**	**213,813**
Investment in equity and funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,400**	**32,400**
Ijarah Muntahia Bittamleek and ijarah rental receivables	**10,102**	**1,681**	**2,242**	**5,219**	**23,478**	**45,003**	**47,259**	**58,617**	**10,802**	**-**	**204,403**
Investment in associates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,750**	**18,750**
Investment real estate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,756**	**18,756**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,591**	**13,591**
Other assets	**102**	**748**	**692**	**173**	**539**	**514**	**-**	**-**	**-**	**6,531**	**9,299**
Total Assets	**145,194**	**22,791**	**46,498**	**61,595**	**237,710**	**275,906**	**211,195**	**83,135**	**13,993**	**125,543**	**1,223,560**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 13. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impairment Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances disclosed by major industry sector as of 31 December 2019:

	Credit impaired or past due Islamic financing contracts	Aging of credit impaired or past due Islamic financing contracts				Stage 3 ECL				* Stage 1 & 2 ECL		
		Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Balance at the beginning of the year	Charge for the year (net)	Write-offs during the year*	Balance at the end of year	Balance at the beginning of the year	Charge for the year (net)	Balance at the end of year
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Trading and Manufacturing	73,492	62,040	10,982	234	236	9,094	6,680	6,464	9,310	1,532	(780)	752
Real Estate	60,976	33,988	1,942	450	24,596	13,055	285	1,095	12,245	3,132	258	3,390
Banks and Financial Institutions	16,906	9,626	7,273	7	-	43	1,451	-	1,494	561	(511)	50
Personal / Consumer Finance	33,165	22,088	3,813	3,535	3,729	9,045	1,762	113	10,694	2,239	(741)	1,498
Others	11,895	4,702	603	2,137	4,453	4,123	341	112	4,352	558	(82)	476
Total	**196,434**	**132,444**	**24,613**	**6,363**	**33,014**	**35,360**	**10,519**	**7,784**	**38,095**	**8,022**	**(1,856)**	**6,166**

*Net of transfers between stages.

Table – 14. Credit Risk – Credit Impaired Exposures, Past Due Exposures, and Impairment Allowances (by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the credit impaired facilities, past due facilities, and impairment allowances by geographical area as of 31 December 2019:

	Credit impaired or past due or impaired Islamic financing contracts BD'000	Stage 3 ECL BD'000	Stage 1 & 2 ECL BD'000
Middle East	185,678	35,952	6,166
Europe	10,756	2,143	-
Total	**196,434**	**38,095**	**6,166**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured corporate financing facilities during the year as of 31 December 2019:

	Gross Outstanding BD'000	Stage 3 ECL BD'000	Net BD'000
Total islamic financing [(1)]	823,515	38,095	785,420
Restructured financing facilities* [(2)]	19,742	863	18,879
Percentage	**2.40%**	**2.27%**	**2.40%**

*Excludes facilities restructured during the year amounting to BD 25,210 thousand (net of stage 3 ECL of BD 3,002 thousand) which are past due as of 31 December 2019.
[(1)] Gross of expected credit loss Stages 1 and 2 of BD 6,166 thousand.
[(2)] Gross of expected credit loss Stages 1 and 2 of BD 154 thousand.

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2019 by type of Islamic financing contract covered by collateral eligible as per CA module of volume 2 of the CBB Rule Book:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	Others BD'000
Financing assets	**8,662**	**63,993**
Ijarah Muntahia Bittamleek and ijarah rental receivables	**-**	**24,543**
Total	**8,662**	**88,536**

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 17. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2019:

	Financing assets BD'000	Ijarah Muntahia Bittamleek and rental receivables BD'000	Total BD'000
Exposures:			
Secured*	72,655	24,543	97,198
Unsecured*	502,196	179,860	682,056
Total	**574,851**	**204,403**	**779,254**
Collateral held:			
- Cash	12,676	128	12,804
- Guarantees	3,288	-	3,288
- Shares	3,542	-	3,542
- Real Estate	4,058	15,879	19,937
Total	**23,564**	**16,007**	**39,571**
Collateral as a percentage of secured exposure	**32.43%**	**65.22%**	**40.71%**

A haircut of 30% is applied on the Real Estate collateral.

