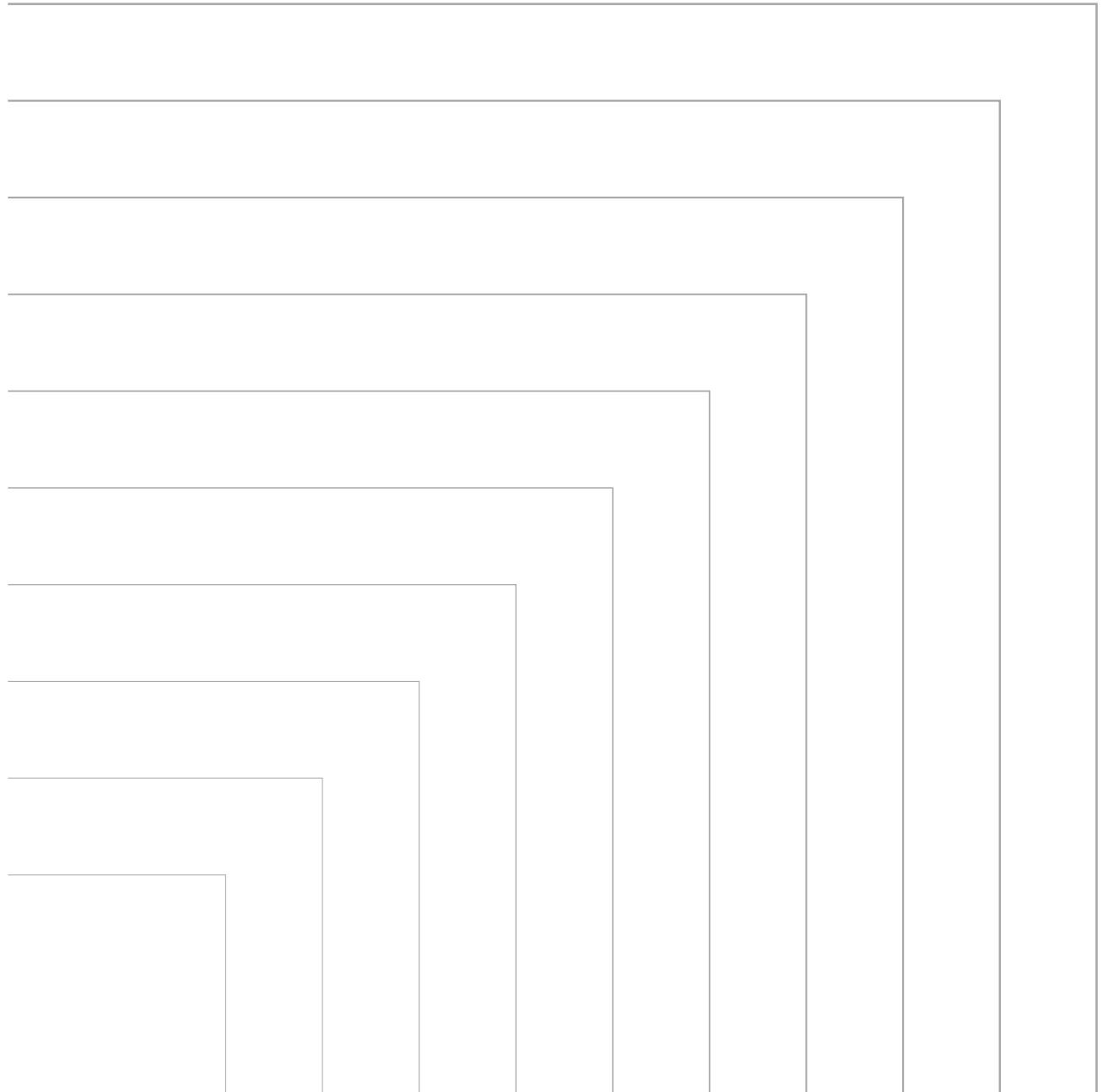




KHALEEJI
COMMERCIAL
BANK | المصرف
الخليجي
التجاري



**Positive
Transformation**

Annual Report
2019

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His Royal Highness
Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the
Kingdom of Bahrain



His Majesty
King Hamad bin Isa Al Khalifa
The King of the
Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince, First Deputy Prime
Minister & Deputy Supreme Commander
Kingdom of Bahrain

A Better Way Forward

With over 15 years of successful operation in the kingdom of Bahrain, Khaleeji Commercial Bank has earned a well-acclaimed reputation by contributing to the growth and modernisation of Islamic banking. With the loyalty and trust of our shareholders, investors and clients, we are proud of key milestones achieved over the years. In this spirit, we affirm that we continue to move towards our ultimate goal of positive transformation.

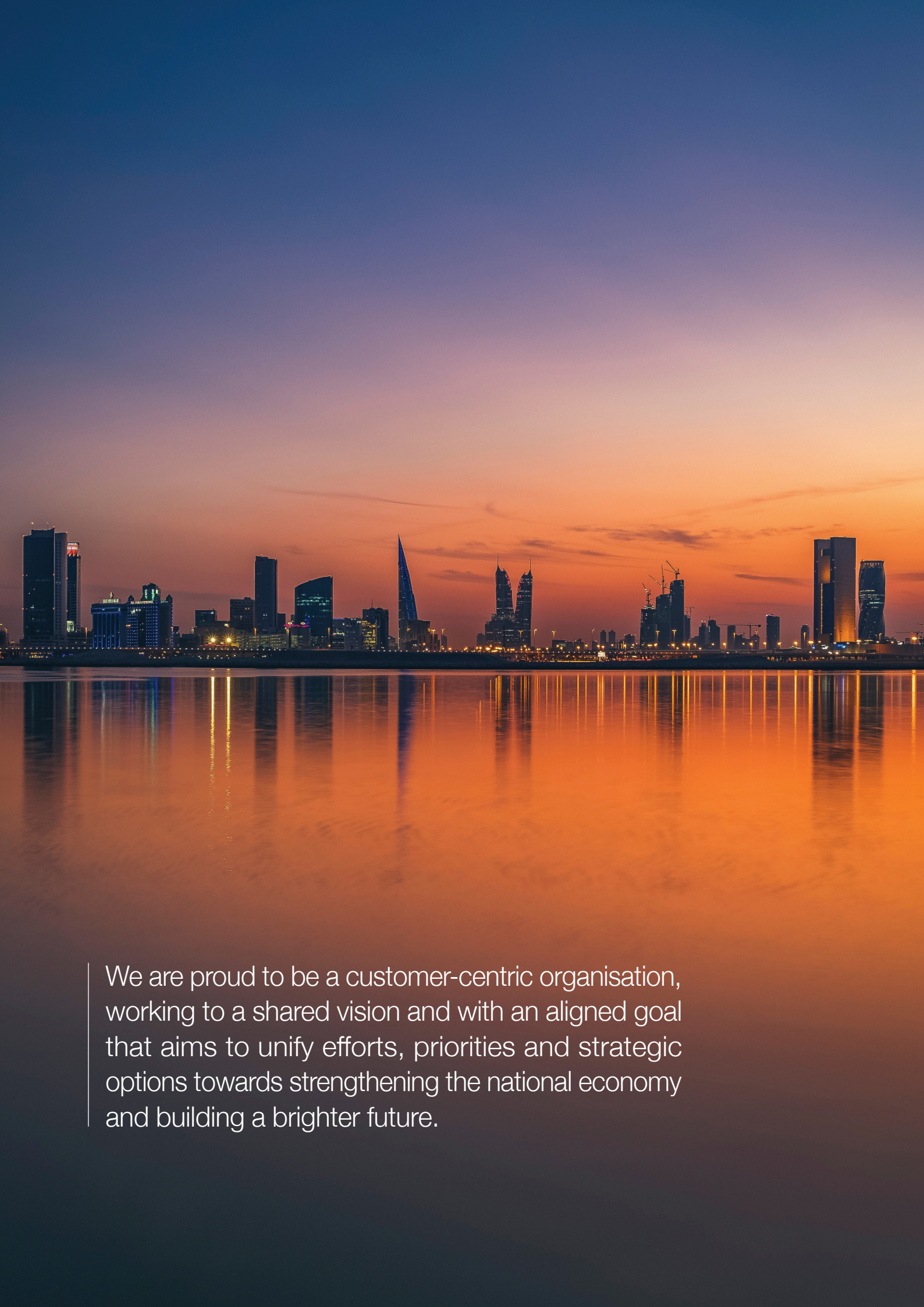




Vision & Mission

Our Vision: To become one of the strongholds of the domestic economy and regional Islamic Banking by providing unique, innovative and trustworthy Shari'a-compliant products, services and investment opportunities for our clients.

Our Mission: To have a major role in developing the economy and contributing to the growth of Islamic banking in the Kingdom of Bahrain, in order to achieve the optimum value for our clients and shareholders in accordance with the provisions and principles of Shari'a.



We are proud to be a customer-centric organisation, working to a shared vision and with an aligned goal that aims to unify efforts, priorities and strategic options towards strengthening the national economy and building a brighter future.

Chairman's Report

In the name of Allah, the beneficent, the merciful, Prayers and peace upon the last apostle and messenger, our Prophet Muhammad.

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual report of Khaleeji Commercial Bank for the year ended 31st December 2019.

We are pleased to share certain strategic decisions taken by the Bank in 2019 aimed at significantly transforming the Bank's operations and market approach. The management focused on increasing the asset quality by booking high-quality assets and strategically adopted a conservative stance against legacy assets by taking further provisions. In addition, key decisions include the cost rationalisation initiative and strategically re-evaluating distribution channels while still maintaining operational effectiveness, efficiency and profound customer experience.

On all fronts, it has been a year full of challenges and opportunities. The Bank have accepted these challenges and was able to implement a new strategic approach and provide various innovative financial solutions that added value to all stakeholders. This is evident by the Bank's initiative to support the growth in the local market by financing and providing financial solutions to key local landmark projects. Moreover, the Bank is also extending support to the local consumer finance sector by participation in the "Mazaya" housing program. The Bank will continue to pursue its expansion strategy through adopting several initiatives and progressive strategies that are directed towards enhancement of the Bank's positioning, market reach and competitive advantage.



Jassim Mohamed Alseddiqi
Chairman

The Bank is driven towards adopting important expansionary initiatives that it aims to achieve in 2020 and the years to follow.

We are pleased to report that the Bank continues to progress with plans to maintain its position as a leading Islamic Retail Bank. Despite a challenging environment, these plans are fast taking shape and already started showing tangible results. The management team is continuously working to achieve the full benefits of the Bank's strategic initiatives, and resource optimisation to increase work efficiency and improve effectiveness.

Meanwhile, new products and enhanced services are the key drivers of our business growth and increase in assets, therefore, the bank continues to invest heavily in developing its products and services. We continue to grow closer to our customers, listening closely to their needs and providing tailored financial solutions.

