Annual Report 2019

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Bringing Banking to Life

2019

بيت التمويل الكويتي
Kuwait Finance House
Bahrain B.S.C.(c) البحرين ش.م.ب (م)
Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa
The Prime Minister

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, First Deputy
Prime Minister and Deputy
Supreme Commander

Best use of Technology in FinTech Solutions Bahrain 2019
by Global Business Outlook

Best Islamic Retail Bank Bahrain 2019 by Global Banking & Finance Review

Golden winners for
'Best Cinematography'
for their National Day video titled
"My Bahrain... My Pride"
by AVA Digital Awards

Platinum winners for the
"Best Video Production"
for Mazaya's social housing finance scheme by AVA Digital Awards

Best Islamic Retail Banking Services (Bahrain), by Banker Middle East Product Awards

Best Customer Service – Corporate/Investment Banking (Bahrain), by Banker Middle East Product Awards

Best Banking Services (Bahrain), by Banker Middle East Product Awards

Best User-Experience Innovator for KFH Jazeel Banking. By Banker Middle East Industry Awards

The Global Award by World Islamic Banking Conference 2018

The Regional Award by World Islamic Banking Conference 2018

EMEAFinance Award
Middle East Banking Awards 2018
Best Islamic bank in Bahrain

The Critic's Choice Best Prize-Linked Islamic Retail Investment Product 2017
KFH-Bahrain

The Outstanding Performance for Credit Cards Issued in Bahrain Award 2017
KFH-Bahrain

Best Wealth Management Bank in the Middle East 2016
KFH-Bahrain

Best Corporate Bank in the Middle East 2016
KFH-Bahrain

Pioneer Award in Islamic Banking to KFH-Bahrain from the GIFA 2015
KFH-Bahrain

'Best New Retail Financial Product" 2014
Tamweely Personal Finance

'Best Personal Finance' Award 2014
Tamweely

Best Investment Advisory Service for
Three-Way Banker Merger
CPI Financial Banker Middle East Product Awards 2013
KFH-Bahrain

Received Gold Award for KFHB Website for 'Best Navigation' through the Communicator Awards program 2013
KFH-Bahrain

Silver Award for KFHB Website for 'Best in Financial Services' through the Communicator Awards program 2013
KFH-Bahrain

Received Gold Award for KFHB Website for 'Bank Standard of Excellence' through the Web Marketing Award program 2013
KFH-Bahrain

Received Award for KFHB Website for 'Bahrain eContent Award 2013' for its Responsive Website in the eBanking category 2013
KFH-Bahrain

Received Award for the 'Institutional Excellence' Award at the 20th WIBC for being the Lead and Transaction Advisor for the three way bank merger in Bahrain 2013
KFH-Bahrain

The Best Real Estate Investment Islamic Business and Finance Awards 2012
Diyar Homes

Best Islamic Bank in Bahrain
Islamic Finance News Awards 2011
KFH-Group

Kuwait Finance House-Bahrain

Annual Report 2019

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Bringing Banking to Life

Vision

At KFH-Bahrain we believe that banking is not just about money. For us it is something that can improve people's lives. Whether we are providing commercial and investment banking services or financial products for consumers, we start by understanding our customers and their needs. With an emphasis on innovation, we aim to provide cutting edge Islamic banking solutions while staying faithful to Shari'a principles, with a view to enhancing the lives of our customers.

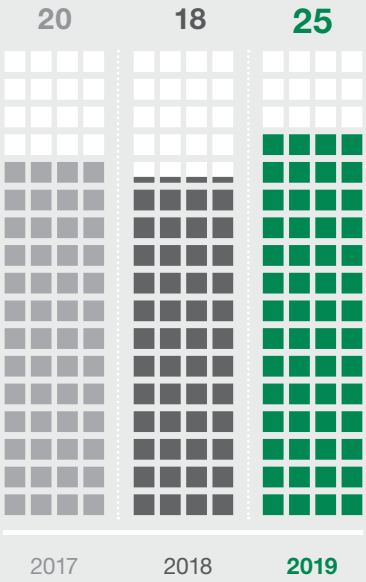
Mission

It is our mission to "Bring Banking to Life" by focusing on innovation, thinking outside the box and insisting on excellence in everything we do. This includes the development and provision of a wide range of integrated products and services in perfect harmony with Shari'a principles. Our mission and our commitment are backed by a robust financial position and a long and proven heritage of ingenuity, innovation and integrity.

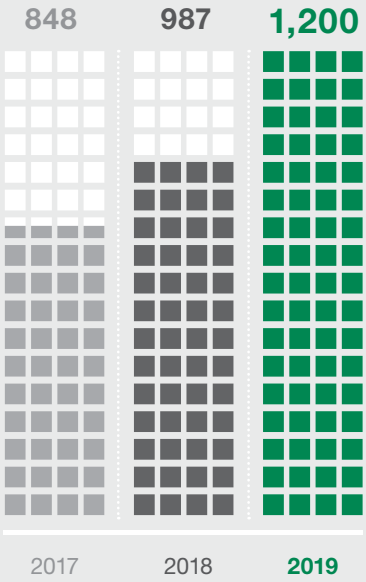
KFH-Bahrain is a wholly-owned subsidiary of KFH-Kuwait who manages its operations in the GCC, Asia, and Europe through over 480 branches. The Group offer services to clients in Kuwait, Bahrain, Turkey, Malaysia and Manheim in Germany.

Three Year Highlights

Net Income
BD Million

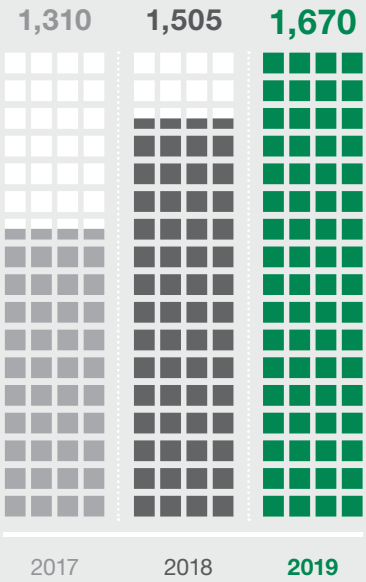


Customer Deposits
BD Million



Operating Income
BD Million

Total Assets
BD Million



Kuwait Finance House - Bahrain
Delivering Excellence in Islamic Banking

Kuwait Finance House - Bahrain (KFH-Bahrain) brings to the market a compelling concept in Islamic Banking, combining both Islamic Investment Banking and Islamic Commercial Banking facilities. Established in October 2002 as the first fully-owned subsidiary of Kuwait Finance House - Kuwait, KFH-Bahrain's mission is to deliver excellence and innovation through a broad and integrated range of financial products and services that comply with Shari'a principles.

Built on the same strengths and vision that made KFH-Kuwait a leader in the Islamic banking industry for more than 40 years, KFH-Bahrain is committed to: the creation of assets and wealth for its stakeholders; participation in the advancement and growth of the Gulf Cooperation Council (GCC) and broader Middle Eastern economies; and the promotion of Islamic banking worldwide.

KFH-Bahrain's uncompromising view towards Shari'a compliance, maintaining a robust financial position, and honouring its long history of ingenuity and leadership, is proven on a daily basis as the Bank strives to meet the needs of a fast-growing market.

With demand steadily growing for Shari'a compliant products and services, KFH-Bahrain is playing a pioneering role in developing new groundbreaking services, financing structures, and investment vehicles that can effectively meet these needs and deliver attractive risk-adjusted returns.

While it is the aim of any institution to capitalise on important market opportunities, KFH-Bahrain's mission is to create even greater opportunities and demand in new areas, which have yet to be explored. Since its establishment, the Bank has created a strong portfolio of products and services and devised a number of important innovations that have gained the confidence of a strong, fast-growing customer and investor base throughout its Consumer Banking and Finance, Corporate Banking, and Investment Banking operations.

These include finance facility innovations, such as, the 25-years real estate finance, which allows double the financing period available to individuals and families in the Bahraini market; and the introduction of Tamweely Personal Finance that adheres strictly to the principles of Shari'a allowing customers to fulfil their personal financing requirements. In addition, the Social Housing Scheme "Mazaya" in collaboration with the Ministry of Housing provide customers with convenient mortgage financing.

Furthermore, KFH-Bahrain's Corporate Finance and Retail Activities continue to garner attention as the Bank begins innovative new projects and takes Islamic banking and finance in new global directions. The Bank continues to create investment opportunities and funds, and actively participates in Bahraini development projects.

In 2018, KFH Bahrain had introduced KFH Jazeel Banking application which is the first integrated FinTech digital banking platform in the Kingdom of Bahrain. Available across all Android and IOs systems, Jazeel is a first-of-its-kind app in Bahrain. It provides new and existing customers with integrated end-to-end solutions to all the highest volume transactions the bank provides while creating a financing community among individuals and companies in the Kingdom and informing them of about new offers and promotions. The groundbreaking platform mainly targets GCC nationals residing in 5 GCC countries, and the residents of Bahrain, who are able to open accounts within an average of less than 5 minutes without having to visit a physical branch (the first cross border banking eKYC in MENA).

In 2019, the Bank revamped Jazeel with new key features that comes in line with KFH Bahrain's strategy to support the FinTech sector in the Kingdom of Bahrain. These features include the customer's ability to apply for Tamweely Personal Finance with an immediate initial approval, a more fluid and intuitive user - friendly interface that can be navigated in both Arabic & English. In addition, customers can re-activate dormant accounts, update the account holder information, known as KYC (Know-Your-Customer). Furthermore, customers also have the option to transfer money using mobile numbers of KFH Jazeel users and notify those who want to conduct any money transfers. KFH Jazeel Banking platform is evolving every quarter to bring to clients more products and services thereby providing a true holistic digital banking experience.

Chairman's Statement

Hamad Abdulmohsen Al-Marzouq
Chairman

In the name of Allah, the most Gracious, the most Merciful.

Peace and Blessings be upon the Last Prophet & Messenger Muhammad, His Household and His Companions.

On behalf of the Board of Directors (the "Board"), it gives me great pleasure to present the 2019 Annual Report of Kuwait Finance House – Bahrain (the "Bank").

A Landmark Year

2019 was a milestone year for Kuwait Finance House Group (KFH Group), fueled by an ambitious yet sustainable growth strategy, continued focus on excellence in customer service and the highest levels of innovation at both the product and organization level.

Our achievements are a testament to KFH's ability to adapt to the challenging conditions faced by regional and global markets in 2019. These reflect a high volume of business activity, robust cost efficiencies, and the success of our conservative risk management approach, which served to create strong buffers against adverse market fluctuations and geopolitical developments.

The highlight of the year was the progress on KFH Group's acquisition of Ahli United Bank (AUB), which will create the largest Islamic bank in the world in terms of assets. This global banking powerhouse will serve a geographically diverse customer base while strengthening our ability to innovate.

In 2019, KFH-Bahrain continued to deliver first-to-market products across our business lines. Within our Retail Banking Group, we continued to offer a diversified portfolio of finance and investment products to increase our market share. For our growing credit card customer base, we launched a unique loyalty rewards program, Walaa Baytik. Through our Wealth Management Department, the Bank introduced a Sukuk Leverage accounts to help clients diversify their portfolios while generating recurring income. It also introduced a selection of Lombard Finance products that offer customers short-term liquidity secured against their existing investments without interrupting their asset allocations and long-term investment strategies.

KFH-Bahrain made important strides in the adoption of the latest FinTech innovations in line with the Bank's future-ready mindset, as well as Bahrain's Economic Vision 2030 and wider aspirations to position the Kingdom as a leading FinTech hub in the region.

Meanwhile, the Bank played a prominent role in community development initiatives aimed at enhancing our communities. Our social responsibility initiatives contributed to environment, health, education, youth, sports, innovation, entrepreneurship, and volunteering, among other causes. The Bank extended this spirit of giving to its customers, empowering them to contribute to society by introducing the KFH Jazeel program, the first ever community digital banking platform in Bahrain.

We extend our sincere gratitude to our staff in both Bahrain and Kuwait for their exceptional efforts and continued dedication throughout the year.

Kingdom of Bahrain – Economic Highlights

Pride of Bahrain

The Bahrain economy benefited from several landmark projects in 2019 which are a source of national pride, serving to attract foreign investment and supporting the Government's vision to create a more diversified, sustainable economy geared for long term growth.

On the infrastructure side, the Aluminium Bahrain (Alba) Line 6 Expansion Project was inaugurated in late 2019, making Alba the largest aluminum smelter in the world with a total production capacity exceeding one million metric tons per year. KFH-Bahrain participated in the syndicated financing of the US$ 3 billion project, which is expected to support national economic development, boost employment opportunities, both at Alba and in the local downstream market, and create a range of further investment opportunities.

KFH-Bahrain focused on diversifying its financing portfolio by targeting Sovereign and Quasi-Sovereign entities. KFH was awarded the first financing facility for Edamah Real Estate, the real estate arm of Mumtalakat, the sovereign wealth fund of the kingdom of Bahrain, to finance Sa'ada, a unique waterfront development located in a strategic location in Muharraq. Through its asset management function, the Bank managed and supervised the launch and completion of various large projects in Diyar Al Muharraq and Durrat Al Bahrain, including social housing units and affordable houses for the Ministry of Housing.

The largest Islamic bank in the world

In 2019 KFH Group made history when it announced its planned acquisition of Bahrain-headquartered Ahli United Bank (AUB), which will be completed under the supervision of the Central Bank of Kuwait and the Central Bank of Bahrain. The new entity will be the largest Islamic bank in the world in terms of assets, valued at about $101 billion. This will turn us into a powerful engine for growth with an unprecedented ability to finance development projects and foster innovation in the Islamic banking industry. It helps improve Bahrain's position as an international direct investment and banking destination and strengthens KFH-Bahrain's global reach across new markets.

KFH-Bahrain Financial Results
On a growth trajectory

The year 2019 witnessed remarkable accomplishments, with KFH-Bahrain achieving positive results and significant returns for its shareholders. Operationally, KFH-Bahrain strengthened efficiencies significantly, which helped it to increase its annual net income to BD25 million, a 36% spike compared to the previous year.

Total assets grew by 11% to BD 1.67 billion compared to last year. Tangible progress was also made in improving the rate of return on shareholders' equity, which increased to 14%.

Financial indicators continued their escalating trajectory through enhancement of profits and an increase in the capital adequacy ratio to 21%, well above the required ratio of 12.5%. Other regulatory and liquidity ratios also showed an increasing and were above the required thresholds.

Embracing Digital
An award-winning initiative takes flight

KFH-Bahrain continued to invest in technology to enhance its digital capabilities, with the aim of delivering better products and services, contributing to the development of the national banking sector, and transforming the country into a knowledge-driven economy based on innovation and technology.