*The financing assets and Ijarah Muntahia Bittamleek exposures are net of ECL.

4.6 Market Risk

4.6.1 Introduction

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

4.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The profit distribution to equity of investment accountholders is based on profit sharing agreements.

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

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits and position limits. As at 31 December 2019, the group did not have any trading portfolio. Currently, any new equity investments are off-strategy.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.2 Sources of market risk (Continued)

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

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing (at least annually) the risk strategy and significant amendments to the risk policies. The Group's 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.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

a. The Group will proactively measure and continually monitor the market risk in its portfolio;

b. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;

c. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, and maximum/stop loss limits;

d. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions; and

e. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposures.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;

b. Stop loss limits;

c. Stress testing; and

d. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The Board is responsible for approving the overall tolerance for market risk. Based on these tolerances, Risk Unit and Treasury Department have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management on the same.

4.6.7 Breach of limits

In case a limit is breached, the escalation and approval process will follow the Board-approved delegated authority limits. The limits are revised at least annually or when deemed required.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by ALCO or BRC, as per the delegated authorities approved by the Board.

4.6.9 Reporting

Risk Unit generates market risk management reports at regular periodic intervals. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

4.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates and foreign exchange rates. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

4.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	**158**
Minimum value capital requirement	**101**

4.7 Operational Risk

4.7.1 Introduction

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

4.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories:

a. People risk: which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

b. Processes risk: which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting;

c. Systems (Technology) risk: which arises due to integrity of information - lacking in timeliness of information, omission and duplication of data, hardware failures due to power surge, obsolescence or low quality;

d. External risk: which arises due to natural or non-natural (man made) disasters; and

e. Legal risk: which arises due to contractual obligations.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carries out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;

b. regularly monitor operational risk profiles and material exposures to losses / loss events;

c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks;

d. monitoring and reporting of operational risk is through the Operational Risk Management Forum (ORMF), a management-level committee responsible for monitoring and discussing the operational risks emanating from the group's activities; and

e. effecting appropriate contingency and business continuity planning that takes into account the operational risks facing the Group, and providing training on the same to ensure that this is fostered across the organization.

4.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management for the quick detection and correction of deficiencies in the policies, processes, and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The group has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the group on a day to day basis. The department also liaises with external lawyers for legal cases filed by the group against delinquent accounts for recovery or any legal cases filed against the group.

4.7.5 Operational risk mitigation and control

The business units, in consultation with Risk Units will determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. The group deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

As of 31 December 2019, the Group did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.5 Operational risk mitigation and control (Continued)

Table - 19. Operational Risk Exposure (PD-1.3.30 (a) & (b))

The following table summarises the amounts subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2018 BD'000	2017 BD'000	2016 BD'000
Total Gross Income	67,905	60,654	53,993
Indicators of operational risk			
Average Gross income (BD'000)			60,851
Multiplier			12.5
			760,632
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			114,095

4.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. To date, the Bank does not carry significant equity position risk in its banking book.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements as of 31 December 2019. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes. All other investments including investments in associates are kept for strategic long term holdings.

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))

The following table summarises the amount of total and average gross exposure of equity investments and funds as of 31 December 2019:

	Total gross exposure [(1)] BD'000	Average gross exposure [(2)] BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Equity investments	28,436	28,436	-	28,436	58,313	7,289
Funds	14,168	14,168	-	14,168	55,727	6,966
Total	42,604	42,604	-	42,604	114,040	14,255

[(1)] Balances are gross of provision of BD 10,204 thousand.

[(2)] Average balances are computed based on quarter end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended 31 December 2019:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting year	-
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	-
Unrealised gains included in CET 1 Capital	718
Unrealised gains included in Tier 2 Capital	-

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase losses or profits on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract 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. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds; however, the Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudaraba contracts. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year, the Group waived 25% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

These accounts are made available to customers through Retail Banking (including Thuraya Banking segment), in addition to the Group's Corporate and Institutional Banking division. The Group has designed the Customer Experience and Process Governance Unit which reports to Chief Retail Banking. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal. This is made available to both retail and corporate customers.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group has written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the comingled pool. The Group proportionately allocates non-performing assets (past due greater than 90 days) to the IAH pool of assets. The ECL charge is also allocated to the IAH pool, in proportion of the non-performing assets financed by IAH to the total non-performing assets. Amounts recovered from these non-performing assets shall be subject to allocation between IAH and owners' equity.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH can withdraw funds on a premature basis by paying a nominal amount of fees / penalty.