Overall Performance

During 2019, the Bank was able to achieve the strategic goals set by the Board. This was achieved by providing innovative financial solutions and quickly adapting to the ever-changing market and understanding customer needs and requirements. A positive indicator of the Bank's performance this year is the growth of total assets from BD 850.9 million in 2018 to BD 939.8 million in 2019, a growth of 10.4%. Customer Deposits grew to BD 704.6 million in 2019 compared to BD 537.3 million in 2018, a growth of 31.1%. Corporate financing assets reached BD 343.2 million in 2019 compared to BD 299.7 million in 2018, a growth of 14.5%.

Furthermore, the Bank was able to achieve growth in liquid assets which currently comprises of 38.8% of Total Assets while the Capital Adequacy Ratio ("CAR") reached 16.63%. In addition to this, the Bank is maintaining healthy Liquidity

Coverage Ratio ("LCR") of 733.93% and Net Stable Funding Ratio ("NSFR") of 108.5% as of 31st December 2019. This has in turn allowed the Bank to invest the liquidity in prominent Sukuk investments that are characterised with high yield and low risk. Such investments resulted in a considerable increase in the Sukuk portfolio reaching BD 195.1 million in 2019 compared to BD 161.3 million in 2018, a growth of 20.9%.

The Bank reported a net loss attributable to the shareholders of the parent BD 14.9 million. As the Board decided to take an amount of BD 20.4 million as provisions and fair value losses for the year ended 31st December 2019, such conservative approach has been taken in order to enhance the Bank's financial positioning and to further support its growth in 2020.

Looking Ahead

The Bank's inclination towards digital banking will be key in increasing customer acquisition through digital channels which will reduce acquisition cost and time. Digital banking will empower customers to perform transactions with ease thereby enhancing their experience.

Technology, risk management and controls are the backbone that support business growth and ensure competitiveness in the market place. The Bank continues to invest in further enhancing them by implementing new solutions for risk, compliance, core banking and others. The Bank continues to align risk management with business to contribute in the creation, optimisation and protection of enterprise value by managing business risks while creating value in the marketplace and continuous asset management of investment portfolio by establishing strategic investment exits.

The Bank is driven towards adopting important expansionary initiatives that it aims to achieve in 2020 and the years to follow. These include the Bank's plans to continue improving the financing portfolio at both the Corporate and Retail level, with special consideration to the sovereign exposures, while maintaining appropriate liquidity buffers and financial ratios.

Further, the Bank is rationalising the number of branches with potential to re-evaluate the branches network in the following years while increasing customer acquisition through digital channels and reduce acquisition cost, time and widen its customer base. The Bank is focusing on continuously working on re-engineering and automating controls to ensure higher efficiency and effectiveness.

Appreciation

On behalf of the Board, I would like to express my gratitude to 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 and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister for their encouragement of the growth of the private sector and the development of the banking and finance industry in Bahrain. I also extend my thanks to all government ministries, the Central Bank of Bahrain, and Bahrain Bourse for their continued guidance and support. Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty; and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.

Jassim Mohamed Alseddiqi

Chairman

Executive Management Report

In the name of Allah, the beneficent, the merciful, prayers and peace upon the last apostle and messenger, our prophet Muhammad.

Our Valued Shareholders,

The Bank has strived in 2019 to achieve positive transformation through building new strategic partnerships that highly contribute to the accomplishment of our aspirations, along with expanding the horizons of its current partnerships and pushing them forward towards advanced stages that will benefit the Bank's financial position. Throughout the past year, we have continued exerting additional efforts to build and develop banking relations in the Corporate Financing Sector by signing new agreements with strategic partners to develop businesses and achieve essential progress objectives, such as escalating the volume of assets and enhancing their quality. The Bank has sustained its endeavours to bolster its financial base through channelling funds towards local projects that are vital and owned by parties with high financial solvencies. With that said, we would like to point here to the strategic partnership with "Tamkeen", which has enabled us through its programs to boost the Bank's ability to achieve its financing objectives, especially in the field of Small and Medium Enterprises "SMEs".

Despite the economic challenges that prevailed in 2019 and cast a shadow over the global and local economies, the Bank succeeded in registering stable financial and operational results. This is owed to adopting carefully studied plans that rely on providing innovative financial solutions that are compatible with the rapid changes witnessed by the market and meeting the requirements of clients in all Sectors, in addition to maintaining high liquidity rates which enabled the bank to successfully invest in Sukuk and supporting essential commercial activities. We also don't forget the vision of the Wise Leadership of the Kingdom of Bahrain, represented by the implementation of the Fiscal Balance Program, which has been the keystone in establishing the pillars of the Banking and Finance Sector, which is characterised by its solid policies and legislations under the supervision of the Central Bank of Bahrain.



Sattam Sulaiman Algosaibi
Chief Executive Officer

KHCB will continue its strides towards positive transformation through adopting several focused development plans and initiatives that aim to bolster its position, increase its market share, and competitiveness in the market.

On the other hand, the Bank has adopted several innovative solutions for individuals that are aimed at enhancing its competitiveness through the introduction of new products that are in line with the continuous development in the Banking Sector. This would further enhance the quality and efficiency, as well as saving clients' time and effort in completing their transactions.

The Bank has also played a prominent role in creating high quality Digital Banking Solutions, placing it in the forefront of the Financial Technology (FinTech) Sector, as the first bank in the Kingdom of Bahrain and the Middle East to announce its readiness to offer Open Banking Services, in line with the Kingdom's ambitions to become a leading regional hub in this field.

This comes thanks in part to the early establishment of a foundations for a modern technological environment for many years, emphasising on the Bank's leadership in the introduction of digital banking products in the Kingdom, beginning with the launch of the digital payment gateway "eDinar".

The Bank has also proven its FinTech leadership by introducing the "Khaleeji eTrade" platform, which is the first of its kind in the Kingdom and offers several privileges that enable clients to easily open accounts to trade stocks listed on Bahrain Bourse, place buy-and-sell orders, review market performance charts, receive the latest news on local and international stock markets and other services that could be conveniently and securely accessed through a special app on smart devices.

Khaleeji Commercial Bank takes pride in maintaining high Bahrainization rate of 97%, making it an Islamic bank that reflects the national culture and identity of the Kingdom of Bahrain, whether through its innovative banking solutions or its corporate social responsibility related initiatives.

KHCB will continue its strides towards positive transformation through adopting several focused development plans and initiatives that aim to bolster its position, increase its market share, and competitiveness in the market.

In summation, I would like to take this opportunity to express my sincere thanks and appreciation to the respected Government of the Kingdom of Bahrain for its endless support of the banking sector. I would also like to express gratitude to the Chairman and members of the Board of Directors for their wise directives, the Executive Management and all staff members of the Bank for their efforts and devotion, as well as our valued shareholders and clients for their solid confidence and continued support.

Sattam Sulaiman Algozaibi
Chief Executive Officer



Board of Directors



Mr. Jassim Mohammed Alseddiqi
Chairman



Sh. Ahmed bin Isa Khalifa Al Khalifa
Vice Chairman



Mr. Abdulla Abdulkarim Showaiter
Board Member



Dr. Khalid Mohammed Al Khazraji
Board Member



Mr. Fawad Tariq Khan
Board Member



Mr. Hisham Ahmed Al Rayes
Board Member



Mr. Mohammad Abdulmohsen Al Rashed
Board Member



Mr. Mustafa Ghazi Kheriba
Board Member



Mr. Reyadh Eid Abdulla Al-Yaqoob
Board Member



Mr. Yousef Ibrahim Al Ghanim
Board Member

Management Team



Mr. Sattam Sulaiman Algozaibi

Chief Executive Officer



Mr. Mahdi Abdulnabi Mohammed

Deputy General Manager
Support Services



Mr. Tawfeeq Mohamed Bastaki

Deputy General Manager
Chief Risk Officer



Mr. Mohammed Abdulla Saleh

Assistant General Manager
Legal & Compliance



Mr. Mazen Salman Sater

Assistant General Manager
Retail Banking



Mr. Husam Ghanem Saif

Assistant General Manager
Treasury and Capital Markets



Mr. Abdul-Nasser Omar Al-Mahmood

Head of Shari'a Coordination & Implementation



Mr. Mohammed Hamad Fakhri

Head of Internal Audit



Mr. Aman Ullah Khan

Financial Controller



Mr. Nawaf Abdulsalam Al-Hosani

Acting Head of Internal Shari'a Audit & Shari'a Supervisory Board Secretary

Corporate Governance

Our corporate governance framework focuses on responsibility, oversight and management accountability with regard to governing regulations and better practices. We are proud to implement a framework which is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency.

Corporate Governance Structure Board Committees Structure

The Bank's corporate governance framework focuses on Board responsibility, oversight and management accountability vis-à-vis governing regulations and better practices. The framework is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency, while creating value for all stakeholders.

Corporate governance, the way the Board and Management is organised and how they operate in practice ultimately aims at leading the Bank towards successfully meeting its strategic objectives. The Board of Directors is accountable to the Bank's shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance and effective risk management.

The Bank is in compliance with the Corporate Governance Code (CGC), the Public Disclosure Module and the Stock Exchange Disclosure Standards set by the CBB. The corporate governance philosophy of the Bank is to be fully ethical and transparent in all dealings. In pursuit of this goal the Board of Directors have approved a Corporate Governance Framework, Director's Conflict of Interest Policy, and the Bank Key Persons' Dealing Policy. The Bank, through its Board and Committees, endeavors to deliver the highest governing standards for the benefit of its stakeholders.

The Bank is committed to continuously reviewing and developing its corporate governance standards to ensure compliance with the requirements of the revised corporate governance framework being implemented by the Central Bank of Bahrain and other regulatory bodies, and also to keep abreast with international best practice.

Board of Directors

The Board of Directors comprises of ten members. The chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

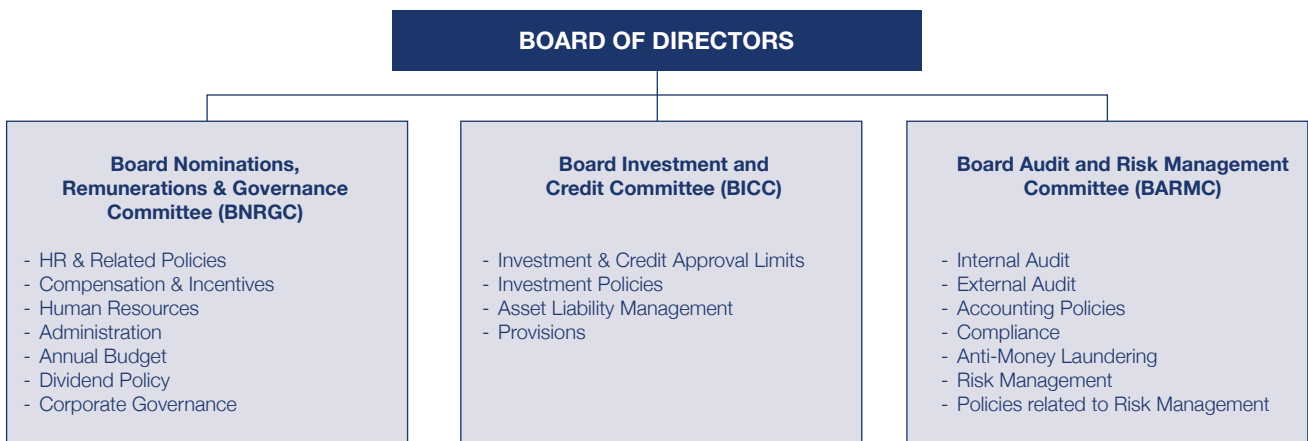
The Board of Directors has constituted three committees with specific delegated authorities.