2019 saw us realizing many of our ambitious digital transformation objectives, with the rollout of several major initiatives. These are in line with our strategic aim to leverage the power of technology to deliver an exceptional user experience though personalized, end-to-end, and fully automated services which are fast, secure, efficient and above all easy to access and use. KFH's award-winning flagship FinTech initiative, KFH Jazeel has revolutionized the banking experience for our customers, and continues to be updated with new features every quarter. The onboarding experience is fully digital, allowing customers to open a KFH Jazeel savings account within minutes using their smartphones, and access our full suite of services, including making transfers and payments and applying for finance, at their convenience. It also offers seamless, borderless banking for all GCC nationals, making it easier than ever to travel or do business with our neighbors. Customers who sign up for the KFH Jazeel banking platform also have access to a first-of-its-kind community banking social program focused on developing local talent by offering young people work and internship placements with the Bank.

Operations
Streamlined for success

From an operational perspective, KFH-Bahrain's ambitious digital transformation journey has served to streamline our internal processes and procedures. This has resulted in faster and more efficient communications between departments and enabled us to develop effective solutions to challenges in record time. The digitization process is also in line with our long-term goal of going fully paperless.

Regulation, Compliance & Governance
Empowered team members

The Bank continues to ensure that its corporate governance environment adheres to industry best

practices. Key functions such as Audit, Risk, and Compliance, received enhancements to empower our team members to collaborate and innovate.

In 2019, we successfully renewed external certifications which were awarded at the start of the previous year, namely PCI-DSS (Card Data Environment), ISO 27001:2013 (Information Security Management System) & ISO 22301:2012 (Business Continuity Management System). KFH-Bahrain was the first bank in the Kingdom to be certified for both these standards concurrently.

The Information Security Management Systems certification identifies security risks and sets appropriate controls for their management and disposal, which helps protect stakeholder and customer data. The Business Continuity Management System demonstrates the Bank's commitment to maintaining uninterrupted banking services, thereby enhancing customer satisfaction and the quality of customer service, while improving organizational performance and minimizing the recovery time necessary to resume operations in the event of any disruption.

In addition, the Bank continued to significantly upgrade its IT hardware and software to the most advanced available in order to increase resilience and improve security.

Awards and Recognition
New benchmarks for excellence

During 2019, KFH-Bahrain continued to set new benchmarks for excellence across the board, securing several noteworthy regional and international awards.

We were recognized as Best Islamic Retail Bank Bahrain 2019 by Global Banking & Finance Review, and Best Banking Services (Bahrain), Best Islamic Retail Banking Services (Bahrain), and Best Customer Service – Corporate/Investment Banking (Bahrain), at the Banker Middle East Product Awards.

KFH-Bahrain also received the Best Use of Technology in FinTech Solutions Bahrain 2019 award from Global Business Outlook and Best User Experience Innovator for KFH Jazeel Banking at the Banker Middle East Industry Awards.

Finally, our marketing efforts received accolades from AVA Digital Awards with our National Day video titled "My Bahrain… My Pride" being the Golden Winner for Best Cinematography, and our Mazaya social housing finance scheme award video being Platinum Winner for Best Video Production.

Adherence to the Principles of Islamic Banking

On behalf of the Board I am once again pleased to recognize the excellent work of our Fatwa and Shari'a Supervisory Board, comprised of the well-respected scholars Shaikh Dr. Mohammed Al-Tabatabee (Chairman), Shaikh Dr. Anwar Shuaib Abdulsalam (Member) and Shaikh Dr. Mubarak Jazaa Al-Harbi (Member) who continue to work tirelessly to ensure the Bank's products and services adhere to Islamic principles, supported by a hard working professional team within the Bank.

With Gratitude

On behalf of the Board and management, with deep gratitude, I thank His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister. I would also like to extend my appreciation to his Excellency the Governor of the Central Bank of Bahrain for his valuable support and direction, and to the various ministries of the Government of Bahrain.

We are deeply thankful to our respected stakeholders for their continued support, our customers and business partners for their trust and loyalty, and our management and staff for their continued dedication and professionalism.

May Allah grant everyone the best in this Life and the Hereafter. May the peace, mercy and blessings of Allah be upon you.

Hamad Abdulmohsen Al-Marzouq
Chairman

Board of Directors

Hamad Abdulmohsen Al-Marzouq
Chairman

Mohammad Naser Al Fouzan
Vice Chairman

Abdulwahab Isa Alrushood
Board Member

Shadi Ahmad Zahran
Board Member

Abdullah A. Al-Marzouq
Board Member

Noorur Rahman Abid
Board Member

Khalid Mohamed Alsaad
Board Member

Youssif Abdullah Taqi
Board Member

Abdulhakeem Y. Alkhayyat
Managing Director & CEO

Fatwa and Shari'a Supervisory Board

Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabaee
Chairman

Sheikh Dr. Mubarak Jazaa Al-Harbi
Member

Sheikh Dr. Anwar Shuaib Al-Abdulsalam
Member

Executive Management

Abdulhakeem Y. Alkhayyat
Managing Director & CEO

Khalid Al Maarafi
Executive Manager
Retail & Private Banking

Yousif Al-Hammadi
Executive Manager
Financial Control, Administration

Mohammed F. Hamad
Executive Manager
Operations, IT & Corporate Communications

Lilian Le Falher
Executive Manager
Treasury and Capital Market

Ahmad Saeed
Executive Manager
Investment & Real Estate Project Management

Isa Al Duwaishan
Executive Manager
Head of Internal Sharia' Audit

Amit Yashpal
Executive Manager
Risk Management, Credit Review, Credit Administration, Collections & Financing Restructuring

Raed Ajawi
Executive Manager
Internal Audit

Senior Management

Mahmood G. Al Mahmood
Head of Corporate Banking

Sara Zainalabedin
Head of Human Resources

Iris Edwards
Head of Legal

Abdulrahman Abdulla
Head of Sharia Advisory

Alya AlShakhoory
Head of Anti-Financial Crime

Enaam Abdulla
Head of Compliance

Retail Banking
Group

The retail banking and finance services provided by **KFH-Bahrain** combine a broad range of innovative products and services with exceptional customer care.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Innovation and Quality Shaping the Core of Retail Banking Services

KFH-Bahrain provides a broad range of retail banking services that combine innovative products with exceptional customer care. Our products and financing facilities cater to the long-term needs of customers, taking into account local market characteristics. Our growth is driven by a determination to continuously improve our service quality, while delivering superior Shari'a compliant products.

We constantly enhance our technology and services to provide greater access to information and funds, both locally and internationally, and launch unique, never before-seen products.

KFH Jazeel Banking is revolutionizing the way we do banking. It is the Bank's first FinTech initiative paving the way for the next generation of financial services at your fingertips. The latest update provided a first-of-its-kind feature in Bahrain, which allowed Jazeel community subscribers to apply for personal financing without the need to visit a branch. Moreover, clients have the ability to open a Jazeel savings account in minutes and access a portfolio of services at their comfort and convenience ANYTIME, ANYWHERE. The customer onboarding experience is fully digitized through an E-KYC (Electronic Know-Your-Customer) process that can be done on clients' smartphones. It also offers customers to experience a suite of account management services, community and reward programs, such as the KFHB Internship Program. Global Business Outlook (GBO) has awarded KFH-Bahrain the "Best Use of Technology in FinTech Solutions" in the Banking category, for the Bank's mobile application "KFH Jazeel Banking" in 2019.

Well into its seventh successful year, our Libshara Investment Savings account continues to enrich its offering of valuable prizes. In the 2018-2019 edition, account holders stood the chance to win one of six luxurious apartments in Durrat Marina, in addition to instant monthly cash prizes. The account was recognized as the "Critics' Choice Best Prize linked Islamic Retail Investment Product" for 2017 at the Islamic Retail Banking Awards by Cambridge IFA.

Our Wakala Investment Account is another innovative offering, designed according to the Islamic Shari'a principle of Al Wakala. The Bank invests in its general portfolio on the client's behalf, at no charge, for a pre-promised anticipated profit rate, which is shared on a monthly basis. The Wakala Investment Account opening process has also been digitized and introduced in KFH Jazeel Banking App, therefore allowing customers to instantly open this account at their own convenience.

As part of the Wakala Profit Sharing Investment Accounts family, the bank has introduced a new long term Flexible Wakala PSIA named "Wakala Flexi" allowing customers to withdraw up to 20% of their investment amount without canceling the investment account. Whereby, profits are distributed based on the total average amount during the period of the investment, which is shared at the end of the investment period.

2019 saw the launch of a loyalty rewards program called "Walaa Baytik" for prepaid and credit cardholders. This program rewards cardholders with points when utilizing their cards, which can be redeemed for attractive and highly-demanded products and services, such as air-miles

and cash-back. Moreover, clients can also travel the world with a host of benefits offered by our Signature, Gold and Classic Credit Cards, including access to over 1,000 airport VIP lounges worldwide exclusive to signature cardholders. Additionally, cardholders can avail of attractive discounts from our retail partners and service providers. Our credit cards received the "Outstanding Performance for Credit Cards Issued in Bahrain 2017" award from VISA for their superior market appeal.

In line with its growing popularity as a major credit card issuer, the bank has introduced two new products to its cards suite, Visa Platinum "SmartPay" credit card and a prepaid card called "WorldPay". Our "SmartPay" card provides cardholders with a flexible credit solution by offering them a reliable way to manage their credit card payments in an easy payment plan ranging from 1 to 36 months. On the other hand, our Platinum "WorldPay" card offers our clients a global prepaid solution without worrying about the extra mark-up fees and withdrawal charges, making it a free and secure payment companion with a host of rewards and benefits.

Our array of financial products cater to all customer needs and aspirations; whether it's owning a dream home through our flexible real estate finance solutions or purchasing a new car with our auto murabaha product, our customer needs are addressed in personalized financing solutions. Additionally, our award winning "Tamweely" personal finance, a first of its kind Shari'a compliant tawarruq facility, enables our clients to address all their other needs. Structured as an international commodity murabaha (the commodity in this case being palm oil purchased from the Malaysia Bourse through an international brokerage partner), Tamweely allows our clients to experience every step of the tawarruq process in real time. It was recognized as the "Best Personal Finance" and "Best New Retail Financial Product" at the CPI Financials Banker Middle East Product Awards Bahrain 2014.

The Mazaya Programme is a social housing finance scheme on which KFH-Bahrain has partnered with the Ministry of Housing. It gives beneficiaries the opportunity to own their dream homes through a real estate finance facility subsidised by the Government of Bahrain. This programme, which is in line with the Bank's commitment to social responsibility, provides KFH-Bahrain the opportunity to participate in meeting the growing housing demands of the country.

Launched in 2019, Tamweel Aqar is a unique real-estate financing product that allows clients to avail from apartments and villas under construction (off-plan). The Retail Banking Group has collaborated with major real-estate development projects in 2019, which are underway to provide luxurious living lifestyles in Bahrain.

KFH-Bahrain's retail branches are strategically located for customer convenience and enable us to serve our clients throughout the Kingdom. In addition, every branch includes state of- the-art instant cash and cheque deposit ATMs to further enhance the customer experience. Our ATM network is continuously upgraded with new customized features and locations, such as the implementation of Chinese language in our Dragon Mall ATMs, which allow us to appeal to our Chinese clientele.

Private Banking

At Private Banking, we work to make the financial needs and objectives of our clients our first priority. Delivered by a dedicated team of highly experienced relationship managers, KFH Bahrain Private Banking proudly offers its clients the highest quality of Shari'a Products & investment opportunities combined with superior financial advice and personalized services.

KFH-Bahrain Private Banking department excels in personalizing premium services which are aligned to the personal and corporate needs of High Net-Worth Individuals, Family Offices and Private Corporations.

The Advantages of Private Banking

At Private Banking our number one priority is to keep the client satisfied at all times. By capitalizing on the full range of the bank's resources and tailoring solutions to suit individual needs and to develop investment strategies that can fulfill and target their financial objectives with ease and flexibility while ensuring that we maintain transparency in all our offerings and preserve the values of Islamic Banking.

Private Services

In addition to a full range of products, the advantages of the Private Banking relationship extends to a host of selective features that ensures the needs of our Private clients come first in today's fast-paced world. Private Banking clients are offered a multitude of service enhancements and Personalized care, which includes several premium benefits.

In 2019, Private Banking Department provided a host of new banking Shari'a compliant solutions such as Call account and Flexi-Wakala.

Call Accounts

Call accounts provide a solution that combines the benefit of savings and current accounts into one product. The call account calculates the profit on a daily basis and distributes the profits on a monthly basis to investors. Clients can open a call account in Bahraini dinars and/or US dollars.

Wakala Investment Accounts

Wakala Investment accounts expand the choice of financial tools that can be invested in Bahraini dinars and/or US dollars. Profits are distributed to clients' accounts on a monthly basis.

Wakala Flexi Investment Accounts

The new Flexi Wakala Investment accounts give KFH-Bahrain clients the flexibility to withdraw up to 20% of the investment amount during the investment period. Clients can invest in Bahraini dinars and/or US dollars. Profits are distributed to the clients' accounts at maturity.

Wealth Management

During 2019, KFH-Bahrain's Wealth Management department achieved a new milestone by crossing the $1 billion in total portfolio size generating both scale and track record with its high net worth client base.

With a clear understanding of evolving market requirements, the department provides objective investment advisory services and best in class portfolio management services across all asset classes. These include strategic investment management solutions that deliver results aimed at exceeding clients' expectations.

Strategic asset allocation, diversification, and a disciplined approach are crucial to preserve and grow clients' wealth. Over the past 4 years, the department has successfully developed a unique suite of products and services that are in line with clients' return expectations, liquidity needs, and risk profiles. The department has also developed innovative solutions for clients, giving them access to short-term financing against their portfolio without interrupting their asset allocation and long-term investment strategy.

The Wealth Management department provides a one-stop shop for clients with unique products and services across all major asset classes, enabling them to benefit from investment diversification. The products include Sukuk, Margin Finance, Restricted Investment Accounts (RIA), Lombard Finance, and Operational & Fixed Deposit Accounts. In addition, the department collaborates with the Bank's partner, KFH Capital, to give investors access to unique investment opportunities such as income generating Real Estate, and other alternative investments globally.

Corporate Banking Group

KFH–Bahrain continues to support the corporate sector of the country, aligning its growth targets with the Kingdom's continuous development and progress. Leveraging its expertise in a broad range of market sectors, the Corporate Banking Group (CBG) is working diligently to attract new clients, diversify its portfolio, and improve the quality of its assets.

The CBG's comprehensive knowledge of business trends, and the unique characteristics and requirements of each sector, provide a solid foundation to capitalize on new opportunities. Accordingly, the CBG remains focused on introducing innovative new financing products that cater to evolving market needs.