Additional disclosures such as the below are disclosed in the Bank's website:

a. Characteristics of investors for whom investment account may be appropriate;

b. Purchase redemption and distribution procedures; and

c. Product information and the manner in which the products are made available to investors.

Governance of IAH

a. Shariah review of allocation of assets and resultant income;

b. Disclosure of profit rates on deposit products and mudaraba fees either in the branch or website; and

c. ALCO discusses the profit rate to be offered to URIA accounts. Any exceptional profit rates offered to customers are subject to approval by the relevant authority.

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2019:

	BD'000
Banks and financial institutions	24,091
Individuals and non-financial institutions	403,611
Total	**427,702**

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2019:

Profit Paid on Average IAH Assets*	1.89%
Mudarib Fee to Total income from jointly financed assets	40.07%

*Average assets funded by IAH have been calculated using month end balances.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2019:

	Average declared rate of return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including VEVO)	**0.13%**	**1.19%**	**25.26%**
Defined accounts - 1 month	**0.80%**	**0.26%**	**0.72%**
Defined accounts - 3 months	**0.80%**	**0.08%**	**0.23%**
Defined accounts - 6 months	**0.85%**	**0.16%**	**0.41%**
Defined accounts - 9 months	**0.95%**	**0.00%**	**0.01%**
Defined accounts - 1 year	**1.00%**	**0.99%**	**2.21%**
Investment certificates	**3.50%**	**0.00%**	**0.00%**
IQRA	**1.50%**	**0.59%**	**0.82%**
Tejoori	**0.13%**	**1.35%**	**27.81%**
Customer special deposits	**2.03%**	**95.38%**	**42.52%**
		100%	**100%**

The calculation and distribution of profits was based on quarterly average balances.

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2019:

	Percentage of Counterparty Type to Total Financing					
	Self Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	**286,145**	**59.10%**	**198,005**	**40.90%**	**484,150**	**100.00%**
Corporate	154,997	59.10%	107,254	40.90%	262,251	100.00%
Retail	131,148	59.10%	90,751	40.90%	221,899	100.00%
Musharakah	**55,481**	**59.10%**	**38,392**	**40.90%**	**93,873**	**100.00%**
Corporate	3,403	59.10%	2,355	40.90%	5,758	100.00%
Retail	52,078	59.10%	36,037	40.90%	88,115	100.00%
Total	**341,626**	**59.10%**	**236,397**	**40.90%**	**578,023**	**100.00%**
Gross Ijarah Muntahia Bittamleek and ijarah rental receivables**						
Corporate	38,451	59.10%	26,607	40.90%	65,058	100.00%
Retail	84,126	59.10%	58,213	40.90%	142,339	100.00%
Total	**122,577**	**59.10%**	**84,820**	**40.90%**	**207,397**	**100.00%**
ECL Stage 1 and 2	**(3,644)**	**59.10%**	**(2,522)**	**40.90%**	**(6,166)**	**100.00%**
TOTAL	**460,559**	**59.10%**	**318,695**	**40.90%**	**779,254**	**100.00%**

*Net of expected credit loss (Stage 3) of BD 26,298 thousand.

**Net of expected credit loss (Stage 3) of BD 11,797 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (l) (m) & (n))

	Gross return on equity of IAH BD'000	Transfer to equalization reserve BD'000	Average mudaraba %	Mudarib fees BD'000	Release from IRR BD'000	Profit paid to IAH BD'000
Account Type	A	B		C	D	(A-B-C+D)
Tejoori	6,659	-	97.88%	6,523	237	373
Saving	5,241	-	97.87%	5,133	187	295
Vevo	593	-	97.89%	581	21	33
IQRA Deposits	273	-	77.46%	214	10	69
Defined deposit	20,305	-	50.18%	10,550	722	10,477
	33,071	-		23,001	1,177	11,247