- **Board Audit and Risk Management Committee (BARMC)**, which is responsible for internal and external audit, compliance and anti-money laundering. Beside its responsibility in ensuring that the Bank's overall risk management framework is effective and that key risks are managed within parameters established by the Board (During the year, the Board Audit Committee (BAC) and the Board Risk Management Committee (BRMC) were merged into one committee Board Audit and Risk Management Committee (BARMC).
- **Board Investment & Credit Committee (BICC)**, which is responsible for investment and credit approvals, setting limits and tolerances for different risks, asset liability management, monitoring asset impairment and creation of loss provisions, maintaining banking relationships, as well as for the oversight of the off-balance sheet vehicles.
- **Board Nominations, Remunerations and Governance Committee (BNRGC)**, which is responsible for setting policies for compensation and incentives, human resources and administration. It is also responsible for the corporate governance framework of the Bank.

The Chairman, the Board of Directors and the Board Committees have direct access to the heads Internal Audit, Risk Management, Regulatory Compliance, Internal Sharia Audit, and Shari'a Coordination and Implementation.

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met six times in 2019. The Bank held its AGM on 13th March 2019. In addition to physical meetings, several written resolutions were circulated to the Directors during 2019 for approval by mails.

During the year, the Board Audit and Risk Management Committee (BARMC) held five meetings, the Board Investment and Credit Committee (BICC) held four meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held four meetings.



Executive Management Committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank’s strategic plan. The CEO manages the Bank through the following management committees:





Risk Management

The Bank will always thrive to achieve a sustainable, and continuously enhance, stakeholders' value at an acceptable / calculated level of risk, within Islamic Sharia framework, while at the same time adhering to social responsibilities of being good citizens and being fair and transparent to its stakeholders.

All business decisions in the Bank are considered after thorough risk and reward analysis adequate for the size and nature of business being considered.

By the nature of its business, the Bank is exposed to risks, which include, but are not limited to, credit, market, and liquidity, and operational risk. The Bank's aim is to achieve an appropriate balance between risk and return and minimize any potential adverse impact on its overall performance.

The Bank adopts a robust risk management framework to manage its risks. This framework is based on assessment of the risk capacity, definition of appropriate risk appetite, development of policies and procedures for managing risks, measurement of adequate return for the risk assumed, and establishment of strong business and risk cultures.

The Board of Directors has the primary responsibility for managing risks in the Bank. It discharges its responsibilities through the Board Audit & Risk Management Committee ("BARMC") and is responsible for effective implementation of the Bank's risk management framework described above.

The daily management of risk is overseen by the Risk Management Division which is headed by a Chief Risk Officer who reports directly to the BARMC. The Risk Management Division is responsible for the identification, assessment and ongoing control of all material risks that could affect the Bank's business and operations. In doing so, the Risk Management Division, in coordination with the Management and the BARMC, implements a risk management process that is based on the following principles:

- Alignment of Business Strategy and Risk Appetite.
- Risk identification and measurement
- Risk prioritization
- Risk monitoring
- Risk Mitigation



Shari'a Supervisory Board Report

Prayers and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board ("SSB") hereby presents the following report to the Shareholders on the activities of Khaleeji Commercial Bank ("KHCB") and its subsidiaries for the financial year ending 31st December 2019.

Respective responsibility of the Board of Directors and the SSB

The SSB confirms that as a general principle and practice, KHCB's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility is to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

Basis of opinion

In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the AAOIFI standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the IESCA report for 2019. The SSB in collaboration with Shari'a coordination and implementation department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31st December 2019.

Opinion

Based on our review, The SSB is satisfied that:

1. The contracts, agreements and transactions entered into by the Bank that have been reviewed by the SSB are in compliance with the Shari'a rules and principles.
2. The allocation of profits and charging of losses 'if any' on investment accounts conform to the basis that had been approved by the SSB and in accordance with Shari'a rules and principles.
3. Any earnings resulted by means prohibited by the Shari'a rules and principles have been channeled to charity account.
4. Zakah was calculated in accordance with Shari'a rules and principles based on net assets method according to AAOIFI standards. Each shareholder is responsible to pay their relevant zakah portion related to their respected shares as per zakah guide.
5. The Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

We pray to Allah the almighty to grant us all success and prosperity.



Shaikh Dr. Fareed Al-Muftah
Chairman



Shaikh Dr. Mohammed Fareed Hadi
Vice-Chairman & Executive Member



Shaikh Dr. Nizam Yaqoobi
Board Member

Independent Auditors' Report to the Shareholders

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements, which describes that as at 31st December 2019 the Bank's shareholders' equity is below the minimum requirement of BD 100 million as prescribed by the Central Bank of Bahrain and the Board's action plan to address this. Our opinion is not modified in respect of this matter.

Opinion

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

Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) Except for the matter referred to in the emphasis of matter paragraph above, we are not aware of any other instances of violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.



KPMG Fakhroo

Partner Registration No. 100

9th February 2020

Consolidated Financial Statements

Consolidated Statement of Financial Position

as at 31st December 2019 / BD 000's

	Note	31 st December 2019	31 st December 2018
ASSETS			
Cash and bank balances	6	104,376	99,401
Placements with financial institutions	7	65,508	43,637
Financing assets	8	324,355	327,640
Investment in sukuk	9	195,050	161,324
Assets acquired for leasing	10	129,097	108,678
Lease rentals receivables		17,102	11,525
Investment in equity securities	11	43,989	50,039
Investment in real estate	12	17,781	18,081
Development property		6,251	6,251
Other assets	13	28,493	16,498
Property and equipment	14	7,750	7,865
Total assets		939,752	850,939
LIABILITIES			
Placements from financial institutions		127,453	158,349
Placements from non-financial institutions and individuals	15	134,654	120,470
Medium-term borrowing	16	–	41,357
Customers' current accounts		58,105	70,416
Other liabilities	17	19,798	10,512
Total liabilities		340,010	401,104
Equity of investment account holders	18	511,835	346,373
OWNERS' EQUITY			
Share capital	19	105,000	105,000
Statutory reserve		8,225	8,225
Treasury shares		(11,730)	(11,295)
Employee share incentive scheme		–	(29)
Accumulated losses		(15,788)	(729)
Total owners' equity		85,707	101,172
Non-controlling interest		2,200	2,290
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		939,752	850,939

The consolidated financial statements were approved by the Board of directors on 9th February 2020 and signed on its behalf by:

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated Income Statement

for the year ended 31st December 2019 / BD 000's

	Note	2019	2018
Income from financing assets and assets acquired for leasing		31,334	26,565
Income from placements with financial institutions		2,183	955
Income from sukuk	20	10,031	6,377
Income from equity securities		(1,687)	1,422
Fees and other income		5,726	2,842
Total income before return to investment account holders		47,587	38,161
Less: Return to investment account holders before Bank's share as Mudarib	18	(23,544)	(14,221)
Bank's share as a Mudarib	18	8,457	5,619
Return to investment account holders		(15,087)	(8,602)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(11,703)	(8,190)
Finance expense on medium-term borrowing		(1,241)	(2,054)
Total income		19,556	19,315
Staff cost	21	8,158	7,175
Other operating expenses	22	6,036	5,252
Total expenses		14,194	12,427
Profit before impairment allowances		5,362	6,888
Net impairment charge	23	(20,389)	(6,288)
(LOSS)/PROFIT FOR THE YEAR		(15,027)	600
Attributable to:			
Shareholders of the parent		(14,937)	659
Non-controlling interest		(90)	(59)
		(15,027)	600
Earnings per share			
Basic and diluted earnings per share (fils)	28	(15.86)	0.69

Jassim Mohamed Alseddiqi
Chairman

Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman

Sattam Sulaiman Algozaibi
Chief Executive Officer

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2019 / BD 000's

2019	Equity attributable to shareholders of the parent							
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses)	Total	Non-Controlling interest	Total Equity
Balance at 1st January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Loss for the year	-	-	-	-	(14,937)	(14,937)	(90)	(15,027)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Net treasury shares purchased	-	-	(435)	-	-	(435)	-	(435)
Issue of shares under incentive scheme	-	-	-	29	65	94	-	94
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 31st December 2019	105,000	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907

2018	Equity attributable to shareholders of the parent							
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Retained earnings/ (Accumulated losses)	Total	Non-Controlling interest	Total Equity
Balance at 1 st January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684
Impact of adopting FAS 30	-	-	-	-	(11,069)	(11,069)	-	(11,069)
Restated balance at 1 st January 2018	105,000	8,159	(10,212)	(70)	(907)	101,970	2,645	104,615
Profit for the year	-	-	-	-	659	659	(59)	600
Transfer to statutory reserve	-	66	-	-	(66)	-	-	-
Net treasury shares purchased	-	-	(1,083)	-	-	(1,083)	-	(1,083)
Issue of shares under incentive scheme	-	-	-	41	42	83	-	83
Loss of Control	-	-	-	-	(16)	(16)	(296)	(312)
Transfer to Zakah fund	-	-	-	-	(441)	(441)	-	(441)
Balance at 31 st December 2018	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2019 / BD 000's

	Note	2019	2018
OPERATING ACTIVITIES			
Receipts from financing assets, net		9,621	40,392
Payment for asset acquired for leasing, net		(17,786)	(15,145)
Receipt of profit on short-term placements		2,183	955
Returns paid to investment account holders		(10,454)	(7,184)
Receipts / (Withdrawals) from investment account holders, net		165,461	(13,444)
Payment of profit on placements		(11,703)	(8,190)
Payment for expenses		(19,441)	(10,642)
Other receipts		3,964	2,878
Payment for charity		(235)	(422)
Withdrawals from customers' current accounts, net		(12,311)	(4,341)
(Payments) toward / Receipts from placements from financial institutions, net		(29,839)	34,084
Receipts from placements from non-financial institutions and individuals, net		14,184	59,111
Net payment to CBB reserve account		(4,610)	(3,360)
Income from sukuk received		10,006	5,937
Net cash generated from operating activities		99,040	80,629
INVESTING ACTIVITIES			
Purchase of sukuk		(37,407)	(63,205)
Proceeds from redemption / sale of sukuk		3,269	15,135
Disposal / (Purchase) of equity securities		1,438	(97)
Purchase of Investment in real estate, net		–	(105)
Receipt of dividends / income from equity securities		343	1,478
Purchase of property and equipment, net		(452)	(674)
Net cash used in investing activities		(32,809)	(47,468)
FINANCING ACTIVITIES			
Purchase of treasury shares, net		(350)	(1,234)
(Repayment) / drawdown of medium-term borrowing, net		(41,357)	50
Finance expense paid on medium-term borrowing		(1,241)	(2,054)
Net cash used in financing activities		(42,948)	(3,238)
Net increase in cash and cash equivalents		23,283	29,923
Cash and cash equivalents at 1 st January		121,171	91,248
Cash and cash equivalents at 31st December		144,454	121,171
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	6	78,946	78,581
Placements with financial institutions with original maturities of 90 days or less	7	65,508	42,590
		144,454	121,171