Through its strengthened partnership with Tamkeen, the CBG continues to provide effective financing solutions for Small and Medium Enterprises (SMEs) and is extending more support to both SMEs and large corporate segments, enabling them to reach new levels of production and profitability.

Mindful of current market conditions, the CBG remains committed to working closely with its clients to ensure a firm understanding of their changing needs and requirements. In line with this commitment to continuous improvement, the CBG is also proactively working to streamline many of its internal processes and procedures to ensure faster response times to all client enquiries and requests.

Treasury & Capital Markets

In 2019, KFH-Bahrain continued to grow its sovereign sukuk portfolio and saw an impressive increase of 24% year-on-year, which supported the Bank's profitability and liquidity profile.

In addition to overseeing KFH-Bahrain's asset and liability management functions, the Treasury & Capital Markets manages institutional relationships with sovereign and quasi-sovereign entities and is committed to supporting the funding requirements of such entities through the Bank's sukuk portfolio. In 2019, KFH Bahrain continued to grow its sovereign sukuk portfolio and saw an impressive increase of 24% year-on-year, which supported the Bank's profitability and liquidity profile.

Responsible for the management of treasury lines with financial institutions within the GCC and internationally, Treasury & Capital Markets plays an active role in the development of the Bank's financial institution counterparty network and has built a wide reaching network of interbank relationships.

Treasury & Capital Markets also maintains collaboration with KFH Group's parent and sister companies within the scope of its mandated activity. In line with the mandate, the department structures Shari'a compliant hedging products, including FX Wa'ad and Cross Currency Swaps.

Through its involvement in syndicated financing, KFH-Bahrain continually supported key projects in the country as well as the general funding requirements of large institutions in the Kingdom.

Investments

The Bank continued to focus on value-creation through realization of its investment portfolio with the aim to re-deploy the realization into core banking.

During 2019, the Bank continued to focus on value creation within its investments in the Kingdom as well as profit realization of the investment portfolio owned and managed by the Bank on behalf of the Group.

In line with its strategy to redeploy funds into core banking and strengthen the Bank's balance sheet, KFH-Bahrain continued to exit its non-core investments wherever possible. The transfer of the majority of real estate investment assets to an entity owned by KFH-Kuwait in 2017, resulted in a reduction of the Bank's direct real estate exposure and optimized the Bank's capital structure, enabling it to focus on growing its core banking activities.

Following the asset transfer, the Bank continued to manage the portfolio and assisted the portfolio companies in successfully concluding a diverse range of deals, including initiating the successful completion of a high-quality Social / Affordable Housing Project in Diyar Al Muharraq. The Bank also advised on and supervised multiple asset sales by its real estate project companies during the year.

The Investments Department also manages assets acquired as a result of financing settlements with an objective of orderly realization.

Major Owned Assets

Ishbiliya Village

Ishbiliya Village is a mixed-use development located in close proximity to downtown Manama. Featuring over 240 villas, it offers high-quality housing at competitive prices to meet the demands of Bahrain's housing needs for the local population.

Pre-construction activity for a second sub-development within Ishbiliya Village is currently underway. The project, in collaboration with Eskan Properties and under the Ministry of Housing scheme, Mazaya, features more than 200 social housing apartment units.

Jordan Portfolio

KFH-Jordan is an investment company established in 2008 in the Hashemite Kingdom of Jordan. Its subsidiaries and associate companies own a diverse real estate portfolio, which ranges from plots of land throughout Jordan to high-end mixed-use properties in prime locations in Amman. The company is focusing on controlled realization strategy for the assets within the portfolio.

Risk Management

KFH-Bahrain's Approach to Risk Management

KFH-Bahrain takes a prudent approach to risk management commensurate with the size and complexity of the Bank to protect various stakeholders' interests and to achieve the Board approved results. We pursue strategies that build long-term shareholder value, while meeting regulatory requirements and optimizing economic capital. Our Risk Management framework enables us to proactively manage risks throughout the life cycle of a financial transaction, including operating circumstances, from origination to final disposal.

The Board manages risk by setting a comprehensive limit structure and aligning business and risk strategies to achieve targeted risk-adjusted returns. The Board Risk Committee (BRC) meets regularly to oversee the Bank-wide implementation of Board approved strategies, policies, procedures, and risk appetites. Through the Asset and Liability Committee (ALCO), senior management develops and implements appropriate risk management and business processes to monitor and manage risks within the parameters set by the Board.

The Bank enforces a culture of risk management across its business, control, and support units. The business units are the first line of control and the front-line operators of risk management practices. The support and control units are the second-line of control for the risks taken by the business units. The Risk Management Group provides various risk management tools and an appropriate framework to business and support units to manage risks within their areas. The audit function is responsible for independently assessing the controls and departments' adherence to the Bank's risk management strategies, policies and procedures.

The Risk Management Group helps the ALCO, the BRC, and the Board make sound business and operating decisions by optimizing risk. Over the last few years, the Bank has put considerable effort into improving, monitoring, and gathering quality data into systems and formats that provide a timely and meaningful snapshot of the Bank's risk profile.

Sophisticated and prudent models are periodically developed and refined to measure the risks taken and project their likely impact on the Bank's business and operating goals. Tools such as scoring systems, stress test frameworks, the Internal Capital Adequacy and Assessment Program (ICAAP) and others serve a vital role in this regard. The Bank also uses models for Funds Transfer Pricing (FTP) and risk-adjusted performance measurement tools, including Risk Adjusted Return on Capital (RAROC), as essential elements for maximizing risk-adjusted returns.

During 2019, the Bank continued to refine and enhance its risk management framework and processes to identify, monitor, and manage risks more effectively. Risk Management Group has undertaken an independent review of the Bank's Risk Management framework, including a comprehensive review of the IFRS 9/FAS 30 Expected Credit Loss models.

The Bank has put in significant efforts in 2019 towards managing and improving the Bank's asset quality. These efforts focused on improving internal credit processes, integrating decision making process, enforcing stricter risk/credit selection requirements, diversifying our portfolios, implementing innovative initiatives to align our clients' interests with those of the Bank, ensuring closer monitoring of clients by business units and others. The Bank's philosophy towards remedial management of problem credit accounts is to work closely with clients to reach a mutually beneficial outcome.

In order to ensure continuity of business operations during business disruptions/ disasters on account of process disruptions, technology break down, power failure, natural calamities, fire, etc, the Bank has put in place a well-defined board approved Business Continuity Management (BCM) Policy. KFH - Bahrain implements Business Continuity Plans (BCP) within the Bank and regularly maintains and updates various Business Continuity documents for its critical functions, as per BCM policy.

Business Continuity Management System of KFH - Bahrain is accredited to ISO22301:2012 standard which demonstrates the Bank's commitment towards maintaining uninterrupted banking services, thereby enhancing customer satisfaction, quality of customer service, superior delivery standards besides assuring organizational performance improvement and aim to minimize the recovery time necessary to resume operations.

Corporate Social Responsibility

KFH-Bahrain believes that Corporate Social Responsibility (CSR) and socio-economic development go hand in hand. Through its CSR programme, the Bank provides practical and financial support to initiatives that contribute to the Kingdom's prosperity and enhance quality of life for its people.

The programme is in line with the Bank's ethical values and is built around the pillars of Islamic banking and finance, sporting, and community. During 2019, KFH Bahrain also extended its support to other deserving causes, including charities, educational and cultural initiatives, and social events. In addition, it sponsored and participated in prominent banking-related events that promote the development of the financial sector and help drive economic progress.

Some of our CSR activities during the year include

Supporting Islamic Banking and Finance

- Major Sponsor of two Annual Conferences of the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) in Bahrain
- Lead Sponsor of the World Islamic Banking Conference (WIBC) in Bahrain
- Sponsored Epay Summit
- Sponsored GCC Financial Forum
- Sponsored BIBF Islamic Finance Awareness
- Sponsored Bahrain Association of Banks "100 Years of Banking" initiative

Developing Tomorrow's Sporting Champions

- Sponsored His Majesty the King's Football Cup
- Sponsored the Sh. Nasser Bin Hamad 2019-2020 Premier League
- Sponsored Bahrain Handball Federation
- Sponsored Bahrain Basketball Association
- Sponsored Rashid Equestrian and Horseracing Club
- Sponsored Bahrain Volleyball Association
- Sponsored Al Najma Club – Handball Team
- Sponsored his Majesty the King's Golf Trophy
- Sponsored Bahrain Table Tennis Association

Promoting Health, Education and Leadership

- Sponsored the Shaikha Hessa Girl's School
- Sponsored the Kuwait National Day event, hosted by the Embassy of Kuwait
- Sponsored Al Mabarrah Al Khalifia Foundation
- Sponsored Bahrain Society for Training & Development
- Sponsored Shaika Hessa Girl's School – Air Tickets to New York
- Sponsored The Millennium Biotechnology Pan Arab Conference & Exhibition "MBPAC" – Arabian Gulf University
- Sponsored World Robotics Competition in US – Creativity Private School
- Sponsored Ministry of Education - 100 years of Formal Education Forum with UNICEF

Community Support

- Sponsored Bahrain International Airshow
- Sponsored BAB CSR Conference
- Sponsored Bahrain International Garden Show 2019
- Sponsored Ramadan Islamic TV Lectures
- Sponsored Bahrain Reciters App
- Sponsored Bahrain Society for Training & Development
- Sponsored Kuwait Embassy Cultural Office Forum
- Sponsored The Bahrain Catalysts Disabilities Association
- Sponsored Afnan Zayani – Ramadan Show
- Sponsored Breast Awareness Campaign – London Breast Care Center
- Sponsored Ministry of Interior (Anti-Drugs)
- Sponsored Capital – Governorate – National Day Celebration
- Sponsored Bahrain Economists Society
- Sponsored CFA Society
- Sponsored Bahrain Journalists Association
- Sponsored Bahrain International Garden Show 2020
- Sponsored Ministry of Interior – Traffic Week
- Sponsored Ministry of Information Affairs
- Sponsored Ministry of Education "Boys Scouts of Bahrain"
- Sponsored Islamic radio shows with the Ministry of Information Affairs
- Mohammed Bin Rashid – Holy Quran Printing Center
- Award of the Holy Quran of the ASEAN Bahrain Council

Fatwa & Shari'a Supervisory Board Report

In the Name of Allah Most Gracious Most Merciful
Praise be to Allah, Almighty, and Prayers and Peace be upon Prophet Mohammed, his family and Companions

To: The Shareholders of Kuwait Finance House-Bahrain

Al Salam Alaikum Wa Rahmatu Allah Wa Barakatuh

In compliance with the letter of appointment, we are required to submit the following report:

We have supervised the products and contracts relating the transactions and applications introduced by Kuwait Finance House – Bahrain (the Bank) during the period ended 31st Dec 2019. We have performed our supervision to form an opinion as to whether the Bank has complied with the Rules and Principles of Islamic Shari'a, as well as Fatwas, rules and guidelines issued by us, Shari'a related policies and procedures of the Bank, AAOIFI Shari'a standards, relevant rulings of the Centralized Shari'a Supervisory Board (CSSB) and regulations, resolutions and directives issued by the Central Bank of Bahrain (CBB).

Responsibility of Management
The Bank management is responsible for ensuring that the Bank conducts its business in accordance with the Rules and Principles of Islamic Shari'a. It is our responsibility to form an independent opinion based on our review of the operations of the Bank and preparing a report for you.

Scope of work of the Fatwa and Shari'a Supervisory Board
Through the periodic reports provided by the head of Internal Shari'a Audit Department and the head of Shari'a Advisory Department, The Fatwa and Shari'a Supervisory Board (The Board) confirmed that the Bank did not violate the Provisions, Rules and Principles of Islamic Shari'a. The reports contained the results of reviewed, approved contracts and agreements and the results of the Bank operations reviewed on a random sample selection in accordance to the annual audit plan for the Internal Shari'a Audit Department which was approved by The Board including the field visits, supervision of the workflow from Shari'a viewpoint and implementation of Fatwa and decisions issued by us.

We planned and performed our supervision to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank did not violate the Rules and Principles of Islamic Shari'a.

In our opinion
1. The contracts, transactions, and dealings entered into by the Bank during the year ended 31st December 2019 that we have reviewed are in compliance with the provisions and principles of Islamic Shari'a;
2. The allocation of profits and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the provisions and principles of Islamic Shari'a;
3. All earnings that have been realized from sources or by means of prohibited by the Rules and Principles of Islamic Shari'a have been set aside in an independent account and disposed of to charitable causes;
4. The calculation of Zakat is in compliance with the Rules and Principles of Islamic Shari'a; and
5. The Bank has committed to the Shari'a Principles, Fatawa and Directions given by us.

The Fatwa and Shari'a Supervisory Board approved the report based on the periodic reports provided by the Internal Shari'a Audit and the Shari'a Advisory Departments.

The Fatwa and Shari'a Supervisory Board would raise the sincere thanks and appreciation to the senior management, the departments and the staff of Kuwait Finance House - Bahrain for their cooperation and commitment to the Board's decisions and guidelines, and asks Allah Almighty to grant them success and Rashad.

We pray to Allah Almighty to guide us to the righteous path.

Sh. Dr. Mohammed Al-Tabatabaee
Chairman
Fatwa and Shari'a Supervisory Board

Sh. Dr. Mubarak Jazaa Al-Harbi
Member
Fatwa and Shari'a Supervisory Board

Sh. Dr. Anwar Shuaib Al-Abdulsalam
Member
Fatwa and Shari'a Supervisory Board

Report issued on March 2nd, 2020.