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2019:

Share of profit allocated to IAH before transfer to/from reserves - BD '000	33,071
Percentage share of profit earned by IAH before transfer to/from reserves	7.73%
Net return on equity of IAH - BD '000	10,070
Release of IRR - BD '000	1,177
Share of profit paid to IAH after transfer to/from reserves - BD '000	11,247
Percentage share of profit paid to IAH after transfer to/from reserves	2.63%
Share of profit paid to Bank as mudarib - BD '000	23,001

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2019:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to IAH	1.87%	2.48%	1.58%	2.79%

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2019:

	As of 30 June 19 BD'000	Movement during the year BD'000	As of 31 December 19 BD'000
Cash and balances with banks and Central Bank	15,408	6,156	21,564
Gross financing assets*	331,816	(95,419)	236,397
Gross Ijarah Muntahia Bittamleek and ijarah rental receivables*	113,639	(28,819)	84,820
Investment securities	140,119	(52,667)	87,452
Expected credit loss	(4,364)	1,833	(2,531)
Total	596,618	(168,916)	427,702

* Net of ECL stage 3.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD'000	%	BD'000	%
2019	**57,396**	**5.37%**	**11,247**	**2.63%**
2018	53,939	4.86%	13,939	1.77%
2017	47,315	4.51%	11,364	1.43%
2016	38,977	4.51%	8,356	0.97%
2015	37,188	4.78%	5,733	0.74%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and Central Bank	21,564	-	-	-
Financing assets [1]	236,397	204,893	61,468	7,684
Investment in Sukuk [2]	87,452	5,970	1,791	224
Ijarah Muntahia Bittamleek [1]	84,820	54,697	16,409	2,051
	430,233	**265,560**	**79,668**	**9,959**

[1] The exposure is gross of ECL stage 1 and 2 of BD 2,522 thousand.
[2] The exposure is gross of ECL stage 1 and 2 of BD 9 thousand.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. Call risk is the risk of crystallisation of a contingent liability; and

c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Liquidity Risk Management Policy addresses the liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of a liquidity stress situation.

4.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over various time buckets to include short term, medium term, and long-term buckets. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Risk Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the BRC and the Board for approval.

The bank manages funding requirements through the following sources: current accounts, savings accounts, other URIA accounts, interbank lines, and borrowing by leverage of Sukuk portfolio. Appropriate thresholds are set for attaining funding from each source in the Bank's Risk Appetite Framework.

In fulfilment of Basel III and regulatory requirements, the Bank reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a monthly and quarterly basis, respectively. In efforts to maintain both metrics above the regulatory and internal limits, the Bank adopts the following strategies:

LCR: The Bank intends on maintaining its LCR within the prescribed regulatory and internal limits through the gradual build up of its customer deposit base and uncumbered High Quality Liquid Assets ("HQLA"), predominantly through sovereign bonds and high grade fixed income assets.

NSFR: The Bank intends on building a stable funding profile by maintaining a balanced trade-off between available and required stable funding, specifically focusing on building its retail deposit base and build up of capital, with particular focus on stable funding to build its longer-term liquidity.

4.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO.

4.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAH accounts.

4.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits; and

b. Liquidity Ratio limits.

4.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2019	2018	2017	2016	2015
Due from banks and financial institutions / Total Assets	**6.22%**	10.74%	6.58%	6.12%	7.49%
Islamic Financing / Customer Deposits [(1)]	**80.92%**	83.31%	80.04%	85.13%	80.53%
Customer Deposits [(1)] / Total Assets	**78.71%**	71.85%	75.32%	77.43%	77.50%
Short term assets [(2)] / Short term liabilities [(3)]	**16.59%**	22.97%	20.35%	18.53%	22.38%
Liquid Assets [(4)] / Total Assets	**8.15%**	13.11%	9.38%	8.95%	10.26%
Growth in Customer Deposits	**3.00%**	(0.67%)	17.62%	6.64%	7.48%
Leverage ratio	**12.00%**	14.30%	15.91%	17.63%	17.10%

[(1)] Customer deposits include customer current accounts, commodity murabaha deposits from financial institutions, placements from non-financial institutions and individuals and IAH.