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of changes in Restricted Investment

for the year ended 31st December 2019 / BD 000's

2019	Balance at 1 st January 2019			Movements during the year						Balance at 31 st December 2019		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (with-drawals) BD 000's	Revaluation BD 000's	Gross income/(loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Admin-stration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

2018	Balance at 1 st January 2018			Movements during the year						Balance at 31 st December 2018		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (with-drawals) BD 000's	Revaluation BD 000's	Gross income/(loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Admin-stration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,529	1.00	3,529	(95)	-	117	(117)	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,776	(95)	-	117	(117)	-	-			10,681

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of sources and uses of Zakah and Charity Fund

for the year ended 31st December 2019 / BD 000's

	2019	2018
Sources of zakah and charity fund		
At 1 st January	708	674
Contributions by the Bank	187	441
Non-Islamic income	54	15
Total sources	949	1,130
Uses of zakah and charity fund		
Contributions to charitable organisations	(235)	(422)
Total uses	(235)	(422)
Undistributed zakah and charity fund at 31st December	714	708

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

1. REPORTING ENTITY

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24th November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain ("CBB") on 20th October 2003. The Bank's shares are listed on the Bahrain Bourse and Dubai Financial Markets.

The Bank's activities are regulated by the Central Bank of Bahrain (CBB) and supervised by a Religious Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net-worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together "the Group"). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding 2019	% holding 2018	Nature of business
Harbour West 2 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Harbour West 4 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Surooh Limited	Cayman Islands	19.08%	19.08%	To construct and sell properties at "Oryx Hills".

Going concern:

As of 31st December 2019, the total equity of the Bank was below the minimum BD 100 million required under LR module of volume 2 of the rule book issued by CBB. The Board of directors has mandated an international bank to assist it with issuing additional tier 1 capital (AT1) of BD 37.7 million to help strengthen its equity and meet the regulatory requirements.

The Bank is in the process of obtaining regulatory approval for this issue. Notwithstanding this, the Bank's regulatory capital adequacy ratio as of 31st December 2019 was 16.63%, well above the minimum ratio required by the CBB. Accordingly, the financial statements have been prepared on going concern basis.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). In line with the requirement of AAOIFI, for matters that are not covered by AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards.

3. BASIS OF PREPARATION

The consolidated financial statements are presented in Bahraini Dinars, which is also the principal currency of the Bank's operations. They have been prepared on the historical cost basis except for the measurement at fair value of certain investments carried at fair value.

The Group classifies its expenses in the income statement by the nature of expense method.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

4. USE OF SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 25.

5. SIGNIFICANT ACCOUNTING POLICIES

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

i) Standards issued and effective from 1st January 2019

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

ii) Standards issued but not yet effective

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

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

Principal (Investor)

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

Pass-through approach

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

Wakala venture approach

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

Agent

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Standards issued but not yet effective (Continued)

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

Off-balance sheet approach

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

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

On-balance sheet approach

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

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

This standard is not expected to have a significant impact on the bank. This standard shall be effective for the financial periods beginning on or after 1st January 2020. Early adoption is permitted.

Transitional provisions

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

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

b) FAS 33 - Investment in Sukuk, shares and similar instruments

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

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

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

Transitional provisions

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

The Bank is still in the process of estimating the impact of adoption of this standard on the consolidated financial statements. This standard shall be effective from the financial periods beginning on or after 1st January 2020. Early adoption is permitted.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Standards issued but not yet effective (Continued)

c) FAS 34 - Financial Reporting for Sukuk-holders

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

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

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

This standard is not expected to have an impact on the bank. This standard shall be effective from the financial periods beginning on or after 1st January 2020. Early adoption is permitted.

Transitional provisions

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

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Group owns more than 50% of voting rights on an entity.

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

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 26.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (Continued)

(ii) Associates

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies. These are accounted for under the equity method.

Investments in associates are initially recognised at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The carrying amount of the equity accounted investment is tested for impairment in accordance with the policy described in note 5 (k).

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

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

The other Group companies' functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini Dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

(c) Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

(i) Classification

The Group segregates its investment securities into debt-type and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type.

Debt-type Instruments:

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investment in sukuk.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investment securities (Continued)

Equity-type investments:

Investments in equity-type instruments are classified in the following categories: 1) at fair value through income statement ('FVTIS') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

The Group has one investment in equity securities that is designated at FVTIS. The rest are classified as investments at fair value through equity.

(ii) Recognition and de-recognition

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

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account-holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement. Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measure the fair value of an instruments using the quoted price in an active market for that instrument.

For unquoted investments at fair value, the Group uses recognised valuation techniques for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

When there is no quoted price or other appropriate methods from which to derive a reliable fair value, equity investments are carried at cost less impairment.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financing assets

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

(e) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over-the-counter customer placements made/received using Shari'a-compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(g) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customers, take into consideration the credit evaluation of the respective customer in addition to other factors.

(h) Investment in real estate

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are carried at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment in real estate includes plots of land held for capital appreciation purposes, villas and buildings held for earning rentals. Land is not depreciated. Buildings are depreciated over 25 years.

(i) Development properties

Development property consists of villas being developed for sale in the ordinary course of business and costs incurred in bringing such property to its saleable condition.

Development property is stated at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(j) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from three to five years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial instruments

i) Exposures subject to credit risk

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

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

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

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial instruments (Continued)

i) Exposures subject to credit risk (Continued)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

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

ECLs are discounted at the effective profit rate of the financial instrument.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the exposure have occurred. Evidence that an exposure 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 being more than 90 days past due;
- the restructuring of a financing facility or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and assets acquired for leasing are deducted from the gross carrying amount of the assets. Loss on undrawn commitments and financial guarantees are disclosed in other liabilities.

ii) Equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, 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 income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than for financial assets covered above) is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. As at December 2019, the Group did not have any goodwill recognised.

(m) Customers' current accounts

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

(n) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges a management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit-sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group charges specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

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

(o) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Financial guarantees

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

(q) Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised in the income statement on sale of treasury shares.

(r) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that ten per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

(s) Revenue recognition

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

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

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) is recognised proportionately over the lease term.

Income from sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

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

Rental income is recognised on a straight-line basis over the term of the contract.

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

(t) Earnings prohibited by Shari'a

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Zakah

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

(v) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

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

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

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

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

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(w) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(x) Trade date accounting

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

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari'a-based enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(z) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(aa) URIA Protection Scheme

Funds held with the Group in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(bb) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying value and fair value less cost to sell.

(cc) Medium-term Borrowing

Medium-term borrowing represents borrowing obtained through murabaha contract recognised on the origination date and carried at amortised cost.

6. CASH AND BANK BALANCES

	31 st December 2019	31 st December 2018
Cash	5,299	8,130
Balances with banks	42,601	55,551
Balances with the Central Bank:	31,047	14,950
– Current account	25,430	20,820
– Reserve account		
Less: Impairment allowance	(1)	(50)
	104,376	99,401

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 st December 2019	31 st December 2018
Gross Murabaha and Wakala receivable	65,524	43,689
Less: Deferred profits	(15)	(50)
Less: Impairment allowance	(1)	(2)
	65,508	43,637

The average profit rate on placement with financial institutions for 2019 was 3.07% per annum (31st December 2018: 2.92% per annum). Placements with financial institutions with original maturities of 90 days or less is nil (31st December 2018: BD 42,590).

8. FINANCING ASSETS

	31 st December 2019	31 st December 2018
Murabaha	354,510	338,012
Musharaka	104	3,541
Wakala	5,007	5,007
Mudharaba	1,047	1,049
Istisna	1,733	2,054
	362,401	349,663
Less: Impairment allowances	(38,046)	(22,023)
	324,355	327,640

Murabaha financing receivables are net of deferred profits of BD 25,724 thousand (2018: BD 25,088 thousand).

The movement on impairment allowances is as follows:

2019	Stage 1	Stage 2	Stage 3	Total
At 1 st January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(20)	(1,221)	1,241	-
Net charge for the year	(161)	256	15,928	16,023
Write-off	-	-	-	-
At 31st December 2019	4,581	2,730	30,735	38,046

2018	Stage 1	Stage 2	Stage 3	Total
At 1 st January 2018	2,647	9,621	7,778	20,046
Net movement between stages	2,545	(4,792)	2,247	-
Net charge for the year	(430)	(1,134)	5,107	3,543
Write-off	-	-	(1,566)	(1,566)
At 31 st December 2018	4,762	3,695	13,566	22,023

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

9. INVESTMENT IN SUKUK

	31 st December 2019	31 st December 2018
Debt-type instruments – at amortized cost		
– Quoted sukuk *	195,061	161,327
– Unquoted sukuk	1,317	1,317
Less: Impairment allowances	(1,328)	(1,320)
	195,050	161,324

* Sukuk of BD 48,888 thousand were pledged against medium-term borrowings of BD 41,357 thousand which was repaid during the year (refer note 16).

10. ASSETS ACQUIRED FOR LEASING

	2019	2018
Cost		
At 1 st January	138,952	119,995
Additions during the year	53,688	31,446
Settlements/adjustments during the year	(24,331)	(12,489)
At 31st December	168,309	138,952
Accumulated depreciation		
At 1 st January	30,274	22,802
Charge for year	16,714	11,400
Settlements during the year	(7,776)	(3,928)
At 31st December	39,212	30,274
Net book value at 31st December	129,097	108,678

At 31st December 2019, accrued lease rental receivable amounted to BD 17,102 thousand (2018: BD 11,525 thousand). Lease rental receivable is net of stage 1 and 2 ECL of BD 516 thousand (2018: BD 245 thousand) and Stage 3 ECL of BD 2,705 thousand (2018: 2,211 thousand). During the year, an impairment allowance of BD 765 thousand (2018: BD 725 thousand) was provided on the lease rental receivables (note 23).

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 84,958 thousand (2018: BD 85,644 thousand).