Independent Auditors' Report

to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

We have audited the accompanying consolidated statement of financial position of Kuwait Finance House (Bahrain) B.S.C. (c) [the "Bank"] and its subsidiaries [together the "Group"] as of 31 December 2019, and the related consolidated statements of income, cash flows, changes in owners' equity, and changes in off-balance sheet equity of investment account holders for the year then ended and a summary of significant accounting policies and other explanatory information. 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 Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2019, the results of its operations, its cash flows, changes in equity and changes in off-balance sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
b) the financial information contained in the report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst + Young

Partner's registration no: 117
2 February 2020
Manama, Kingdom of Bahrain

Consolidated Financial Statements

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 BD 000	2018 BD 000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	7	**99,535**	49,651
Due from banks	8	**115,216**	74,694
Financing contracts	9	**913,907**	886,779
Investments	10	**6,156**	6,304
Investment in sukuk	11	**270,277**	222,471
Investment in associates	12	**8,461**	12,885
Receivables and other assets	14	**247,328**	246,878
Premises and equipments		**9,553**	5,140
TOTAL ASSETS		**1,670,433**	1,504,802
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS, AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		**128,258**	127,748
Due to banks	15	**165,471**	225,467
Due to non-banks		**402,375**	372,473
Other liabilities	17	**15,399**	14,284
Subordinated wakala payable	18	**96,011**	95,859
		807,514	835,831
EQUITY OF INVESTMENT ACCOUNT HOLDERS	19	**669,260**	486,708
OWNERS' EQUITY			
Equity attributable to shareholders of the Parent			
Share capital	20	**132,519**	132,519
Statutory reserve		**24,115**	21,613
Fair value through equity reserve		**324**	170
Proposed dividend		**22,517**	16,608
Retained earnings		**3,587**	3,587
		183,062	174,497
Non-controlling shareholders		**10,597**	7,766
		193,659	182,263
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**1,670,433**	1,504,802
OFF-BALANCE SHEET			
EQUITY OF INVESTMENT ACCOUNT HOLDERS		**135,145**	135,110
CONTINGENT LIABILITIES AND COMMITMENTS	22	**108,796**	73,191

Hamad Abdulmohsen AlMarzouq
Chairman of the
Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

The attached notes 1 to 39 form 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 from financing contracts	24	**63,429**	52,321
Income from investments	25	**1,720**	6,432
Income from sukuk		**20,200**	11,349
Share of income from associates		**(164)**	170
OPERATING INCOME		**85,185**	70,272
Return on equity of investment account holders (wakala)		**(11,229)**	(4,012)
Return on equity of investment account holders (mudaraba) before Group's share as mudarib		**(9,680)**	(10,233)
Group's share as mudarib		**7,727**	7,666
Return on equity of investment account holders (mudaraba) after Group's share as mudarib		**(1,953)**	(2,567)
Profit on due to banks, due to non-banks and subordinated wakala payable	29	**(23,208)**	(18,551)
NET OPERATING INCOME		**48,795**	45,142
Staff costs		**13,235**	15,337
Depreciation		**1,292**	1,184
Provisions - net	27	**(631)**	459
Other expenses	28	**9,889**	9,745
TOTAL OPERATING EXPENSES		**23,785**	26,725
NET INCOME FOR THE YEAR		**25,010**	18,417
Attributable to:			
Shareholders of the Parent		**25,019**	18,453
Non-controlling shareholders		**(9)**	(36)
		25,010	18,417

Hamad Abdulmohsen AlMarzouq
Chairman of the
Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

The attached notes 1 to 39 form 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			
Net income for the year		**25,010**	18,417
Adjustments for:			
Share of loss (income) from associates		**164**	(170)
Net unrealised (gain) on investments	25	**(198)**	(174)
Dividend income	25	**-**	(39)
Foreign exchange gain	25	**(839)**	(811)
Depreciation		**1,292**	1,184
Provisions - net	27	**(631)**	459
Operating income before changes in operating assets and liabilities		**24,798**	18,866
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank of Bahrain		**(605)**	(995)
Due from banks		**4,041**	19,584
Financing contracts		**(38,796)**	(149,003)
Receivables and other assets		**(1,613)**	1,241
Customers' current accounts		**510**	(7,350)
Due to banks		**(59,844)**	63,316
Due to non-banks		**29,902**	137,540
Other liabilities		**1,619**	(9,710)
Net cash flows (used in) from operating activities		**(39,988)**	73,489
INVESTING ACTIVITIES			
Disposal of investments - net		**-**	1,433
Purchase of sukuk - net		**(226,066)**	(56,906)
Sale proceeds from disposal of sukuk		**178,384**	-
Dividend income		**-**	39
(Purchase) disposal of premises and equipment - net		**(890)**	3,114
Net cash flows used in investing activities		**(48,572)**	(52,320)
FINANCING ACTIVITY			
Net movement in equity of investment account holders		**182,552**	9,032
Net cash flows from financing activity		**182,552**	9,032
NET INCREASE IN CASH AND CASH EQUIVALENTS		**93,992**	30,201
Cash and cash equivalents at 1 January		**88,701**	58,500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	30	**182,693**	88,701

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2019

	Attributable to shareholders of the parent							
	Share capital BD 000	Statutory reserve BD 000	Fair value through equity reserve BD 000	Retained earnings BD 000	Proposed dividend BD 000	Total BD 000	Non-controlling shareholders BD 000	Total owners' equity BD 000
Balance at 1 January 2019	132,519	21,613	170	3,587	16,608	174,497	7,766	182,263
Net income for the year	-	-	-	25,019	-	25,019	(9)	25,010
Other comprehensive income for the year (note 21)	-	-	154	-	-	154	-	154
Total comprehensive income for the year	-	-	154	25,019	-	25,173	(9)	25,164
Dividend payout	-	-	-	-	(16,608)	(16,608)	-	(16,608)
Transfer to statutory reserve	-	2,502	-	(2,502)	-	-	-	-
Proposed dividend (note 20)	-	-	-	(22,517)	22,517	-	-	-
Net movement in share of non-controlling shareholders	-	-	-	-	-	-	2,840	2,840
Balance at 31 December 2019	**132,519**	**24,115**	**324**	**3,587**	**22,517**	**183,062**	**10,597**	**193,659**
Balance at 1 January 2018	132,519	19,768	-	3,321	18,095	173,703	7,804	181,507
Net income for the year	-	-	-	18,453	-	18,453	(36)	18,417
Other comprehensive income for the year (note 21)	-	-	436	-	-	436	-	436
Total comprehensive income for the year	-	-	436	18,453	-	18,889	(36)	18,853
Dividend payout	-	-	-	-	(18,095)	(18,095)	-	(18,095)
Net transfer from fair value through equity reserve	-	-	(266)	266	-	-	-	-
Transfer to statutory reserve	-	1,845	-	(1,845)	-	-	-	-
Proposed dividend (note 20)	-	-	-	(16,608)	16,608	-	-	-
Net movement in share of non-controlling shareholders	-	-	-	-	-	-	(2)	(2)
Balance at 31 December 2018	132,519	21,613	170	3,587	16,608	174,497	7,766	182,263

The attached notes 1 to 39 form part of these consolidated financial statements.

Consolidated Statement of Changes in Off-Balance Sheet Equity of Investment Account Holders

For the year ended 31 December 2019

	Balance at 1 January 2019 BD 000	Additional Investments BD 000	Gross Income BD 000	Mudarib Share BD 000	Withdrawals / distributions BD 000	Balance at 31 December 2019 BD 000
Investment in Murabaha	**135,110**	**104,525**	**9,654**	**(2,035)**	**(112,109)**	**135,145**

	Balance at 1 January 2018 BD 000	Additional Investments BD 000	Gross Income BD 000	Mudarib Share BD 000	Withdrawals / distributions BD 000	Balance at 31 December 2018 BD 000
Investment in Murabaha	135,080	99,375	9,198	(2,348)	(106,195)	135,110

The attached notes 1 to 39 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ACTIVITIES

Kuwait Finance House (Bahrain) B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 22 January 2002 under the Bahrain Commercial Companies Law No. 21/2001 and is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 48128. The Bank is regulated and supervised by the Central Bank of Bahrain (the "CBB") and has an Islamic retail banking license. The Bank operates under Islamic principles and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The address of the Bank's registered office is World Trade Centre, road number 365, Building number 1B, Block 316, P.O. Box 2066, Manama, Kingdom of Bahrain.

The Bank offers a full range of Islamic banking services and products. The activities of the Bank include accepting Shari'a compliant money placements / deposits, managing Shari'a compliant profit sharing investment accounts, offering Shari'a compliant financing contracts, dealing in Shari'a compliant financial instruments as principal / agent, managing Shari'a compliant financial instruments and other activities permitted under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

The Bank is a wholly owned subsidiary of Kuwait Finance House K.S.C.P. (the "Ultimate Parent"), a public company incorporated in the State of Kuwait and listed at the Kuwait Stock Exchange. The Ultimate Parent is regulated and supervised by the Central Bank of Kuwait. The Bank's Shari'a Supervisory Board is entrusted to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and Hashemite Kingdom of Jordan. The activities of the Bank's key subsidiaries are mentioned in note 5.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors passed on 2 February 2020.

2 BASIS OF PREPARATION

2.1 Accounting Convention

The consolidated financial statements have been prepared under the historical cost basis, except for managed funds and equity securities that have been measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ("BD") which is the functional and presentation currency of the Bank. All the values are rounded to the nearest BD thousand, unless otherwise indicated.

2.2 Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. For matters not covered by FAS, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.3 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2 BASIS OF PREPARATION (continued)

2.3 Basis of Consolidation (continued)

Share of non-controlling shareholders represents the portion of net income and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Parent. Transactions with the non-controlling interest are handled in the same way as transactions with external parties.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

3.1 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 consolidated financial statements continue to be prepared on a going concern basis.

3.2 Fair value of unquoted equity securities

Fair value is determined for each investment individually in accordance with the valuation policies set out in note 4.24. Where the fair values of the Group's unquoted equity securities cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

3.3 Impairment provisions against financing contracts

In determining impairment on receivables, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

3.4 Impairment of investments at fair value through equity

The Group treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

3.5 Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets, liabilities and equity of investment account holders which is set out in the liquidity risk disclosures in note 34. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Adoption of FAS 28 - Murabaha and Other Deferred Payment Sales

The Group has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements except for additional disclosure that has been added in the relevant section (note 9).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial contracts and impairment

a) Financial contracts
Financial contracts consist of balances with banks and the Central Bank of Bahrain, Due from banks, Sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Musharaka, other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment

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

Stage 1: Twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

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

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

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

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event; and
- probability that the borrower will enter bankruptcy or other financial reorganization.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial contracts and impairment (continued)

b) Impairment assessment (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

Probability of default
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. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real interest rates, oil prices and equity prices.

Incorporation of forward - looking information
The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial contracts and impairment (continued)

b) Impairment assessment (continued)

Loss Given Default
LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and collaterals held, based on historical data using both internal and external factors including hair cuts.

Exposure At Default
EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position equivalents. The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities. In case of financial guarantee, EAD is estimated as CCF times the committed amount. The outstanding exposure is equivalent to the principal outstanding. The undrawn portion refers to the portion of the unutilized credit limit.

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

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

Renegotiated financial assets
The contractual terms of a financing may be modified for a number of reasons including changing market conditions and other factors not related to the current or potential credit deterioration of a customer.

The Group considers renegotiated financing to customers due to financial difficulties as one of the reasons for determining the significant increase in credit risk. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

Backward transition
FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 are subject to certain criteria such as cooling off period, SICR indicators and payment history, where applicable.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial contracts and impairment (continued)

b) Impairment assessment (continued)

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

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

4.3 Foreign currency translation

The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective protection for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as "fair value through equity" such differences are taken to the consolidated statement of other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (Bahraini Dinars) at the rate of exchange prevailing at the date of the consolidated statement of financial position, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments - initial recognition and subsequent measurement

Date of recognition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

(i) Due from banks
Murabahas are international commodity murabaha transactions. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

(ii) Financing contracts

(a) Murabaha
Murabaha is selling a commodity as per the purchasing price with a defined and agreed profit mark-up. This mark-up may be a percentage of the selling price or a lump sum. This transaction maybe concluded either without a prior promise to buy, in which case it is called an ordinary murabaha, or with a prior promise to buy submitted by a person interested in acquiring goods through the institution, in which case it is called 'Banking Murabaha' i.e. Murabaha to the purchase order. This transaction is one of the trust-based contracts that depends on transparency as to the actual purchasing price or cost price in addition to common expenses.

(b) Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

(c) Musharaka
Musharaka represents a partnership between the Group and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any.

(iii) Investments
Investments are classified as follows:
- Investments at fair value through statement of income
- Investments at fair value through equity
- Investments at amortised cost

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments - initial recognition and subsequent measurement (continued)

(iii) Investments (continued)

(a) Investments at fair value through statement of income
Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

The Group also utilises the exemption available in accordance with IAS 28 and FAS 24 as applicable to venture capital organisations and classifies such investments in joint ventures and associates as "investments at fair value through statement of income". Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

Investments classified as 'fair value through statement of income' are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

(b) Investments at fair value through equity
Investments at fair value through equity are those which are designated as such or are not classified as carried at fair value through statement of income or at amortised cost. These include investments in equity securities and managed funds.

Investments at fair value through equity are subsequently measured at fair value. Unrealised gains and losses are recognised in statement of comprehensive income. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the fair value through equity reserve, is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis.

(c) Investments at amortised cost
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as such when the Group has the positive intention and ability to hold them to maturity. After initial measurement, these investments are measured at amortised cost, less impairment. The losses arising from impairment are recognised in the consolidated statement of income under 'provisions'.

(iv) Equity of investment account holders
Equity of investment account holders is invested in due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Derecognition of financial assets and financial 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 where:

- the rights to receive cash flows from the asset have expired; 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; or
- 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 assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset 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.

4.6 Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal repayments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost as required by FAS 30 with Expected Credit Loss model explained above.

(ii) Investments at fair value through equity
For investments at fair value through equity, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as "fair value through equity", objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income is removed from fair value through equity reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value subsequent to impairment are recognised directly in equity.

4.7 Offsetting financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable or religious 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Recognition of income and expense

(i) Income recognition

(a) Murabaha
Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(b) Ijarah Muntahia Bittamleek
Ijarah income is recognised on a time-apportioned basis, net of depreciation, over the lease term. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(c) Musharaka
Income on musharaka contracts is recognised when the right to receive payment is established or on distribution by the musharek.

(d) Dividends
Dividends from investments in equity securities are recognised when the right to receive the payment is established.

(e) Fees and commission income
Fees and commission income is recognised when earned.

(f) Revenue from sale of real estate
Revenue on sale of real estate is recognised when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, as of the date of financial statements, is adequate (25% and above) to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group considers whether the contract comprises:

- contract to construct a property; or
- contract for the sale of a completed property.

Where a contract is determined to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The percentage of work complete is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the property are transferred to the buyer.

(g) Service income
Revenue from rendering of services is recognised when the services are rendered.

(h) Revenue from sale of goods
Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

(i) Group's share as a mudarib
The Group's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements whereas, for off balance sheet equity of investment account holders, mudarib share is recognised when distributed.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Recognition of income and expense (continued)

(ii) Expense recognition

(a) Profit on due to banks, non-banks and subordinated wakala payable
Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

(b) Return on equity of investment account holders
Return on equity of investment account holders is based on the income generated from jointly financed assets after deducting mudarib share (in case of mudaraba contracts) and is accrued based on the terms and conditions of the underlying mudaraba or wakala agreement. Investors' share of income represents income generated from assets financed by investment account holders net of allocated operating expenses excluding investment related expenses. The Group's share of profit is deducted from the investors' share of income before distribution to investors.