[(2)] Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

[(3)] Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

[(4)] Liquid assets includes cash and balances with banks and Central Bank (exluding CBB reserve) and placements with financial institutions (maturing in a year).

4.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

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

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

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;

b. Wakala transactions;

c. Ijarah Muntahia Bittamleek;

d. Sukuk; and

e. Musharaka investments.

The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;

b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;

c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and

d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy

The Group is subject to profit rate risk on its financial assets and financial liabilities. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;

b. has established a structure to monitor and control the profit rate risk of the Group;

c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and

d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

4.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and

b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to all relevant stakeholders in the Group on a periodic basis.

Table – 33. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the profit rate gap position as of 31 December 2019:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	76,068	-	-	-	-	76,068
Financing assets	53,170	31,917	42,826	183,732	263,206	574,851
Ijarah Muntahia Bittamleek and ijarah rental receivables	11,783	2,242	5,219	23,478	161,681	204,403
Investment in Sukuk	-	11,647	13,377	29,961	158,828	213,813
Total profit rate sensitive assets	141,021	45,806	61,422	237,171	583,715	1,069,135
Liabilities And Equity Of Investment Accountholders						
Placements from financial institutions*	139,748	18,125	21,528	9,150	-	188,551
Placements from non-financial institutions and individuals	111,228	68,579	53,747	20,056	-	253,610
Borrowings from financial institutions	29,566	-	-	-	-	29,566
Equity of investment accountholders**	145,240	22,431	16,462	6,974	236,595	427,702
Total profit rate sensitive liabilities and IAH	425,782	109,135	91,737	36,180	236,595	899,429
Profit rate gap	(284,761)	(63,329)	(30,315)	200,991	347,120	169,706

*Placements from financial institutions excludes frozen accounts of BD 9,099 thousand.
**The Bank uses expected withdrawal pattern to classify its saving accounts into different maturity buckets. The remaining IAH balances are disclosed on a contractual basis.

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2019:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks	(4,031)	9,590	5,559
Downward rate shocks	4,031	(9,590)	(5,559)

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Table – 34. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2019	2018	2017	2016	2015
Return on average equity	**5.21%**	9.48%	8.50%	7.45%	11.88%
Return on average assets	**0.50%**	0.91%	0.90%	0.83%	1.21%
Cost to Income Ratio	**59.30%**	55.47%	61.92%	56.44%	51.68%

Table – 35. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts (PSIA) for the last five years:

	2019	2018	2017	2016	2015
Allocated income to IAH	**33,071**	41,162	36,010	29,301	29,961
Distributed profit	**11,247**	13,939	11,364	7,131	5,187
Mudarib fees	**23,001**	27,223	24,646	22,170	24,774

	2019	2018	2017	2016	2015
Balances (BD '000s):					
Profit Equalization Reserve (PER)	**1,245**	1,245	1,245	1,245	995
Investment Risk Reserve (IRR)	**-**	1,177	1,177	757	227
PER Movement	**-**	-	-	250	600
IRR Movement	**(1,177)**	-	420	530	124
Ratios (%):					
Income allocated to IAH / Mudarabah assets %	**3.09%**	3.71%	3.43%	3.39%	3.85%
Mudarabah fees / Mudarabah assets %	**2.15%**	2.45%	2.35%	2.57%	3.18%
Distributed profit / Mudarabah assets %	**1.05%**	1.26%	1.08%	0.83%	0.67%
Rate of Return on average IAH %	**1.70%**	1.76%	1.57%	1.15%	0.86%
Profit Equalization Reserve / IAH %	**0.29%**	0.16%	0.16%	0.19%	0.17%
Investment Risk Reserve / IAH %	**0.00%**	0.15%	0.15%	0.12%	0.04%

4.12 CBB Penalties (PD 1.3.44)

The CBB penalties imposed upon the Bank amounted to BD 16,250 during the year regarding CBB Directives on EFTS.

RISK AND CAPITAL MANAGEMENT DISCLOSURE

FOR THE YEAR ENDED 31 DECEMBER 2019

5. Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
BRC	Board Risk Committee
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
CBB	Central Bank of Bahrain
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee
ECL	Expected Credit Losses

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