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

11. INVESTMENT IN EQUITY SECURITIES

	31 st December 2019	31 st December 2018
At fair value through income statement		
– Unquoted equity securities	11,174	13,148
At fair value through equity		
– Gross Unquoted equity securities carrying amount (carried at cost less impairment)*	50,563	51,972
Less: Impairment allowances	(17,748)	(15,081)
	43,989	50,039

* Unquoted equity securities at fair value through equity comprise investments in closed companies. These investments are carried at cost less impairment in the absence of a market price or a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs or sale of underlying assets.

During the year, impairment charge of BD 2,667 thousand (31st December 2018: BD 2,205 thousand) was recognised on equity securities carried at cost (note 23).

12. INVESTMENT IN REAL ESTATE

	Land	Building	2019 Total	2018 Total
Cost				
At 1 January	18,081	–	18,081	20,992
Additions	–	–	–	105
Disposals	–	–	–	(3,016)
Impairment (note 23)	(300)	–	(300)	–
At 31st December	17,781	–	17,781	18,081
Accumulated Depreciation				
At 1 st January	–	–	–	1,371
Charge for year	–	–	–	–
Disposals	–	–	–	(1,371)
At 31st December	–	–	–	–
Net book value at 31st December	17,781	–	17,781	18,081

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

13. OTHER ASSETS

	31 st December 2019	31 st December 2018
Repossessed assets	13,513	853
Investment in associates	4,524	4,575
Profit accrued on Sukuk	3,250	2,820
Due from investments	985	1,070
Prepaid expenses	776	765
Other receivables	5,445	6,415
	28,493	16,498

Other receivables is net of impairment allowance of BD 1,742 thousand (2018: BD 954 thousands).

14. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and Other equipment	Work-in- progress	2019 Total	2018 Total
Cost							
At 1 st January	6,714	4,472	5,085	572	–	16,843	16,169
Additions	–	6	267	4	175	452	674
Disposals	–	(7)	(98)	–	–	(105)	–
At 31st December	6,714	4,471	5,254	576	175	17,190	16,843
Accumulated Depreciation							
At 1 st January	–	4,285	4,234	459	–	8,978	8,414
Charge for year (note 22)	–	72	447	48	–	567	564
Disposals	–	(7)	(98)	–	–	(105)	–
At 31st December	–	4,350	4,583	507	–	9,440	8,978
Net book value							
At 31st December 2019	6,714	121	671	69	175	7,750	7,865
At 31 st December 2018	6,714	187	851	113	–	7,865	

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

15. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 st December 2019	31 st December 2018
Non-financial institutions	51,660	48,325
Individuals	82,994	72,145
	134,654	120,470

These represent placements in the form of Murabaha and Wakala contracts. These are net of deferred profit of BD 5,218 thousand (2018: BD 4,188 thousand).

16. MEDIUM-TERM BORROWING

During 2018, the Bank had two medium-term Murabaha facilities of BD 41,357 thousand secured by pledge over sukuk of BD 48,888 thousand. These borrowings were repaid during the year.

17. OTHER LIABILITIES

	31 st December 2019	31 st December 2018
Mudaraba profit accrual	8,911	4,278
Advance received from customers	3,274	361
Employee related accruals*	1,251	245
Zakah and charity payable	714	708
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses	5,621	4,893
	19,798	10,512

* During the fourth quarter, the Bank has offered a voluntary retirement scheme to its employees. As of 31st December 2019, the total retrenchment cost amounted to BD 825 thousand.

Other payables and accrued expenses is net of impairment allowance of BD 268 thousand (2018: BD 380 thousand).

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

18. EQUITY OF INVESTMENT ACCOUNT HOLDERS

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes:

	31 st December 2019	31 st December 2018
Balances with banks	42,601	55,550
CBB reserve account	25,430	20,820
Placements with financial institutions	65,508	43,637
Debt-type instruments – sukuk	195,050	161,327
Financing assets	183,246	65,039
	511,835	346,373

As at 31st December 2019, the balance of profit equalisation reserve and investment risk reserve was Nil (2018: Nil).

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity.

Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2019		2018	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1-month Mudharaba *	80.61%	19.39%	78.66%	21.34%
3-months Mudharaba	65.38%	34.62%	54.41%	45.59%
6-months Mudharaba	60.00%	40.00%	49.31%	50.69%
12-months Mudharaba	42.96%	57.04%	29.50%	70.50%
18-months Mudharaba	38.65%	61.35%	23.28%	76.72%
24-months Mudharaba	43.11%	56.89%	21.15%	78.85%
36-months Mudharaba	32.37%	67.63%	14.70%	85.30%

* Includes savings, Al Waffer and Call Mudaraba accounts.

During the year, average mudarib share as a percentage of total income allocated to IAH was 46.56% (2018: 41.82%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 12.83% (2018: 20.38%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

19. SHARE CAPITAL

	31 st December 2019	31 st December 2018
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	300,000	300,000
Issued and fully paid up:		
1,050,000,000 ordinary shares (2018: 1,050,000,000) of BD 0.100 each	105,000	105,000

The Group has only one class of equity shares and the holders of these shares have equal voting rights. At 31st December 2019, the Group holds 105,573,476 as treasury shares (2018: 101,081,714 shares).

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

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	137,765,476	604	13.12
1% up to less than 5%	122,049,555	5	11.62
5% up to less than 10% **	296,694,051	3	28.26
10% up to less than 20%	–	–	–
20% and less than 50%	493,490,918	1	47
	1,050,000,000	613	100

* Expressed as a percentage of total outstanding shares of the Bank.

** Includes treasury shares.

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

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Khaleeji Commercial Bank B.S.C	Bahrain	103,592,516	9.87
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41

*As at 31st December 2019, these shares representing 47% (2018: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

20. INCOME FROM SUKUK

	2019	2018
Profit earned on Sukuk	10,068	6,489
Loss on sale of Sukuk	(37)	(112)
	10,031	6,377

21. STAFF COST

	2019	2018
Salaries and short-term benefits	7,073	6,075
Social insurance expenses	964	929
Other staff expenses	121	171
	8,158	7,175

22. OTHER OPERATING EXPENSES

	2019	2018
Premises cost	1,059	1,037
Advertisement and marketing expenses	660	437
Professional fees	1,194	825
Information technology expenses	536	483
Board expenses	244	441
Communication expenses	286	300
Distribution channel expenses	589	495
Depreciation expenses (note 14)	567	564
Other administrative expenses	901	670
	6,036	5,252

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

23. NET IMPAIRMENT CHARGE

	2019	2018
Balances and placements with banks and financial institutions (notes 6 and 7)	(50)	50
Financing assets (note 8)	16,023	3,543
Investments in sukuk (note 9)	8	(100)
Assets acquired for leasing - including lease rentals receivables (note 10)	765	725
Equity investments at fair value through equity (note 11)	2,667	2,205
Investment in real estate (note 12)	300	-
Other assets (note 13)	788	-
Commitments and financial guarantees	(112)	(135)
	20,389	6,288

24. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

During 2018 the Group had incorporated a Trust, Khaleeji Commercial Bank Employee Benefit Trust ("Trust"), to hold the beneficial interest of the shares under the scheme. Prior to this the shares were held in Hawafiz Khaleeji Management Company BSC (c).

The shareholders, in their annual general meeting held on 30th March 2015, approved the employee share based incentive scheme (the "scheme") which is in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Group's shares as compensation for their performance.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank Nomination, Remuneration and Governance Committee ("BNRGC") to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31st December 2019, 1,980,960 shares were held by the Trust (2018: 2,746,957 shares were held by Hawafiz). During the year 1,182,516 shares (2018: 917,628 shares) shares were awarded to the employees as awards under the terms of the scheme subject to a three year deferment period. During the year the Group transferred 1,465,997 shares (2018: 1,896,808 shares) to the employees.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

I. Judgements

a) Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5(k) and Note 35.

b) *Classification of investments*

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) debt-type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 5 (c) (i)).

c) *Going concern*

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

II. Estimations

a) *Impairment of financing assets at amortised cost*

Determining inputs into ECL measurement model including incorporation of forward-looking information is set out in Note 5(k) and Note 35.

b) *Impairment of equity investments at fair value through equity*

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

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

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

Determining fair value of unquoted equity securities

The Group determines the fair value of unquoted investments by using valuation techniques. This includes using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis or market multiples for similar instruments. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies.

These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

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25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Determining fair value of unquoted equity securities (Continued)

Significant judgment is required to be made by the Group and the Board of Directors in the selection of an approach that would reflect the best measure of fair value of the investments. The choice of the models used for valuation on each reporting period may have a significant impact on the fair value of investments and the amounts reported in the consolidated financial statements. During the year, Group has adopted the adjusted net book value approach for valuation of its unquoted equity security as compared to the market multiple approach used in prior year.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease/increase in the relevant variable used would increase/decrease the fair value by BD 558 thousand (31st December 2018: BD 657 thousand). The corresponding impact would be on the profit or loss reported by the Group.

26. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 262.25 million (31st December 2018: BD 230.72 million). During the year, the Group has not charged any management fees (2018: BD Nil) for the management of these assets.

27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, Shari'a Board members and executive management of the Group. The transactions with these parties were made on agreed commercial terms.

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

Categories*	Number of Shares	Number of Directors
Less than 1%	1,050,763	1

* Expressed as a percentage of total outstanding shares of the Bank.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation during the year is as follows:

	2019	2018
Board member fees and allowances	254	433
Salaries and other short-term benefits	1,150	1,402

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 st December 2019	Associates	Directors / Key management personnel and Shari'a board members	Parent company/ other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	–	2,017	5,710	–	7,727
Investment in equity securities	–	–	2,284	18,051	20,335
Other assets	4,645	–	–	865	5,510
Liabilities					
Placement from financial institutions and others	–	1,784	–	–	1,784
Customers' current accounts	194	61	5,634	1,207	7,096
Equity of investment account holders	404	598	122,880	380	124,262
31st December 2018					
Assets					
Financing assets	–	2,268	5,710	–	7,978
Investment in equity securities	–	–	2,284	20,719	23,003
Other assets	117	–	–	853	970
Liabilities					
Placement from financial institutions and others	–	–	93,917	–	93,917
Customers' current accounts	67	798	695	1,205	2,765
Equity of investment account holders	480	1,370	10,779	468	13,097

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

2019	Associates	Directors / Key management personnel and Shari'a board members	Parent company/ other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	128	373	-	501
Income from equity securities	-	-	-	-	-
Fees and other income	(42)	-	-	-	(42)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,931	-	2,931
Return to investment account holders	15	18	4,153	11	4,197
Staff cost	-	1,150	-	-	1,150
Other expenses	-	-	-	32	32
2018	Associates	Directors / Key management personnel and Shari'a board members	Parent company/ other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	133	373	-	506
Income from equity securities	-	-	-	143	143
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,278	-	2,278
Return to investment account holders	12	31	350	11	404
Staff cost	-	1,402	-	-	1,402
Other expenses	-	-	-	59	59

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28. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2019	2018
Profit attributable to parent for the year (BD 000's)	(14,937)	659
Weighted average number of equity shares (Nos. in 000's)	941,703	956,400
Basic earnings per share (in fils)	(15.86)	0.69

The Group did not have any dilutive instruments as of 31st December 2019 and December 2018.