4.9 Investment in associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor individually tested for impairment.

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

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been an income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, in the consolidated statement of comprehensive income. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

The reporting dates of the associates and the Group are identical and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances. In case of any difference in the associates' accounting policies, their results are adjusted to bring them in line with the Group accounting policies.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

4.10 Premises and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Premises and equipment (continued)

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises	20
Hardware, software and equipment	3 - 15
Motor vehicles and office furniture	5 - 7

An item of premises and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

4.11 Intangible assets

Intangible assets include the value of license rights. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset maybe impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the consolidated statement of income. Amortisation of license rights is calculated using the straight-line method to write down the cost of these intangible assets to their residual values over their estimated useful lives of 4 - 25 years.

4.12 Impairment of non-financial assets

The Group assesses at each reporting date or more frequently whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

4.13 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recorded in the consolidated statement of financial position at fair value in 'other liabilities' being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated statement of income under 'provisions'. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

4.15 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.

4.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or group that allocates resources to and assesses the performance of the operating segments of the entity. The Group has determined the Managing Director and Chief Executive Officer as its CODM.

4.17 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks and the Central Bank of Bahrain (excluding mandatory reserve) and due from banks with original maturity of 90 days or less.

4.18 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation ("SIO") as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of Bahrain Labour Law.

4.19 Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represents funds received by the Bank on the basis of mudaraba to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary capacity by the Bank for which the Bank earns mudarib share which is disclosed as part of 'income from financing contracts'. These assets are not included in the consolidated statement of financial position as the Group does not have the right to use or dispose of them except within the conditions laid down in the underlying mudaraba contract. Off-balance sheet equity of investment account holders is included in a seperate statement in the consolidated financial statements of the Bank.

4.20 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 transferred to non shari'a income account for charity.

4.21 Inventories

Inventories are carried at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.22 Assets classified as held for sale

The Group classifies assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Management must be committed to the plan, expected within one year from the date of the classification.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Assets classified as held for sale (continued)

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

Results from discontinued operations are presented as a single amount in the consolidated statement of income.

Assets which ceases to be classified as held for sale are consolidated on a line by line basis. Prior period balances are re-presented.

4.23 Repossessed assets

Repossessed assets are assets acquired in settlement of financing contracts with customers. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within "receivables and other assets" in the consolidated statement of financial position.

4.24 Fair value of financial instruments

The Group measures financial instruments and non-financial assets such as investment in real estate, at fair value at the date of statement of financial position. Fair values of financial intruments are disclosed in note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liabilty in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Observable data used along with the Group's approach to determining fair values of financial instruments and quantitative disclosure are disclosed in note 33.

4.25 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated statement of income under "other operating expenses.

4.26 Zakah

In accordance with the instructions of the Shari'a Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

4.27 Cross currency swap and Foreign exchange Wa'ad

Cross currency swap and foreign exchange Wa'ad ("Islamic financial instruments") are used to mitigate foreign currency risk. They are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of this instrument includes unrealized gain or loss from marking to market the instrument using prevailing market rates or internal pricing models. The instrument with positive market value (unrealised gain) is included in other assets and the instrument with negative market value (unrealised loss) is included in other liabilities in the consolidated statement of financial position. Any gain or loss arising from changes in the fair value of this instrument is taken directly to the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.28 Provision for onerous contract or commitment to acquire an asset

The Group will recognize provision when the Group is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Group will create a provision on this account reflecting the expected losses arising on such transaction.

4.29 New standards, amendments and interpretations issued but not yet effective

FAS 35 Risk Reserves
This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

The Board of Directors expects that the adoption of this standard will have no material impact on the financial statements of the Bank in the year of initial application.

FAS 34 Financial Reporting for Sukuk holders
This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

The Board of Directors expects that the adoption of this standard will have no impact on the financial statements of the Bank in the year of initial application.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)
This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) wakala venture.

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. An investor shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture approach.

Under this approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under applicable FAS. Under this approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where by virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

An agent may maintain multi-level investment arrangements. Under such arrangement, the Bank will reinvest Wakala funds into a secondary contract. Such secondary contracts shall be accounted for in line with the requirements of respective FAS in the books of the agent.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)

The Board of Directors performed impact assessment for the implementation of FAS 31 and concluded the following:

From the principal perspective, the Bank opted to use Wakala venture approach instead of pass-through approach given the difficulties for the principal to identify in which assets the funds are invested in, and hence, the investment shall be accounted for applying the equity method of accounting.

From agent perspective, a multi-level investment arrangement would be maintained, whereby the Bank invests funds under the investment agency into unrestricted investment arrangements, under a separate contract and accounted for accordingly based on the relevant accounting standard.

FAS 32 Ijarah
This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

The Board of Directors will assess the impact of this standard on the financial statements upon the initial application.

FAS 33 Investment in sukuk, shares and similar instruments
This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held.

This standard supersedes FAS 25 "Investment in Sukuk" and shall be effective beginning or after 1 January 2020 with early adoption permitted. The Board of Directors expects that the adoption of this standard will have no impact on the financial statements of the Bank in the year of initial application.

5 LIST OF KEY SUBSIDIARIES

Key subsidiaries, all of which have 31 December as their year end, are listed below.

Subsidiary	Year of incorporation	Country of incorporation	Ownership %	
			2019	2018
Kuwait Finance House - Jordan The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.	2007	Hashemite Kingdom of Jordan	**100.00**	100.00
Ishbiliya Village W.L.L. The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties.	2005	Kingdom of Bahrain	**100.00**	100.00
Energy Central Utilities - Bahrain South Water Company B.S.C.(c) The company is providing district cooling, sea water desalination, waste water treatment and related services.	2007	Kingdom of Bahrain	**60.00**	48.25

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified in accordance with their measurement basis as follows:

At 31 December 2019	Financial assets at fair value through statement of income BD 000	Financial assets at fair value through equity BD 000	Financial assets at cost/ amortised cost BD 000	Financial liabilities at cost/ amortised cost BD 000	Total BD 000
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	99,535	-	99,535
Due from banks	-	-	115,216	-	115,216
Financing contracts	-	-	913,907	-	913,907
Investments	1,760	4,396	-	-	6,156
Investment in sukuk	-	-	270,277	-	270,277
Receivables and other assets	-	-	199,554	-	199,554
	1,760	4,396	1,598,489	-	1,604,645
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	128,258	128,258
Due to banks	-	-	-	165,471	165,471
Due to non-banks	-	-	-	402,375	402,375
Other liabilities	-	-	-	15,399	15,399
Subordinated wakala payable	-	-	-	96,011	96,011
Equity of investment account holders	-	-	-	669,260	669,260
	-	-	-	1,476,774	1,476,774

At 31 December 2018	Financial assets at fair value through statement of income BD 000	Financial assets at fair value through equity BD 000	Financial assets at cost/ amortised cost BD 000	Financial liabilities at cost/ amortised cost BD 000	Total BD 000
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	49,651	-	49,651
Due from banks	-	-	74,694	-	74,694
Financing contracts	-	-	886,779	-	886,779
Investments	1,562	4,742	-	-	6,304
Investment in sukuk	-	-	222,471	-	222,471
Receivables and other assets	-	-	208,680	-	208,680
	1,562	4,742	1,442,275	-	1,448,579
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	127,748	127,748
Due to banks	-	-	-	225,467	225,467
Due to non-banks	-	-	-	372,473	372,473
Other liabilities	-	-	-	14,075	14,075
Subordinated wakala payable	-	-	-	95,859	95,859
Equity of investment account holders	-	-	-	486,708	486,708
	-	-	-	1,322,330	1,322,330

7 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

	Note	2019 BD 000	2018 BD 000
Cash		10,816	9,780
Balances with banks		17,925	6,589
Balance with CBB		38,736	1,828
CBB mandatory reserve	7.1	32,060	31,455
Less: allowance for credit losses		(2)	(1)
	7.2	99,535	49,651

7.1 This mandatory reserve is not available for use in the Group's day to day operations.

7.2 This balance includes BD 42,011 thousand (2018: BD 15,650 thousand) financed by investment account holders' funds.

8 DUE FROM BANKS

	2019 BD 000	2018 BD 000
Murabaha	72,765	24,836
Wakala	43,135	50,393
	115,900	75,229
Less: allowance for credit losses	(684)	(535)
	115,216	74,694

This balance includes BD 22,185 thousand (2018: BD 12,416 thousand) financed by investment account holders' funds. Due from banks carry profit rates ranging from 0.76% to 2.70% per annum (2018: 0.78% to 3.30% per annum).

9 FINANCING CONTRACTS

	31 December 2019			
Self financed	Murabaha BD 000	Musharaka BD 000	Ijarah Muntahia Bittamleek BD 000	Total BD 000
Stage 1: 12-month ECL	118,045	35	167,692	285,772
Stage 2: Lifetime ECL not credit-impaired	10,128	-	30,197	40,325
Stage 3: Lifetime ECL credit-impaired	12,386	-	11,515	23,901
Total allowance for credit losses	(4,825)	-	(2,159)	(6,984)
	135,734	35	207,245	343,014
31 December 2018	205,616	130	284,463	490,209

9 FINANCING CONTRACTS (continued)

	31 December 2019			
Financed through investment account holders' funds	Murabaha BD 000	Musharaka BD 000	Ijarah Muntahia Bittamleek BD 000	Total BD 000
Stage 1: 12-month ECL	**196,468**	**59**	**279,099**	**475,626**
Stage 2: Lifetime ECL not credit-impaired	**16,857**	**-**	**50,258**	**67,115**
Stage 3: Lifetime ECL credit-impaired	**20,616**	**-**	**19,165**	**39,781**
Total allowance for credit losses	**(8,031)**	**(1)**	**(3,597)**	**(11,629)**
	225,910	**58**	**344,925**	**570,893**
31 December 2018	166,384	-	230,186	396,570

The murabaha balances as mentioned above are net of the deferred profits of BD 36,196 thousand (2018 : BD 25,892 thousand).

The table below shows the days past due for the financing contracts. The amounts presented are gross of impairment allowances.

	31 December 2019				31 December 2018
	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000	Total BD 000
Not past due	**745,861**	**96,413**	**8,140**	**850,414**	831,868
1 to 89 days past due	**15,537**	**11,027**	**17,240**	**43,804**	3,742
90 days or more past due	**-**	**-**	**38,302**	**38,302**	72,805
Total allowance for credit losses	**(1,655)**	**(9,736)**	**(7,222)**	**(18,613)**	(21,636)
	759,743	**97,704**	**56,460**	**913,907**	886,779

Movements in allowance for credit losses on financing contracts

	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000
Balance at 1 January 2019	**2,638**	**13,337**	**5,661**	**21,636**
- transferred to Stage 1: 12-month ECL	70	(9)	(61)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(27)	529	(502)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(1,437)	1,438	-
Net remeasurement of loss allowance	(774	146	1,299	671
Recoveries / write-backs	(251)	(816)	(502)	(1,569)
Allowance for credit losses	(983)	(1,587)	1,672	(898)
Amounts written off during the year	-	(2,014)	(111)	(2,125)
Balance at 31 December 2019	**1,655**	**9,736**	**7,222**	**18,613**

9 FINANCING CONTRACTS (continued)

Movements in allowance for credit losses on financing contracts

	Stage 1: 12-month ECL BD 000	Stage 2: Lifetime ECL not credit impaired BD 000	Stage 3: Lifetime ECL credit-impaired BD 000	Total BD 000
Balance at 31 December 2017				31,423
Transition adjustment on adoption of FAS 30				(840)
Balance at 1 January 2018 (after transition adjustment)	5,201	12,452	12,930	30,583
- transferred to Stage 1: 12-month ECL	347	(75)	(272)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(14)	1,350	(1,336)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(37)	(876)	913	-
Net remeasurement of loss allowance	(2,752)	559	4,157	1,964
Recoveries / write-backs	(107)	(73)	(1,179)	(1,359)
Allowance for credit losses	(2,563)	885	2,283	605
Amounts written off during the period	-	-	(9,552)	(9,552)
Balance at 31 December 2018	**2,638**	**13,337**	**5,661**	**21,636**

Movements in deferred profit from murabaha contracts

	2019 BD 000	2018 BD 000
Deferred profit at the beginning of the year	**25,892**	25,903
Murabaha Sales revenue during the year	**577,130**	552,543
Murabaha Cost of Sales	**(541,332)**	(526,460)
	35,798	26,083
Deferred profit collected during the year	**(21,213)**	(20,785)
Deferred profit settled during the year	**(4,281)**	(5,309)
Deferred profit at the end of the year	**36,196**	25,892

9.1 Ijarah Muntahia Bittamleek mainly comprise of land and building and are presented net of accumulated depreciation amounting to BD 99,123 thousand (2018: BD 107,833 thousand).

9.2 During the year, the Bank took possession of properties with a carrying value of BD 11,659 thousand (2018 : 250 thousand) as part of financing settlement and were classified as repossessed assets in the receivables and other assets.

10 INVESTMENTS

The Group's investments are classified as follows:

	Note	2019 BD 000	2018 BD 000
Investments at fair value through statement of income	10.1	**1,760**	1,562
Investments at fair value through equity	10.2	**4,396**	4,742
		6,156	6,304

10.1 Carried at fair value through statement of income

	2019 BD 000	2018 BD 000
Designated at fair value upon initial recognition - Managed Fund	**1,760**	1,562

10.2 Carried at fair value through equity

	Note	2019 BD 000	2018 BD 000
Quoted equity securities - cost		**1,572**	1,572
Unquoted equity securities - cost		**8,065**	8,065
		9,637	9,637
Impairment provisions	10.2.1	**(5,565)**	(5,065)
Fair value changes		**324**	170
		4,396	4,742

10.2.1 Movement in impairment provisions relating to investments:

	Note	2019 BD 000	2018 BD 000
At 1 January		**5,065**	5,015
Impairment provisions	27	**500**	50
At 31 December		**5,565**	5,065

10.2.2 The movement of investments carried at fair value through equity during the year is as follows:

	2019 BD 000	2018 BD 000
At 1 January	**4,742**	4,622
Impairment provisions	**(500)**	(50)
Fair value changes	**154**	170
At 31 December	**4,396**	4,742

10 INVESTMENTS (continued)

10.3 Composition of investment portfolio:

The industry and geographic composition of the Group's investment portfolio is as follows:

	Middle East BD 000	Total 2019 BD 000	Total 2018 BD 000
Banking and financial services	**6,156**	**6,156**	6,304
	6,156	**6,156**	6,304

11 INVESTMENT IN SUKUK

	Note	2019 BD 000	2018 BD 000
Quoted sukuk			
Government		**181,498**	113,958
Unquoted sukuk			
Government		**67,755**	87,487
Others		**21,039**	21,035
Less: allowance for credit losses		**(15)**	(9)
	11.1	**270,277**	222,471

11.1 Investment in sukuk includes an amount of BD 49,461 thousand (2018: BD 52,750 thousand) financed by investment account holders' funds. Fair value of investment in sukuk as at 31 December 2019 amounted to BD 279,901 thousand (2018: BD 223,088 thousand).