29. SHARI'A SUPERVISORY BOARD

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

30. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 222 thousand (2018: BD 191 thousand) of which BD 218 thousand (2018: 187 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31st December 2019, payable by the Group. The remaining Zakah balance amounting to BD 4 thousand or 0.003 fils per share (2018: BD 4 thousand or 0.004 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 0.4 thousand (2018: BD 0.4 thousand) on the treasury shares held as of 31st December 2019 based on 0.003 fils per share.

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31. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking

Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients, high net-worth individuals and consumer finance products. This segment includes money market and treasury services in the form of short-term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group

Investment banking

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

The Group is winding down in investment banking business.

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31. SEGMENT REPORTING (CONTINUED)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis.

31 st December 2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	104,375	–	104,376
Placements with financial institutions	1,184	64,324	–	65,508
Financing assets	–	324,355	–	324,355
Investment in sukuk	–	195,050	–	195,050
Assets acquired for leasing (including lease rentals receivables)	–	146,199	–	146,199
Investment in equity securities	43,989	–	–	43,989
Investment in real estate	17,781	–	–	17,781
Development property	6,251	–	–	6,251
Other assets	18,430	4,182	5,881	28,493
Property and equipment	–	–	7,750	7,750
Total segment assets	87,636	838,485	13,631	939,752
Placements from financial institutions	–	127,453	–	127,453
Placements from non-financial institutions and individuals	–	134,654	–	134,654
Medium-term borrowing	–	–	–	–
Customers' current accounts	1,184	56,921	–	58,105
Other liabilities	1,847	13,647	4,304	19,798
Total segment liabilities	3,031	332,675	4,304	340,010
Equity of investment account holders	–	511,835	–	511,835
Restricted investment accounts	10,681	–	–	10,681

Notes to the Consolidated Financial Statements

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31. SEGMENT REPORTING (CONTINUED)

2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	102	31,232	–	31,334
Income from placements with financial institutions	39	2,144	–	2,183
Income from sukuk	–	10,031	–	10,031
Income from equity securities	(1,687)	–	–	(1,687)
Fees and other income	(51)	5,777	–	5,726
Total income before return to investment account holders	(1,597)	49,184	–	47,587
Less: Return to investment account holders before Bank's share as Mudarib	–	(23,544)	–	(23,544)
Bank's share as a Mudarib	–	8,457	–	8,457
Return to investment account holders	–	(15,087)	–	(15,087)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	–	(11,703)	–	(11,703)
Finance expense on medium-term borrowing	–	(1,241)	–	(1,241)
Total segment income	(1,597)	21,153	–	19,556
Staff cost	816	3,263	4,079	8,158
Other expenses	101	1,262	4,673	6,036
Total segment expenses	917	4,525	8,752	14,194
Segment results before impairment allowances	(2,514)	16,628	(8,752)	5,362
Net impairment allowances	(2,968)	(17,421)	–	(20,389)
Segment results	(5,482)	(793)	(8,752)	(15,027)

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

31. SEGMENT REPORTING (CONTINUED)

31 st December 2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	99,400	–	99,401
Placements with financial institutions	1,175	42,462	–	43,637
Financing assets	–	327,640	–	327,640
Investment in sukuk	–	161,324	–	161,324
Assets acquired for leasing (including lease rentals receivables)	–	120,203	–	120,203
Investment in equity securities	50,039	–	–	50,039
Investment in real estate	18,081	–	–	18,081
Development property	6,251	–	–	6,251
Other assets	11,320	3,958	1,220	16,498
Property and equipment	–	–	7,865	7,865
Total segment assets	86,867	754,987	9,085	850,939
Placements from financial institutions	–	158,349	–	158,349
Placements from non-financial institutions and individuals	–	120,470	–	120,470
Medium-term borrowing	–	41,357	–	41,357
Customers' current accounts	1,175	69,241	–	70,416
Other liabilities	2,171	6,220	2,121	10,512
Total segment liabilities	3,346	395,637	2,121	401,104
Equity of investment account holders	–	346,373	–	346,373
Restricted investment accounts	10,681	–	–	10,681

Notes to the Consolidated Financial Statements

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31. SEGMENT REPORTING (CONTINUED)

2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	–	26,565	–	26,565
Income from placements with financial institutions	25	930	–	955
Income from sukuk	–	6,377	–	6,377
Income from equity securities	1,422	–	–	1,422
Fees and other income	(35)	2,877	–	2,842
Total income before return to investment account holders	1,412	36,749	–	38,161
Less: Return to investment account holders before Bank's share as Mudarib	–	(14,221)	–	(14,221)
Bank's share as a Mudarib	–	5,619	–	5,619
Return to investment account holders	–	(8,602)	–	(8,602)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	–	(8,190)	–	(8,190)
Finance expense on medium-term borrowing	–	(2,054)	–	(2,054)
Total segment income	1,412	17,903	–	19,315
Staff cost	718	2,870	3,587	7,175
Other expenses	92	951	4,209	5,252
Total segment expenses	810	3,821	7,796	12,427
Segment results before impairment allowances	602	14,082	(7,796)	6,888
Net impairment allowances	(2,205)	(4,083)	–	(6,288)
Segment results	(1,603)	9,999	(7,796)	600

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32. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/settlement profile of the respective assets and liabilities.

31 st December 2019	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	90,605	4,727	5,485	3,559	–	104,376
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	75,634	24,168	38,425	121,509	64,619	324,355
Investment in sukuk	195,050	–	–	–	–	195,050
Assets acquired for leasing (including lease rentals receivables)	6,106	11,191	8,358	38,729	81,815	146,199
Investment in equity securities	–	–	7,056	15,549	21,384	43,989
Investment in real estate	–	–	–	–	17,781	17,781
Development property	–	–	–	–	6,251	6,251
Other assets	844	1,061	1,993	22,975	1,620	28,493
Property and equipment	–	–	–	–	7,750	7,750
Total assets	433,747	41,147	61,317	202,321	201,220	939,752
Liabilities						
Placements from financial institutions	3,774	–	15,637	108,042	–	127,453
Placements from non-financial institutions and individuals	37,914	39,623	41,594	12,232	3,291	134,654
Medium-term borrowing	–	–	–	–	–	–
Customers' current accounts	17,864	5,655	6,141	7,018	21,427	58,105
Other liabilities	6,731	2,164	3,305	7,598	–	19,798
Total liabilities	66,283	47,442	66,677	134,890	24,718	340,010
Equity of investment account holders	120,398	86,311	126,115	86,274	92,737	511,835
Restricted investment accounts	–	–	–	10,681	–	10,681
Commitments and financial guarantees	32,422	7,579	5,203	35,406	102	80,712

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32. MATURITY PROFILE (CONTINUED)

31 st December 2018	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	87,253	3,591	6,065	2,492	–	99,401
Placements with financial institutions	42,590	–	1,047	–	–	43,637
Financing assets	73,057	26,731	69,848	119,405	38,599	327,640
Investment in sukuk	112,436	–	48,888	–	–	161,324
Assets acquired for leasing (including lease rentals receivables)	4,805	3,549	7,069	34,572	70,208	120,203
Investment in equity securities	–	–	–	25,273	24,766	50,039
Investment in real estate	–	–	–	–	18,081	18,081
Development property	–	–	–	–	6,251	6,251
Other assets	1,939	–	9	12,028	2,522	16,498
Property and equipment	–	–	–	–	7,865	7,865
Total assets	322,080	33,871	132,926	193,770	168,292	850,939
Liabilities						
Placements from financial institutions	31,312	17,664	109,373	–	–	158,349
Placements from non-financial institutions and individuals	35,172	38,057	34,314	10,108	2,819	120,470
Medium-term borrowing	–	–	41,357	–	–	41,357
Customers' current accounts	21,649	6,853	7,442	8,505	25,967	70,416
Other liabilities	3,233	1,304	1,131	4,844	–	10,512
Total liabilities	91,366	63,878	193,617	23,457	28,786	401,104
Equity of investment account holders	69,089	43,815	98,703	55,512	79,254	346,373
Restricted investment accounts	–	–	–	10,681	–	10,681
Commitments and financial guarantees	20,284	3,986	16,204	5,577	6	46,057

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 st December 2019	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	104,376	–	–	104,376
Placements with financial institutions	65,508	–	–	65,508
Financing assets	7,857	72,043	244,455	324,355
Investment in sukuk	11,737	7,539	175,774	195,050
Assets acquired for leasing (including lease rentals receivables)	–	133,657	12,542	146,199
Investment in equity securities	11,174	29,147	3,668	43,989
Investment in real estate	–	17,781	–	17,781
Development property	–	6,251	–	6,251
Other assets	954	19,395	8,144	28,493
Property and equipment	–	6,739	1,011	7,750
Total assets	201,606	292,552	445,594	939,752
Liabilities				
Placements from financial institutions	127,453	–	–	127,453
Placements from non-financial institutions and individuals	–	–	134,654	134,654
Medium-term borrowing	–	–	–	–
Customers' current accounts	4,661	7,422	46,022	58,105
Other liabilities	17	588	19,193	19,798
Total liabilities	132,131	8,010	199,869	340,010
Equity of investment account holders	8,437	119,463	383,935	511,835
Restricted investment accounts	–	9,688	993	10,681
Commitments and financial guarantees	–	51,779	28,933	80,712

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(a) Industry sector (Continued)

31 st December 2018	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	99,401	–	–	99,401
Placements with financial institutions	43,637	–	–	43,637
Financing assets	10,358	51,630	265,652	327,640
Investment in sukuk	11,795	7,540	141,989	161,324
Assets acquired for leasing (including lease rentals receivables)	–	118,615	1,588	120,203
Investment in equity securities	13,148	33,223	3,668	50,039
Investment in real estate	–	18,081	–	18,081
Development property	–	6,251	–	6,251
Other assets	1,040	6,822	8,636	16,498
Property and equipment	–	6,739	1,126	7,865
Total assets	179,379	248,901	422,659	850,939
Liabilities				
Placements from financial institutions	158,349	–	–	158,349
Placements from non-financial institutions and individuals	101	–	120,369	120,470
Medium-term borrowing	41,357	–	–	41,357
Customers' current accounts	4,920	7,832	57,664	70,416
Other liabilities	–	27	10,485	10,512
Total liabilities	204,727	7,859	188,518	401,104
Equity of investment account holders	14,543	12,894	318,936	346,373
Restricted investment accounts	–	9,688	993	10,681
Commitments and financial guarantees	513	12,913	32,631	46,057

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(b) Geographic sector

31 st December 2019	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	91,971	1,593	10,786	26	–	104,376
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	320,083	4,258	–	14	–	324,355
Investment in sukuk	195,050	–	–	–	–	195,050
Assets acquired for leasing (including lease rentals receivables)	146,160	–	–	39	–	146,199
Investment in equity securities	25,938	–	–	14,383	3,668	43,989
Investment in real estate	17,781	–	–	–	–	17,781
Development property	6,251	–	–	–	–	6,251
Other assets	27,727	15	–	750	1	28,493
Property and equipment	7,750	–	–	–	–	7,750
Total assets	904,219	5,866	10,786	15,212	3,669	939,752
Liabilities						
Placements from financial institutions	127,453	–	–	–	–	127,453
Placements from non-financial institutions and individuals	134,654	–	–	–	–	134,654
Medium-term borrowing	–	–	–	–	–	–
Customers' current accounts	57,230	257	–	618	–	58,105
Other liabilities	19,798	–	–	–	–	19,798
Total liabilities	339,135	257	–	618	–	340,010
Equity of investment account holders	509,300	694	–	1,841	–	511,835
Restricted investment accounts	9,688	–	–	–	993	10,681
Commitments and financial guarantee	80,712	–	–	–	–	80,712

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

(b) Geographic sector (Continued)

31 st December 2018	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	73,827	7,230	18,306	38	–	99,401
Placements with financial institutions	43,637	–	–	–	–	43,637
Financing assets	313,642	13,960	–	38	–	327,640
Investment in sukuk	161,324	–	–	–	–	161,324
Assets acquired for leasing (including lease rentals receivables)	120,162	–	–	41	–	120,203
Investment in equity securities	29,320	–	–	17,051	3,668	50,039
Investment in real estate	18,081	–	–	–	–	18,081
Development property	6,251	–	–	–	–	6,251
Other assets	15,794	15	–	689	–	16,498
Property and equipment	7,865	–	–	–	–	7,865
Total assets	789,903	21,205	18,306	17,857	3,668	850,939
Liabilities						
Placements from financial institutions	158,349	–	–	–	–	158,349
Placements from non-financial institutions and individuals	120,470	–	–	–	–	120,470
Medium-term borrowing	41,357	–	–	–	–	41,357
Customers' current accounts	69,916	274	–	226	–	70,416
Other liabilities	10,512	–	–	–	–	10,512
Total liabilities	400,604	274	–	226	–	401,104
Equity of investment account holders	343,589	545	–	2,231	8	346,373
Restricted investment accounts	9,688	–	–	993	–	10,681
Commitments and financial guarantee	45,801	256	–	–	–	46,057

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34. FAIR VALUE

a) Fair value of financial instruments

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

The fair value of quoted Sukuk carried at amortised cost of BD 195,061 thousand (31st December 2018: BD 161,327 thousand) is BD 204,198 thousand as at 31st December 2018 (31st December 2018: BD 161,644 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments carried at cost of BD 32,815 thousand (2018: BD 36,891 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 st December 2019	Level 1	Level 2	Level 3	Total
Unquoted equity-type securities carried at fair value through income statement	-	-	11,174	11,174
	-	-	11,174	11,174
31 st December 2018	Level 1	Level 2	Level 3	Total
Unquoted equity-type securities carried at fair value through income statement	-	-	13,148	13,148
	-	-	13,148	13,148

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2019	2018
At 1 st January	13,148	13,148
Fair value loss in income statement	(1,974)	-
At 31st December	11,174	13,148

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35. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Management Committee (operational risks), Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure and control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's exposures to placements with financial institutions, financing assets, assets acquired for leasing (including lease rental receivable), investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: in consultation with business units, credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross boarder business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. All credit applications are independently reviewed by Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Shari'a Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are five main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.
- Managing concentrations. The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, The Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.
- Credit Measurement Methodologies. The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress-testing on its portfolio.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

- Credit risk rating. An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasise focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- Classifications and identification of non-performing exposures. The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due exceeding 90 days are classified as non-performing.
- Remedial management. All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimise the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including: dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk

31 st December 2019	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8-10 Impaired	–	–	71,289	71,289
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,624	6,790	56	40,470
Grade 7 Watch list	9	6,867	6	6,882
Past due comprises:				
Up to 30 days	30,049	4,047	18	34,114
30-60 days	18	1,858	41	1,917
60-90 days	3,566	7,752	3	11,321
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	229,041	12,117	734	241,892
Grade 7 Watch list	87	1,780	1	1,868
Gross carrying amount	262,761	27,554	72,086	362,401
Less expected credit losses	(4,581)	(2,730)	(30,735)	(38,046)
Net carrying amount	258,180	24,824	41,351	324,355
Assets acquired for leasing (including lease rentals receivables)				
Grade 8-10 Impaired	–	–	35,137	35,137
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,648	7,501	769	20,918
Grade 7 Watch list	–	3,272	–	3,272
Past due comprises:				
Up to 30 days	11,220	7,462	105	18,787
30-60 days	1,428	2,609	664	4,701
60-90 days	–	702	–	702
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	86,315	2,249	108	88,672
Grade 7 Watch list	–	1,421	–	1,421
Gross carrying amount	98,963	14,443	36,014	149,420
Less expected credit losses	(140)	(376)	(2,705)	(3,221)
Net carrying amount	98,823	14,067	33,309	146,199

* Includes facilities under cooling off period of BD 46,900 thousand.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2019	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8-10 Impaired	–	–	1,317	1,317
Grade 1-6 Low-Fair Risk	195,061	–	–	195,061
Gross carrying amount	195,061	–	1,317	196,378
Less: expected credit losses	(11)	–	(1,317)	(1,328)
Net carrying amount	195,050	–	–	195,050
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	164,587	–	–	164,587
Gross carrying amount	164,587	–	–	164,587
Less: expected credit losses	(2)	–	–	(2)
Net carrying amount	164,585	–	–	164,585
Commitments and financial guarantees				
Grade 8-10 Impaired	–	–	1,415	1,415
Grade 1-6 Low-Fair Risk	77,309	1,950	13	79,272
Grade 7 Watch list	–	25	–	25
Gross carrying amount	77,309	1,975	1,428	80,712
Less: expected credit losses	(175)	(17)	(76)	(268)
Net carrying amount	77,134	1,958	1,352	80,444
Total net carrying amount	793,772	40,849	76,012	910,633

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2018	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8-10 Impaired	1,071	70	71,628	72,769
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,158	10,732	3,349	42,239
Grade 7 Watch list	14	15,403	–	15,417
Past due comprises:				
Up to 30 days	27,287	15,866	–	43,153
30-60 days	885	1,743	–	2,628
60-90 days	–	8,526	3,349	11,875
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	196,925	18,829	–	215,754
Grade 7 Watch list	139	3,345	–	3,484
Gross carrying amount	226,307	48,379	74,977	349,663
Less expected credit losses	(4,762)	(3,695)	(13,566)	(22,023)
Net carrying amount	221,545	44,684	61,411	327,640
Assets acquired for leasing (including lease rentals receivables)				
Grade 8-10 Impaired	–	316	18,613	18,929
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,990	2,388	–	15,378
Grade 7 Watch list	–	3,846	–	3,846
Past due comprises:				
Up to 30 days	12,212	1,926	–	14,138
30-60 days	778	3,227	–	4,005
60-90 days	–	1,080	–	1,080
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	82,417	2,041	–	84,458
Grade 7 Watch list	–	48	–	48
Gross carrying amount	95,407	8,639	18,613	122,659
Less expected credit losses	(106)	(139)	(2,211)	(2,456)
Net carrying amount	95,301	8,500	16,402	120,203

* Includes facilities under cooling off period of BD 31,133 thousand.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Exposures subject to credit risk (Continued)

31 st December 2018	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8-10 Impaired	–	–	1,317	1,317
Grade 1-6 Low-Fair Risk	161,327	–	–	161,327
Gross carrying amount	161,327	–	1,317	162,644
Less: expected credit losses	(3)	–	(1,317)	(1,320)
Net carrying amount	161,324	–	–	161,324
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	134,960	–	–	134,960
Gross carrying amount	134,960	–	–	134,960
Less: expected credit losses	(52)	–	–	(52)
Net carrying amount	134,908	–	–	134,908
Commitments and financial guarantees				
Grade 8-10 Impaired	–	–	1,670	1,670
Grade 1-6 Low-Fair Risk	41,733	2,639	–	44,372
Grade 7 Watch list	–	15	–	15
Gross carrying amount	41,733	2,654	1,670	46,057
Less: expected credit losses	(176)	(84)	(120)	(380)
Net carrying amount	41,557	2,570	1,550	45,677
Total net carrying amount	654,635	55,754	79,363	789,752

Significant increase in credit risk

When determining whether the risk of default on a financial instrument and assets acquired for leasing 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 and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Credit risk grades (Continued)

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files -e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. the analysis may extend to relevant commodity and/or real estate prices.

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

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

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

Qualitative indicators, including different criteria used for different portfolios credit cards and commercial real estate.

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee ("ALCO") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Incorporation of forward-looking information (Continued)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31st December 2019 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Modified financial assets and assets acquired for leasing

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

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

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

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Measurement of ECLs (Continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance at 1 st January 2019	5,099	3,918	17,214	26,231
Transfer to 12-month ECL	1,338	(1,118)	(220)	-
Transfer to lifetime ECL non-credit-impaired	(500)	604	(104)	-
Transfer to lifetime ECL credit-impaired	(863)	(856)	1,719	-
Net transfers	(25)	(1,370)	1,395	-
Net re-measurement of loss allowance	(165)	575	16,304	16,714
Recoveries / write backs	-	-	(80)	(80)
Write-offs	-	-	-	-
Balance at 31st December 2019	4,909	3,123	34,833	42,865

Breakdown of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Cash and balances with banks (note 6)	1	-	-	1
Placements with financial institutions (note 7)	1	-	-	1
Financing assets (note 8)	4,581	2,730	30,735	38,046
Assets acquired for leasing – Including lease rentals receivables (note 10)	140	376	2,705	3,221
Investment in sukuk (note 9)	11	-	1,317	1,328
Commitments and financial guarantees	175	17	76	268
	4,909	3,123	34,833	42,865

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance at 1 st January 2018	2,860	10,537	10,317	23,714
Transfer to 12-month ECL	3,188	(3,086)	(102)	–
Transfer to lifetime ECL non-credit-impaired	(316)	398	(82)	–
Transfer to lifetime ECL credit-impaired	(229)	(2,463)	2,692	–
Net transfers	2,643	(5,151)	2,508	–
Net re-measurement of loss allowance	(404)	(1,468)	7,668	5,796
Recoveries / write backs	–	–	(1,713)	(1,713)
Write-offs	–	–	(1,566)	(1,566)
Balance at 31 st December 2018	5,099	3,918	17,214	26,231

Breakdown of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Cash and balances with banks	50	–	–	50
Placements with financial institutions	2	–	–	2
Financing assets	4,762	3,695	13,566	22,023
Assets acquired for leasing (including lease rentals receivables)	106	139	2,211	2,456
Investment in sukuk	3	–	1,317	1,320
Commitments and financial guarantees	176	84	120	380
	5,099	3,918	17,214	26,231

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

Past due but not impaired exposures

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Renegotiated facilities

During the year, facilities of BD 37,917 thousands (2018: BD 16,896 thousand) were renegotiated, out of which BD 1,096 thousand (2018: BD 8,806 thousand) are classified as neither past due nor impaired as of 31st December 2019. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 166,033 thousand (2018: BD 142,895 thousand) only instalments of BD 36,625 thousand (2018: BD 39,269 thousand) are past due as at 31st December 2019.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8, 9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognised in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written 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. During the year, the Group has written off financing facilities amounting to Nil (2018: BD 1,566 thousand) which were fully impaired. The Group has recovered BD 964 thousand from a financing facility written off in previous years (2018: 99 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued) Collaterals (Continued)

	As at 31 st December 2019			As at 31 st December 2018		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	20,181	32,464	52,645	40,471	16,587	57,058
Other	1,888	–	1,888	2,193	–	2,193
Against past due but not impaired						
Property	35,420	23,949	59,369	21,397	19,232	40,629
Other	1,157	–	1,157	2,929	–	2,929
Against neither past due nor impaired						
Property	96,730	89,681	186,411	87,637	82,680	170,317
Other	9,280	–	9,280	12,416	–	12,416
Total	164,656	146,094	310,750	167,043	118,499	285,542

The average collateral coverage ratio on secured facilities is 130.5% at 31st December 2019 (31st December 2018: 136.05%).