12 INVESTMENT IN ASSOCIATES

The Group has the following associates as at 31 December 2019:

Name of the associate	Nature of business	Country of incorporation	Holding
Deera Investment and Real Estate Development Company	Real estate project development and property management.	Hashemite Kingdom of Jordan	28.0%

12 INVESTMENT IN ASSOCIATES (continued)

The movement of the Group's investment is associates is as follows:

	Note	2019 BD 000	2018 BD 000
At 1 January		12,885	12,599
Share of income from associates		(164)	170
Share of other comprehensive income	21	-	266
Provision for impairment	27	-	(150)
Transfer to subsidiaries	12.2	(4,260)	-
At 31 December		8,461	12,885

12.1 The quoted value of the investment in associates for which quoted prices are available is BD 4,527 thousand (2018: BD 4,527 thousand). However, the quoted price does not represent the fair value as the shares are not actively traded. The fair value based on internal models approximates their carrying value.

12.2 During 2019, on completion of the capital re-organisation process and after obtaining control, one of the Group's associate was classified as a subsidiary.

13 ACQUISITION OF ADDITIONAL STAKE IN ENERGY CENTRAL UTILITIES - BAHRAIN SOUTH WATER COMPANY B.S.C. (c)

Prior to August 2019, the Bank along with its subsidiaries (the "Group") had an equity stake of 48% in the Energy Central Utilities - Bahrain South Water Company B.S.C.(c) ("ECU"), a company that operates the water desalination plant in Durrat Al Bahrain. ECU was treated as an associate and accounted for under the equity method of accounting in the Group's financial statements. A restructuring has taken place at the ECU level as a result of which, effective 19 August 2019, the Group's shareholding in ECU has increased to 60%. As a result, ECU has become the Group's subsidiary and is being consolidated in the Group's financial statements on a line by line basis

The fair value and the carrying value of identifiable assets and liabilities of ECU as at the date of acquisition were as follows:

	2019 BD 000
Cash and bank balances	2,394
Receivables	115
Fixed Assets	4,822
Total Assets	7,331
Liabilities	222
Total identifiable net assets at fair value	7,109
Non-controlling shareholders (40%of net assets)	2,844
Fair value of Group's stake in the subsidiary	4,265

No cash outflow has taken place for the additional equity stake by the Group and no goodwill is recorded. Further, nil income is recorded in the Group's financial statements for the year ended 31 December 2019 from the ECU.

14 RECEIVABLES AND OTHER ASSETS

	Note	2019 BD 000	2018 BD 000
Land and development cost	14.1	**31,271**	33,929
Fees receivable		**2,392**	2,489
Project expenses receivable		**1,233**	1,233
Inventories		**1,570**	1,071
Profit receivable		**237**	323
Repossessed assets		**18,932**	7,273
Trade receivables of subsidiaries		**2,492**	2,363
Prepaid expenses		**1,828**	1,752
Receivables relating to disposal of investments	14.3	**188,505**	205,400
Receivables from corporate customers		**6,838**	1,113
Other assets		**2,808**	1,322
Gross receivables and other assets		**258,106**	258,268
Impairment provisions	14.2	**(10,778)**	(11,390)
		247,328	246,878

14.1 Land and development cost

	2019 BD 000	2018 BD 000
Land	**26,334**	27,226
Development cost	**4,937**	6,703
	31,271	33,929

This development cost represents construction, consultancy and profit paid on financing, capitalised relating to various real estate projects being undertaken by the Group.

14.2 Movement in impairment provisions relating to receivables and other assets

	Note	2019 BD 000	2018 BD 000
At 1 January		**11,390**	11,572
Transitional adjustment		**-**	33
Reversals for the year	27	**(372)**	(28)
Settlements / write-offs		**(240)**	(187)
At 31 December		**10,778**	11,390

14.3 This includes a receivable of BD 187,296 thousand (2018 : BD 203,904) due from a group entity. This receivable is expected to be settled through the realisation of underlying assets and dividend payouts from the Bank. The Ultimate Parent also provided a letter of guarantee for settlement of the receivable.

15 DUE TO BANKS

	2019 BD 000	2018 BD 000
Murabaha payables	100,869	113,416
Wakala payables	63,688	111,536
Current accounts	914	515
	165,471	225,467

16 ASSETS UNDER MANAGEMENT

At 31 December 2019, assets managed in a fiduciary capacity amounted to BD 592,074 thousand (2018: BD 649,294 thousand).

17 OTHER LIABILITIES

	2019 BD 000	2018 BD 000
Pay orders issued but not presented	2,903	2,623
Payable on account of financing contracts	771	1,243
Staff related accruals	3,486	4,070
Trade payables of subsidiaries	803	195
Advance from customers	-	209
Contingencies and others	7,436	5,944
	15,399	14,284

18 SUBORDINATED WAKALA PAYABLE

The subordinated wakala payable carries a profit equivalent to a rate of 1% over the six month USD LIBOR. The facility has been approved by CBB to be recognised as Tier II capital and is unsecured and sub-ordinate to the claim of all creditors and will expire in 2022. Starting from 2017, the Bank has started to amortise this Tier II Capital in accordance with the relevant guidelines and regulation for capital adequacy purposes.

During the year, an amount of BD 3,789 thousand (2018: BD 3,074 thousand) has been charged to the consolidated statement of income in respect of subordinated wakala payable.

19 EQUITY OF INVESTMENT ACCOUNT HOLDERS

The mudarib share on investment accounts ranges from 30% to 85% (2018: 30% to 85%) depending on the investment period and in the case of saving accounts, where there is no restriction on cash withdrawal, the mudarib share ranges from 85% to 95% (2018: 85% to 95%). The rate of return to investment account holders, as at 31 December 2019 and 2018, for various types of investment accounts, denominated in BD and USD, is as follows:

	2019 Rate of return %	2018 Rate of return %
Investment Accounts - Denominated in BHD		
Saving accounts	**0.19**	0.15
VIP saving accounts	**0.56**	0.46
Saving call accounts	**3.00**	3.00
One month investment accounts	**1.50 - 2.00**	1.30 - 1.50
Three months investment accounts	**1.88 - 2.20**	1.60 - 1.70
Six months investment accounts	**2.25 - 2.50**	1.90 - 2.00
Nine months investment accounts	**2.60 - 2.70**	2.10 - 2.20
One year investment accounts	**2.63 - 3.10**	2.30 - 2.60
Two year investment accounts	**3.60 - 3.80**	3.10 - 3.30
Three year investment accounts	**3.80 - 4.00**	3.30 - 3.50
Five year investment accounts	**4.30 - 4.50**	3.80 - 4.00
Investment accounts - Denominated in USD		
Saving accounts	**0.19**	0.15
VIP saving accounts	**0.38**	0.31
Saving call accounts	**3.00**	3.00
One month investment accounts	**0.95 - 1.13**	0.95 - 1.00
Three months investment accounts	**1.25 - 1.50**	1.25 - 1.35
Six months investment accounts	**1.55 - 1.88**	1.55 - 1.65
Nine months investment accounts	**1.70**	1.70
One year investment accounts	**1.85 - 2.25**	1.85 - 2.00

19.1 Investment accounts by type

	2019 BD 000	2018 BD 000
Saving accounts	**247,152**	190,017
VIP saving accounts	**20,090**	13,380
One month investment accounts	**39,332**	33,257
Three months investment accounts	**54,352**	52,700
Six months investment accounts	**51,559**	45,754
Nine months investment accounts	**1,104**	3,090
One year investment accounts	**224,731**	137,360
Two year investment accounts	**20,392**	10,394
Three year investment accounts	**8,242**	75
Five year investment accounts	**2,306**	681
	669,260	486,708

20 SHARE CAPITAL AND RESERVES

Share capital

	2019 BD 000	2018 BD 000
Authorised:		
3,500,000 thousand (2018 : 3,500,000 thousand) ordinary shares of BD 0.1 each	**350,000**	350,000
Issued and fully paid up:		
As at the beginning and end of the year		
1,325,187 thousand (2018 : 1,325,187 thousand) shares	**132,519**	132,519

Nature and purpose of reserves

Share premium
Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law ("BCCL").

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

Fair value through equity reserve
Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired, recorded in the fair value through equity reserve and not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

Retained earnings
Retained earnings is the cumulative amount of annual earnings not paid out as dividends. Included in retained earnings is a non-distributable reserve amounting to BD 613 thousand (2018: BD 1,459 thousand) relating to subsidiaries of the Bank.

Proposed dividend
Proposed dividend is shown seperately within equity till it is approved by the Annual General Meeting. The Board of Directors of the Bank have proposed a dividend of BD 22,517 thousand for the year ended 31 December 2019 (2018 : BD 16,608 thousand). This proposal is subject to the approval of the Annual General Meeting of the Bank and completion of legal formalities.

21 TOTAL COMPREHENSIVE INCOME

	Note	2019 BD 000	2018 BD 000
Net income for the year		**25,010**	18,417
Other comprehensive income			
Fair value adjustments against fair value through equity investments		**154**	170
Share of other comprehensive income of associates	12	**-**	266
Total other comprehensive income for the year		**154**	436
Total comprehensive income for the year		**25,164**	18,853
Adjustment attributable to non-controlling shareholders		**9**	36
		25,173	18,889

22 CONTINGENT LIABILITIES AND COMMITMENTS

	Note	2019 BD 000	2018 BD 000
Contingent liabilities			
Letters of credit		**8,899**	9,660
Guarantees		**6,975**	9,788
		15,874	19,448
Irrevocable commitments to extend credit (original term to maturity of one year or less)		**92,474**	53,355
Development cost commitment	22.1	**448**	388
		108,796	73,191

22.1 This represent payments to be made to contractors and consultants for a development project in progress.

Operating lease commitments

At 31 December 2019, the Group had commitments in respect of non-cancellable operating leases amounting to BD 3,088 thousand (2018: BD 3,877 thousand) relating to leasehold premises. Of the commitments in respect of operating leases, BD 1,107 thousand (2018: BD 1,184 thousand) are due within one year, BD 1,901 thousand (2018: BD 2,667 thousand) are due in one to five years and the remaining over five years.

The Bank is carrying expected credit loss of BD 42 thousand (2018 : BD 59 thousand) against the contingent liabilities and commitments which is classified in other liabilities.

23 CROSS CURRENCY SWAP AND FOREIGN EXCHANGE WA'AD

During 2019, the Bank entered into cross currency swap with the Parent and foreign exchange Wa'ad ("Islamic financial instruments") to mitigate foreign currency risk. Cross currency swap and foreign exchange Wa'ad is based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For cross currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The table below shows the positive and negative fair value of these instruments, which are equivalent to the market value, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of this instrument is measured. The notional amounts indicate the volume of transactions outstanding at the period end and are not indicative of the credit risk.

	31 December 2019		
	Positive fair value BD 000	Negative fair value BD 000	Notional amount BD 000
Currency swap	-	69	82,940
	-	69	82,940

In respect of cross currency swaps and the Foreign exchange Wa'ad, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

	31 December 2019			
	Notional amount BD 000	Within 3 months BD 000	3 to 12 months BD 000	More than 12 months BD 000
Cash inflows	82,940	-	82,940	-
Cash outflows	(82,940)	-	(82,940)	-
	-	-	-	-

24 INCOME FROM FINANCING CONTRACTS

	Note	2019 BD 000	2018 BD 000
Murabaha		22,082	20,730
Ijarah Muntahia Bittamleek	24.1	36,199	26,495
Musharaka		21	19
Due from banks		2,373	1,764
	24.2	60,675	49,008
Mudarib share from off balance sheet equity of investment account holders		2,035	2,348
Fees and commission income		719	965
		63,429	52,321

24.1 This is presented net of depreciation on Ijarah Muntahia Bittamleek assets amounting to BD 57,772 thousand (2018: BD 42,881 thousand).

24.2 This is excluding net income of BD 777 thousand (2018: BD 3,239 thousand) suspended during the year on account of regulatory requirements.

25 INCOME FROM INVESTMENTS

	Note	2019 BD 000	2018 BD 000
Net unrealised gain on investments	25.1	**198**	174
Net gain on sale of investments		**-**	1,309
Dividend income		**-**	39
Fee income		**974**	1,640
Foreign exchange		**839**	811
Loss on sale of development properties		**(296)**	(116)
Other income		**5**	2,575
		1,720	6,432

25.1 This represents fair value changes recognized during the year based on the recent net asset values "NAV's" of the managed funds.

25.2 Other income, during 2018, included a gain from the sale of an asset of BD 2,548 thousand.

26 INCOME AND EXPENSE RELATING TO FINANCING CONTRACTS AND SUKUK

	Note	2019 BD 000	2018 BD 000
Income from financing contracts	24	**60,675**	49,008
Income from sukuk	26.1	**20,200**	11,349
		80,875	60,357
Less: Profit on due to banks, due to non-banks and subordinated wakala payable	29	**23,208**	18,551
Less: Return on equity of investment account holders (wakala)		**11,229**	4,012
Less: Return on equity of investment account holders (mudaraba)		**1,953**	2,567
		36,390	25,130
		44,485	35,227

26.1 This includes an amount of BD 6,316 thousand (2018 : nil) on account of gain on sale of sukuk recorded during the year.

27 PROVISIONS - NET

	Note	2019 BD 000	2018 BD 000
Balances with Banks and Central Bank of Bahrain		**1**	(249)
Due from banks		**149**	395
Financing contracts	9	**(898)**	605
Investments	10.2.1	**500**	50
Investment in sukuk		**6**	(17)
Investment in associates	12	**-**	150
Receivables and other assets	14.2	**(372)**	(28)
Financing commitments and financial guarantees		**(17)**	(447)
		(631)	459

28 OTHER EXPENSES

	2019 BD 000	2018 BD 000
Business development	**1,911**	1,813
Technology and communication	**3,410**	3,129
Legal, consulting and outsourcing	**514**	539
Premises - rentals and maintenance	**1,888**	2,393
Administration, selling and others	**2,166**	1,871
	9,889	9,745

29 PROFIT ON DUE TO BANKS, NON-BANKS AND SUBORDINATED WAKALA PAYABLE

	2019 BD 000	2018 BD 000
Due to banks	**7,063**	6,368
Due to non-banks	**12,356**	9,109
Subordinated wakala payable (note 18)	**3,789**	3,074
	23,208	18,551

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated statement of cash flows comprise of the following amounts:

	2019 BD 000	2018 BD 000
Cash	**10,816**	9,780
Balances with banks	**17,925**	6,589
Balances with CBB excluding mandatory reserve	**38,736**	1,828
Due from banks with original maturity of less than ninety days	**115,216**	70,504
	182,693	88,701

31 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, the parent and its major shareholders, directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the year end, excluding financing contracts, are unsecured.

The balances with related parties included in the consolidated financial statements are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total 2019 BD 000	Total 2018 BD 000
Balances with Banks	978	-	20	998	1,420
Due from banks	-	-	3,771	3,771	9,437
Financing contracts *	-	4,000	42,662	46,662	63,725
Investment in sukuk	-	-	21,039	21,039	21,035
Fees receivable	-	-	1,528	1,528	835
Receivables and other assets	-	-	187,296	187,296	203,904
Due to banks	31,685	-	11,317	43,002	44,217
Due to non-banks	-	-	183,566	183,566	239,927
Customers' current accounts	774	399	1,296	2,469	6,348
Subordinated wakala payable	96,011	-	-	96,011	95,859
Equity of investment account holders	-	2,204	20,658	22,862	15,223
Letters of credit	-	-	1,528	1,528	1,528
Commitments to extend credit	-	-	442	442	4,501
Off balance sheet equity of investment account holders					
- Funds extended to related parties	-	-	135,145	135,145	135,110
- Funds received from related parties	-	560	3,900	4,460	4,550
Assets under management	-	-	592,074	592,074	597,872

* includes stage 3 exposures of BD 16,473 thousand (2018: BD 16,961 thousand).

31 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	Parent BD 000	Directors and key management personnel BD 000	Other related parties BD 000	Total 2019 BD 000	Total 2018 BD 000
Income from due from banks	-	-	28	28	-
Income from financing contracts	-	167	2,114	2,281	2,267
Income from investment in sukuk	-	-	1,271	1,271	1,271
Fee income	-	-	729	729	1,347
Allowance for credit losses	-	18	831	849	1,620
Profit on due to banks	1,220	-	53	1,273	672
Profit on due to non-banks	-	-	5,111	5,111	998
Profit on subordinated wakala payable	3,789	-	-	3,789	3,074
Profit on equity investment account holders	-	47	1,026	1,073	858
Staff costs	-	5,353	-	5,353	6,647
Other expenses	-	-	1,344	1,344	1,161
Mudarib share of off-balance sheet equity of investment account holders	-	-	2,035	2,035	2,348

Compensation of key management personnel, included in the consolidated statement of income, is as follows:

	2019 BD 000	2018 BD 000
Short term employee benefits	5,030	6,133
Long term employee benefits	323	362

Directors' remuneration and attendance fee for the year ended 31 December 2019 amounted to BD 198 thousand and BD 127 thousand respectively (2018: BD 195 thousand and BD 116 thousand respectively).

32 SEGMENT INFORMATION

For management purposes, the Group is organised into the following segments.

Corporate banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to corporate customers.
Retail and private banking	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to retail and private banking customers.
Investments	Principally engaged in Shari'a compliant investment banking activities including private equity, managed funds and other investment management activities.
Treasury	Principally engaged in liquidity management, Shari'a compliant financing contracts to treasury customers, investment in Sukuk, investment accounts from non-bank customers and other international banking relationships.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit (as reported in internal management reports) which is measured using the same measurement principles as are used in the preparation of these interim condensed consolidated financial statements.

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2019:

	Corporate banking BD 000	Retail & Private Banking BD 000	Investment BD 000	Treasury BD 000	Total BD 000
Operating income	28,573	24,655	3,608	28,349	85,185
Net income for the year	8,496	9,284	255	6,975	25,010
Segment assets	423,790	417,320	274,282	555,041	1,670,433
Segment liabilities and equity of investment account holders	44,562	941,627	978	489,607	1,476,774

	Kingdom of Bahrain BD 000	Other countries BD 000	Total BD 000
Operating income	82,666	2,519	85,185
Segment assets	1,373,395	297,038	1,670,433

32 SEGMENT INFORMATION (continued)

The following table presents segment wise operating income, net income, total assets and total liabilities and equity of investment account holders of the Group for the year ended and as at 31 December 2018:

	Corporate banking BD 000	Retail & Private Banking BD 000	Investment BD 000	Treasury BD 000	Total BD 000
Operating income	24,608	19,740	9,330	16,594	70,272
Net income for the year	4,644	8,225	4,959	589	18,417
Segment assets	438,601	358,792	296,727	410,682	1,504,802
Segment liabilities and equity of investment account holders	19,449	701,244	579	601,267	1,322,539

The following table shows the distribution of the Group's operating income and total assets by geographical segments, based on the location in which the transactions and assets are recorded, for the year ended 31 December 2018 and as at 31 December 2018:

	Kingdom of Bahrain BD 000	Other countries BD 000	Total BD 000
Operating income after direct costs	68,489	1,783	70,272
Segment assets	1,214,002	290,800	1,504,802

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

At 31 December 2019 and 2018, the fair value of financial instruments carried at amortised cost approximate their carrying values.

Financial instruments recorded at fair value
The Group uses the following hierarchy for determining and disclosing the fair value of 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.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 2019 BD 000	Level 2 2019 BD 000	Level 3 2019 BD 000	Total 2019 BD 000
Investments at fair value through statement of income				
Managed funds	-	1,760	-	1,760
Investments at fair value through equity				
Quoted equity securities	706	-	-	706
Unquoted equity securities	-	-	3,690	3,690
	706	1,760	3,690	6,156

	Level 1 2018 BD 000	Level 2 2018 BD 000	Level 3 2018 BD 000	Total 2018 BD 000
Investments at fair value through statement of income				
Managed funds	-	1,562	-	1,562
Investments at fair value through equity				
Quoted equity securities	552	-	-	552
Unquoted equity securities	-	-	4,190	4,190
	552	1,562	4,190	6,304

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	Unquoted equity securities 2019 BD 000	**Managed funds 2019 BD 000**	Unquoted equity securities 2018 BD 000	Managed funds 2018 BD 000
Balance at 1 January	**4,190**	**-**	4,240	-
Provisions / unrealised fair value loss	**(500)**	**-**	(50)	-
Disposals / redemptions during the year	**-**	**-**	-	-
Balance at 31 December	**3,690**	**-**	4,190	-

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

	Carrying amount 2019 BD 000	**Effect of reasonably possible alternative assumption 2019 BD 000**	Carrying amount 2018 BD 000	Effect of reasonably possible alternative assumption 2018 BD 000
Investments at fair value through equity				
Unquoted equity securities	**3,690**	**369**	4,190	419
	3,690	**369**	4,190	419

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable models inputs as follows:

For equities, the Group adjusted the price earning ratio by increasing and decreasing the price earning ratio by ten percent, which is considered by the Group to be within a range of reasonably possible alternatives based on the price earning ratios of companies with similar industry and risk profiles.

For managed funds, the Group values its investments based on a net asset value, which is determined by the fund manager. The Group adjusted the value of the funds to increase or decrease by ten percent, which is considered by the Group to be within a range of reasonably possible alternatives.

34 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

The table below shows an analysis of assets, liabilities and equity of investment account holders analysed according to when they are expected to be recovered or settled. Group's contractual undiscounted repayment obligations are disclosed in note 35.3 'Risk Management - Liquidity Risk and Funding Management'.

	Up to one year			Over one year				
	Up to 3 months 2019 BD 000	3 to 12 months 2019 BD 000	Subtotal up to 12 months 2019 BD 000	1 to 5 years 2019 BD 000	5 to 10 years 2019 BD 000	Over 10 years 2019 BD 000	Subtotal Over 1 year 2019 BD 000	Total 2019 BD 000
Assets								
Cash and balances with banks and Central Bank of Bahrain	34,852	6,706	**41,558**	8,153	8,043	41,781	**57,977**	**99,535**
Due from banks	115,216	-	**115,216**	-	-	-	**-**	**115,216**
Financing contracts	176,064	158,753	**334,817**	308,775	155,380	114,935	**579,090**	**913,907**
Investments	1,760	-	**1,760**	4,396	-	-	**4,396**	**6,156**
Investment in sukuk	16,525	22,609	**39,134**	112,388	118,755	-	**231,143**	**270,277**
Investment in associates	-	-	**-**	8,461	-	-	**8,461**	**8,461**
Receivables and other assets	48,255	68	**48,323**	199,005	-	-	**199,005**	**247,328**
Premises and equipments	-	-	**-**	-	9,553	-	**9,553**	**9,553**
Total	**392,672**	**188,136**	**580,808**	**641,178**	**291,731**	**156,716**	**1,089,625**	**1,670,433**
Liabilities and equity of investment account holders								
Customers' current accounts	6,899	-	**6,899**	40,453	40,453	40,453	**121,359**	**128,258**
Due to banks	32,917	-	**32,917**	132,554	-	-	**132,554**	**165,471**
Due to non-banks	9,466	222,291	**231,757**	59,643	55,488	55,487	**170,618**	**402,375**
Other liabilities	7,789	4,388	**12,177**	3,222	-	-	**3,222**	**15,399**
Equity of investment account holders	14,380	13,660	**28,040**	213,742	213,739	213,739	**641,220**	**669,260**
Subordinated wakala payable	-	-	**-**	96,011	-	-	**96,011**	**96,011**
Total	**71,451**	**240,339**	**311,790**	**545,625**	**309,680**	**309,679**	**1,164,984**	**1,476,774**
Net	**321,221**	**(52,203)**	**269,018**	**95,553**	**(17,949)**	**(152,963)**	**(75,359)**	**193,659**

34 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

	Up to one year			Over one year				
	Up to 3 months 2018 BD 000	3 to 12 months 2018 BD 000	Subtotal up to 12 months 2018 BD 000	1 to 5 years 2018 BD 000	5 to 10 years 2018 BD 000	Over 10 years 2018 BD 000	Subtotal Over 1 year 2018 BD 000	Total 2018 BD 000
Assets								
Cash and balances with banks and Central Bank of Bahrain	10,090	1,720	11,810	14,818	6,963	16,060	37,841	49,651
Due from banks	74,694	-	74,694	-	-	-	-	74,694
Financing contracts	185,381	91,452	276,833	292,043	230,843	87,060	609,946	886,779
Investments	-	-	-	6,304	-	-	6,304	6,304
Investment in sukuk	-	41,131	41,131	44,393	136,947	-	181,340	222,471
Investment in associates	-	-	-	12,885	-	-	12,885	12,885
Receivables and other assets	18,909	37,063	55,972	190,906	-	-	190,906	246,878
Premises and equipments	-	-	-	-	5,140	-	5,140	5,140
Total	289,074	171,366	460,440	561,349	379,893	103,120	1,044,362	1,504,802
Liabilities and equity of investment account holders								
Customers' current accounts	6,872	-	6,872	40,292	40,292	40,292	120,876	127,748
Due to banks	85,656	9,000	94,656	130,811	-	-	130,811	225,467
Due to non-banks	5,027	30,847	35,874	277,658	29,471	29,470	336,599	372,473
Other liabilities	7,879	3,965	11,844	2,440	-	-	2,440	14,284
Equity of investment account holders	13,702	11,863	25,565	153,715	153,714	153,714	461,143	486,708
Subordinated wakala payable	-	-	-	95,859	-	-	95,859	95,859
Total	119,136	55,675	174,811	700,775	223,477	223,476	1,147,728	1,322,539
Net	169,938	115,691	285,629	(139,426)	156,416	(120,356)	(103,366)	182,263

35 RISK MANAGEMENT

35.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring of material risks. The Group manages its exposure to risks within the approved risk limits. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to its responsibilities. The Group is mainly exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to prepayment risk and operating risk.

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies, policies and risk appetite of the Bank.

Audit & Compliance Committee (ACC)

The ACC is a Board appointed committee which is comprised of two independent directors and an executive director. The Chairman of the Committee is also an independent director. For audit related matters, the committee assists the Board of Directors in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Bank. For compliance related matters, the committee assists the Board of Directors in the assessment of compliance with law, regulations and other requirements imposed on the Bank from time to time. The committee also overseas and manages the compliance and anti financial crime requirements of the Bank and legal related matters.

Board Risk Committee (BRC)

The Board Risk Committee is a Board appointed committee which is comprised of three independent directors and one executive director. The Chairman of the Committee is also an independent director. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:

- Recommendation of the risk charter of the bank to the Board, highlighting the key risks from identified business strategies, the risk appetite, the risk governance models including strategies, policies, processes, roles and responsibilities relating to various departments and various levels of risk management within the Bank; and
- Establishing appropriate policies and procedures to mitigate the applicable risks on the overall operations of the Bank.

Corporate Governance Committee

The Corporate Governance Committee is a Board appointed committee which is comprised of three independent directors including the Chairman. The committee is a reviewing and recommending body appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:

- Establishing appropriate Corporate Governance structures, delegation of authority and reporting protocols;
- Ensure potential measure and improvements in corporate governance are implemented.

Internal Control Systems

The Board is responsible for approving and reviewing the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The effectiveness of the internal control system is reviewed by the Board and the Audit & Compliance Committee, which also receives review reports undertaken by the Bank's Internal Audit, Compliance and Anti Financial Crime departments. The Audit & Compliance Committee reviews the management letters issued by the external auditors and holds periodic meetings with them to discuss various matters including existing and potential internal control issues.

The regulatory non-compliances, if any, resulting in financial penalties are disclosed in the Annual Public Disclosures of the Bank. The Bank always enhances its internal control environment to avoid recurrence of similar penalties.

35 RISK MANAGEMENT (continued)

35.1 Introduction (continued)

Fatwa & Shari'a Supervisory Board
The Bank's Fatwa & Shari'a Supervisory Board is entrusted with the responsibility of ensuring the Bank's adherence to Shari'a rules and principles in its transactions and activities.

Asset and Liability Committee (ALCO) / Risk Management Committee (RMC)
ALCO / RMC is a senior management committee responsible for maintaining oversight of the Bank's risk profile and governance aspects. It helps the Risk Committee in establishing the risk policies and strategies and monitors the risk appetite in terms of risk limits and reports. It also controls the risks by appropriate actions. ALCO / RMC establishes policy and objectives for the asset and liability management of the Bank in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions.

Provisioning Committee (PC)
The PC is a senior management committee responsible for ensuring adequate provisions and profit suspensions against all the past due and impaired exposures of the Bank. It reviews past due details and approve the resulting provisioning and profit suspension amounts submitted by the respective departments in line with the approved Provisions & Impairment Policy of the Bank. The PC also reviews credit classification and reclassification requests submitted by Business Units and recommends the provisions and profit suspensions to the Audit & Compliance Committee and Board of Directors for final approval.

Risk Management Department
The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It also helps the ALCO / RMC in establishing risk strategies, policies and limits, across the Bank. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures the complete capture of the risks in risk measurement and reporting systems and performs stress tests on the various portfolios of the Bank.

Treasury department
The treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Independent, objective activity that reviews the effectiveness of risk management, internal control environment and governance processes. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the Audit & Compliance Committe.

Compliance department
The compliance department is responsible for managing all the compliance related issues with the external parties and regulators.

Risk measurement and reporting systems
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Bank has established relevant risk limit structures to quantify its risk appetite. The Bank conducts stress testing under various scenarios for its material portfolios using statistical methods to assess the impact of such scenarios on its portfolio and regulatory capital.

Established risk limits reflect the business strategy and market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across its material risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Board of Directors, the Risk Committee and senior management. The report includes aggregate credit exposures, concentration limits, investment limits, foreign exchange exposures, profit rate limits, liquidity gaps and ratios and changes in Group's risk profile. On a periodic basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives the risk management report once in a quarter or when needed which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

35 RISK MANAGEMENT (continued)

35.1 Introduction (continued)

Risk measurement and reporting systems (continued)

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Periodic briefing is given to the Managing Director and Chief Executive Officer and all other relevant members of the Bank on the asset quality, utilisation of market limits, proprietary investments and liquidity and any other risk developments.

35.2 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings for corporate customers are subject to revision at the time of renewal of the corporate facility. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank has adopted FAS 30 starting January 2018 where impairment is based on a forward-looking Expected Credit Loss (ECL) model. ECL would be measured taking into account the projected cash flows, Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.

Credit-related commitments risk

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Risk concentrations of the maximum exposure to credit risk without taking collateral

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

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

The maximum credit exposure to any client or counterparty as of 31 December 2019 was BD 276,740 thousand (2018: BD 237,728 thousand).

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

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

35 RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

	Gross maximum exposure 2019 BD 000	Gross maximum exposure 2018 BD 000
Balances with banks	**88,719**	39,871
Due from banks	**115,216**	74,694
Financing contracts	**913,907**	886,779
Investment in sukuk	**270,277**	222,471
Receivables and other assets	**199,554**	208,680
Total	**1,587,673**	1,432,495
Contingent liabilities and commitments	**108,796**	73,191
Total credit risk exposure	**1,696,469**	1,505,686

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

Risk concentrations of the maximum exposure to credit risk
The Group financial assets having credit risk, before taking into account any collateral held can be analysed by the following geographical regions:

	Bahrain 2019 BD 000	Other GCC 2019 BD 000	North America 2019 BD 000	Other 2019 BD 000	Total 2019 BD 000
Balances with banks and Central Bank of Bahrain	**70,806**	**1,829**	**14,361**	**1,723**	**88,719**
Due from banks	**64,036**	**46,987**	**4,193**	**-**	**115,216**
Financing contracts	**884,253**	**29,654**	**-**	**-**	**913,907**
Investment in sukuk	**270,277**	**-**	**-**	**-**	**270,277**
Receivables and other assets	**9,710**	**189,844**	**-**	**-**	**199,554**
Contingent liabilities and commitments	**108,796**	**-**	**-**	**-**	**108,796**
Total	**1,407,878**	**268,314**	**18,554**	**1,723**	**1,696,469**

	Bahrain 2018 BD 000	Other GCC 2018 BD 000	North America 2018 BD 000	Other 2018 BD 000	Total 2018 BD 000
Balances with banks and Central Bank of Bahrain	33,295	2,854	3,565	157	39,871
Due from banks	36,161	34,384	4,149	-	74,694
Financing contracts	876,118	10,661	-	-	886,779
Investment in sukuk	222,471	-	-	-	222,471
Receivables and other assets	2,839	205,841	-	-	208,680
Contingent liabilities and commitments	73,191	-	-	-	73,191
Total	1,244,075	253,740	7,714	157	1,505,686

35 RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

An industry sector analysis of the Group's financial assets having credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Trading and manufacturing 2019 BD 000	Banking and financial institutions 2019 BD 000	Construction and real estate 2019 BD 000	Other 2019 BD 000	Total 2019 BD 000
Balances with banks and Central Bank of Bahrain	-	88,719	-	-	88,719
Due from banks	-	115,216	-	-	115,216
Financing contracts	101,765	6,976	489,663	315,503	913,907
Investment in sukuk	-	249,240	21,037	-	270,277
Receivables and other assets	-	188,623	5,301	5,630	199,554
Contingent liabilities and commitments	40,036	4,053	36,603	28,104	108,796
Total	141,801	652,827	552,604	349,237	1,696,469

	Trading and manufacturing 2018 BD 000	Banking and financial institutions 2018 BD 000	Construction and real estate 2018 BD 000	Other 2018 BD 000	Total 2018 BD 000
Balances with banks and Central Bank of Bahrain	-	39,871	-	-	39,871
Due from banks	-	74,694	-	-	74,694
Financing contracts	83,340	1,988	480,147	321,304	886,779
Investment in sukuk	-	201,436	21,035	-	222,471
Receivables and other assets	-	204,350	3,362	968	208,680
Contingent liabilities and commitments	21,455	-	7,162	44,574	73,191
Total	104,795	522,339	511,706	366,846	1,505,686

35 RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained by the Bank are as follows:

- For commercial financing, lien over investment accounts, charges over real estate properties, inventory, trade receivables and unlisted equities; and

- For retail and consumer financing, lien over investment accounts, and mortgages over the related assets.

The Bank also obtains personal guarantees from companies owners for commercial financing obtained. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained periodically during its review of the Expected credit losses.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to miitgate potential losses are shown below:

	Gross Exposures 2019 BD 000	**Expected Credit Loss 2019 BD 000**	**Carrying Amount 2019 BD 000**	**Fair Value of Collateral Held 2019 BD 000**
Murabaha	**33,002**	**4,896**	**28,106**	**162,649**
Ijarah Muntahia Bittamleek	**30,680**	**2,326**	**28,354**	**117,360**
Total	**63,682**	**7,222**	**56,460**	**280,009**

	Gross Exposures 2018 BD 000	Impairment Allowance 2018 BD 000	Carrying Amount 2018 BD 000	Fair Value of Collateral Held 2018 BD 000
Murabaha	29,740	2,109	27,631	165,935
Ijarah Muntahia Bittamleek	48,328	3,522	44,806	158,497
Musharaka	40	31	9	148
Total	78,108	5,662	72,446	324,580

35 RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Individually assessed provisions
The Group performs assessment of Expected Credit Loss (ECL) and Significant Increase in Credit Risk (SICR) using qualitative and quantitative information appropriate for each individually significant financing contract on an individual basis. Individual assessment is important for large material exposures, as these are managed individually and incorporate obligor and facility specific information. Items considered when determining provisions amount, include the sustainability of the counter party's business plan, it's ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and timing of expected cash flow. The ECL is evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed provisions
ECLs are assessed collectively for financing contracts in case of small, very immaterial portfolios. Provisions are evaluated on each reporting date with each portfolio subjected to a separate review. Collective assessment would enable application of standardized rules to specific portfolios for assessing SICR.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment provision, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment provision is then reviewed as a part of the credit management framework to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for financing contracts.

35.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a mandatory reserve with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahrain Dinars, excluding deposits from resident subsidiaries. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of liquid assets to customer liabilities. Liquid assets comprise of cash and balances with banks and Central Bank of Bahrain, due from banks, investment in quoted securities and liquid sukuk. Customer liabilities comprise of customers' current accounts, investment accounts and murabaha due to non-banks. The ratios during the year were as follows:

	2019 %	2018 %
31 December	**28.02**	32.95
During the year:		
Average	**26.87**	33.24
Highest	**31.27**	35.69
Lowest	**25.27**	28.58

35 RISK MANAGEMENT (continued)

35.3 Liquidity risk and funding management (continued)

Analysis of financial liabilities and equity of investment account holders by remaining contractual maturities
The table below summarises the maturity profile of the Group's financial liabilities and equity of investment account holders at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations. Maturity analysis of assets, liabilities and equity of investment account holders by expected maturities is disclosed in Note 34. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Over 5 years BD 000	Total BD 000
At 31 December 2019						
Due to banks	914	32,019	-	139,366	-	172,299
Due to non-banks	-	267,322	139,223	1,260	-	407,805
Customers' current accounts	128,258	-	-	-	-	128,258
Other liabilities	-	7,788	4,389	3,222	-	15,399
Equity of investment account holders	266,082	175,376	207,738	24,194	-	673,390
Subordinated wakala payable	-	-	-	109,252	-	109,252
Total undiscounted financial liabilities 2019	395,254	482,505	351,350	277,294	-	1,506,403
At 31 December 2018						
Due to banks	515	92,130	-	147,710	-	240,355
Due to non-banks	-	135,434	226,921	12,371	-	374,726
Customers' current accounts	127,748	-	-	-	-	127,748
Other liabilities	-	7,879	3,965	2,440	-	14,284
Equity of investment account holders	202,608	133,612	139,425	11,639	-	487,284
Subordinated wakala payable	-	-	-	107,963	-	107,963
Total undiscounted financial liabilities 2018	330,871	369,055	370,311	282,123	-	1,352,360

Contingent liabilities and commitments
These include commitments to enter into contracts which are designed to meet the requirements of the Group's customers. Commitments represent contractual commitments under murabaha, musharaka and ijarah muntahia bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

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

35 RISK MANAGEMENT (continued)

35.3 Liquidity risk and funding management (continued)

Contingent liabilities and commitments (continued)

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items.

	On demand BD 000	Less than 3 months BD 000	3 to 12 months BD 000	1 to 5 years BD 000	Total BD 000
At 31 December 2019					
Letters of credit	**6,630**	**164**	**1,528**	**577**	**8,899**
Guarantees	**6,975**	**-**	**-**	**-**	**6,975**
Irrevocable commitments to extend credit	**-**	**4,651**	**87,823**	**-**	**92,474**
Development commitment	**-**	**-**	**448**	**-**	**448**
Total	**13,605**	**4,815**	**89,799**	**577**	**108,796**
At 31 December 2018					
Letters of credit	2,435	-	7,225	-	9,660
Guarantees	9,788	-	-	-	9,788
Irrevocable commitments to extend credit	-	3,587	49,768	-	53,355
Development commitment	-	-	388	-	388
Total	12,223	3,587	57,381	-	73,191

35.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates, and equity prices. The Group manages and monitors the positions using sensitivity analysis.

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 Bank measures the profit rate risk by measuring and managing the repricing gaps. It also performs sensitivity analysis.

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the non-trading financial assets and financial liabilities held as at the date of statement of financial position.

35 RISK MANAGEMENT (continued)

35.4 Market risk (continued)

Profit rate risk (continued)

The effect of decrease in basis points is expected to be equal and opposite to the effect of the increase shown.

	2019 BD 000	Change in basis points	Effect on net income for the year BD 000
ASSETS			
Due from banks	**115,216**	**+25**	**288**
Financing contracts	**770,671**	**+25**	**1,927**
Investments in sukuk	**270,277**	**+25**	**676**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	**165,471**	**+25**	**(414)**
Due to non-banks	**402,375**	**+25**	**(1,006)**
Subordinated wakala payable	**96,011**	**+25**	**(240)**
Equity of investment account holders	**669,260**	**+25**	**(1,673)**
Total			**(442)**

	2018 BD 000	Change in basis points	Effect on net income for the year BD 000
ASSETS			
Due from banks	74,694	+25	187
Financing contracts	729,828	+25	1,825
Investments in sukuk	222,471	+25	556
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	225,467	+25	(564)
Due to non-banks	372,473	+25	(931)
Subordinated wakala payable	95,859	+25	(240)
Equity of investment account holders	486,708	+25	(1,217)
Total			(384)

35 RISK MANAGEMENT (continued)

35.4 Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has established Value at Risk limit for foreign currency exposures. This limit is monitored on a regular basis by the risk management department and reported to the ALCO / RMC.

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

	Equivalent long (short) 2019 BD 000	Equivalent long (short) 2018 BD 000
Currency		
KWD	**122**	723
EUR	**(711)**	(92)

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Bahraini Dinar, with all other variables held constant, on the consolidated statement of income.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	Change in currency rate %	**Effect on profit 2019 BD 000**	**Effect on equity 2019 BD 000**	Change in currency rate %	Effect on profit 2018 BD 000	Effect on equity 2018 BD 000
KWD	**+20**	**24**	**-**	+20	145	-
EUR	**+20**	**(142)**	**-**	+20	(18)	-
Total		**(118)**	**13**		(127)	-

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 Group's investment portfolio.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2019) due to a reasonably possible change (i.e. +10%) in the value of individual investments, with all other variables held constant, is nil and BD 440 thousand (2018: BD nil and BD 474 thousand) respectively, except in cases where impairment loss occured which will result in decrease being taken to the consolidated statement of income. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of the increase shown.

35 RISK MANAGEMENT (continued)

35.5 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

35.6 Operational Risk

Operational risk is the risk of loss arising from systems 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 Bank has implemented Risks Controls and Self Assessment process (RCSA) whereby each of the units identifies risks in processes, key risk indicators and implemented controls. The key risk indicators values and actual incidents to the operational risk unit are reported to senior management for action. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

36 CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Bahrain in supervising the Group. The Bank has also implemented the Internal Capital Adequacy and Assessment Plan (ICAAP) as per the CBB guidelines based on Pillar II recommendations of the Basel Committee. The Bank had identified the capital requirement for future three years based on the Bank's projected financials and the risk charges required for its significant risks including credit risk, market risk, profit rate risk, liquidity risk, investments risks and operational risks. The Board of Directors, on an annual basis, review and approve the ICAAP plan for both normal and stress conditions.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains 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 or issue capital securities. The policies and procedures were update to incorporate the requirements of FAS 30, no other material changes were made in the objectives, policies and processes from the previous years.

36 CAPITAL MANAGEMENT (continued)

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

	Note	2019 BD 000	2018 BD 000
Common equity Tier 1 capital	36.1	**182,079**	173,645
Tier 2 capital	36.2	**59,015**	78,696
Total capital		**241,094**	252,341
Credit risk-weighted assets		**951,189**	1,017,716
Market risk-weighted assets		**25,320**	27,959
Operational risk-weighted assets		**171,366**	149,859
Total risk weighted assets		**1,147,875**	1,195,534
Capital adequacy ratio		**21.0%**	21.1%
Minimum requirement		**12.5%**	12.5%

36.1 Common equity Tier 1 capital comprises of share capital, share premium, general reserve, statutory reserve and retained earnings, less unrealised loss arising from fair valuing equities.

36.2 Tier 2 capital comprises of subordinated wakala payable, provisions against stage 1 and stage 2 exposures and asset revaluation reserves. Certain adjustments are made to AAOIFI-based results and reserves, as prescribed by the Central Bank of Bahrain.

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2019 is 107.8%.

37 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive any significant income or incur significant expenses which were prohibited by the Shari'a.

38 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations approved by Fatwa & Shari'a Supervisory Board.

39 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification does not affect previously reported net income or owners' equity.

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