For analysis of concentration of total assets and liabilities refer note 33.

Further, for financing assets and assets acquired for leasing including lease rentals receivable, the Group monitors concentrations of credit risk by sector and by geographic location.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

Collaterals (Continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 st December 2019			As at 31 st December 2018		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	7,857	–	7,857	10,358	–	10,358
Real estate	72,043	133,657	205,700	51,630	118,615	170,245
Construction	51,038	–	51,038	54,803	–	54,803
Trading	57,224	–	57,224	78,009	–	78,009
Manufacturing	13,955	–	13,955	13,880	–	13,880
Others	122,238	12,542	134,780	118,960	1,588	120,548
Total carrying amount	324,355	146,199	470,554	327,640	120,203	447,843

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress-testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (Continued)

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against medium-term borrowing less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2019	2018
	%	%
At 31 st December	33.70	16.79
Average for the period	29.11	13.09
Maximum for the period	33.70	19.55
Minimum for the period	22.32	6.60

For maturity profile of assets and liabilities refer note 32.

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

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

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30th June 2019, the Bank is required to maintain LCR greater than 100%. As of 31st December 2019 the Bank had LCR ratio of 733.93%.

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

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31st December 2019, the Bank is required to maintain NSFR ratio greater than 100%. As of 31st December 2019 the Bank had NSFR ratio of 108.5%.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. The Group has no trading positions in equity or commodities and the main source of market risk for the Group is its foreign exchange exposure and profit rate gap.

The Group does not do any trading in foreign exchange. The Group does not engage in proprietary trading of foreign exchange derivatives. All foreign exchange income/losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury operations. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approval authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

Exposure to profit rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

A summary of the Group's profit rate gap position at 31st December 2019 is as follows:

31 st December 2019	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	65,508	–	–	–	–	65,508
Financing assets	62,733	15,395	25,046	58,075	163,106	324,355
Assets acquired for leasing (including lease rentals receivables)	1	6,597	133	2,030	137,438	146,199
Investments securities (sukuk)	1,951	–	–	18,096	175,003	195,050
Total profit rate sensitive assets	130,193	21,992	25,179	78,201	475,547	731,112
Liabilities and investment accounts						
Placements from financial institutions	3,774	–	15,637	108,042	–	127,453
Medium-term borrowing	–	–	–	–	–	–
Placements from non-financial institutions and individuals	29,382	21,056	38,307	45,909	–	134,654
Customers' current accounts	1,193	–	–	–	–	1,193
Equity of investments account holders	262,961	104,746	99,735	44,393	–	511,835
Total profit rate sensitive liabilities and investment accounts	297,310	125,802	153,679	198,344	–	775,135
Profit rate gap	(167,117)	(103,810)	(128,500)	(120,143)	475,547	(44,023)

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

31 st December 2018	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	42,590	–	1,047	–	–	43,637
Financing assets	40,881	9,345	36,588	66,003	174,823	327,640
Assets acquired for leasing (including lease rentals receivables)	15	7	230	7,528	112,423	120,203
Investments securities (sukuk)	–	–	–	16,227	145,097	161,324
Total profit rate sensitive assets	83,486	9,352	37,865	89,758	432,343	652,804
Liabilities and investment accounts						
Placements from financial institutions	31,312	17,664	109,373	–	–	158,349
Medium-term borrowing	–	–	41,357	–	–	41,357
Placements from non-financial institutions and individuals	37,180	21,163	27,722	34,405	–	120,470
Customers' current accounts	1,199	–	–	–	–	1,199
Equity of investments account holders	154,133	73,102	98,830	20,308	–	346,373
Total profit rate sensitive liabilities and investment accounts	223,824	111,929	277,282	54,713	–	667,748
Profit rate gap	(140,338)	(102,577)	(239,417)	35,045	432,343	(14,944)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	100bp parallel increase/ decrease	50bp increase/ decrease
At 31st December 2019	± 433	± 216
At 31 st December 2018	± 149	± 67

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short-term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

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

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

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31st December.

	2019 BHD Equivalent	2018 BHD Equivalent
US Dollars*	145,868	28,905
Other GCC Currencies *	(63,732)	20,226
Euros	(280)	(402)
Australian Dollars	4,608	4,627
Kuwaiti Dinars	3,322	3,379
Sterling Pounds	1,443	(579)
Indian Rupee	30	38

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2019 BHD Equivalent	2018 BHD Equivalent
Euros	±14	±20
Australian Dollars	±230	±231
Kuwaiti Dinars	±166	±169
Sterling Pounds	±72	±29
Indian Rupees	±2	±2

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

Exposure to other price risks – non-trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 25 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee

Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRIs. A software for monitoring these triggers and recording actual and near-miss losses is already in place. The medium-term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

Capital Management

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital: includes CET1 and AT1.
CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

AT1 comprise instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.
- Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Management (Continued)

The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross-holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31st December 2019, the Group has made regulatory adjustments of BD 14,356 thousand (2018: 13,725 thousand) in line with the CBB requirements.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's regulatory capital position at 31st December was as follows:

	31 st December 2019	31 st December 2018
Total risk weighted exposure	532,793	653,067
Tier 1 capital:		
CET 1 capital prior to regulatory adjustments	97,215	112,401
Less: regulatory adjustments	(14,356)	(13,725)
CET 1 after regulatory adjustments	82,859	98,676
AT 1	-	-
Tier 2 capital:	5,726	7,286
Total regulatory capital	88,585	105,962
Total regulatory capital expressed as a percentage of total risk weighted assets	16.63%	16.23%
Liquidity coverage ratio	733.93%	395.03%
Net stable funding ratio	108.5%	88.31%
Leverage ratio	5.40	4.77

The Group has complied with all externally imposed capital requirements throughout the year.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

Notes to the Consolidated Financial Statements

for the year ended 31st December 2019 / BD 000's

36. COMMITMENTS

The commitments contracted in the normal course of business of the Group:

	2019	2018
Undrawn commitments to extend finance *	68,876	33,193
Financial guarantees	11,836	12,864
	80,712	46,057

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31st December 2019 due to the performance of any of its projects.

37. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations from its zakah and charity fund.

38. COMPARITIVES

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.

Risk Management Disclosures

These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, and Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31st December 2019 and should be read in conjunction with the consolidated financial statements for the year ended 31st December 2019 and other sections of the annual report.

Risk Management Disclosures

Executive Summary

The Central Bank of Bahrain's ("CBB") Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. Banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1- 1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%]. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, of the CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3: Disclosures in Annual Reports. Section PD-1.3 reflects the requirements of Basel II - Pillar III and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their website along with the yearly financial statements.

The disclosures in this report are in addition to or, in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31st December 2019, presented in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

All figures presented in this section are reported in Bahraini Dinars (in thousands) and are as of 31st December 2019 unless otherwise stated.

Khaleeji Commercial Bank BSC ("the Bank" or "KHCB") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements, details of which are given in section 2. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's common equity tier I (CET1), Additional tier I (AT1) and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III framework.

The Banks total risk-weighted assets as at 31st December 2019 amounted to BD 532,793 thousand. Credit risk accounted for 86.0%, market risk 1.7% and operational risk 12.3% of the total risk-weighted assets. Common equity tier I and total regulatory capital were BD 82,859 thousand and BD 88,585 thousand respectively as at 31st December 2019.

At 31st December 2019, Bank's CET1, AT1 and total adequacy ratios were 15.55%, 15.55% and 16.63% respectively.

Risk Management Disclosures

1. GROUP STRUCTURE

The Bank operates under a retail banking license granted by the CBB on 20th October 2003. The Bank has four subsidiaries. These are not significant to the Bank. The subsidiaries set-up is primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk-weighted as investments for capital adequacy computation purposes.

2. INTRODUCTION TO BASEL III & RISK MANAGEMENT

The CBB has mandated that the Basel Committee on Banking Supervision's ("Basel Committee"). Basel III capital adequacy framework is applicable to all banks incorporated in the Kingdom of Bahrain from 1st January 2015. The Bank has accordingly taken steps to comply with these requirements. The Basel III framework is intended to strengthen risk management practices and processes within the financial institutions.

CBB's capital adequacy framework is based on three pillars, consistent with the Basel III framework adopted by the Basel Committee, as follows:

- Pillar I: calculation of the risk-weighted assets ("RWA" or "RWA's") and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar III: rules for disclosure of risk management and capital adequacy information.

Pillar I

Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by total RWAs. CBB has mandated that the ratio be maintained at a minimum of 12.5% and has set a trigger ratio of 12.5%. If the capital adequacy ratio falls below 12.5%, additional prudential reporting requirements apply, and a formal action plan to restore the ratio above the trigger level is to be formulated and submitted to the CBB.

The table below summarises the Pillar I risks and the approach used by the Bank to calculate the RWAs in each case in accordance with the CBB's Basel III capital adequacy framework:

Risk Type	Approach used by the Bank
Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately its capital adequacy.

Pillar II comprises two processes:

- An Internal Capital Adequacy Assessment Process ("ICAAP"), and
- A supervisory review and evaluation process.

The Bank has in place ICAAP procedures for computation of economic capital for all risks including those not covered under Pillar I. The Bank regularly monitors its internal capital adequacy ratio to ensure that there is adequate cover for all risks faced by the Bank.

Risk Management Disclosures

2. INTRODUCTION TO BASEL III & RISK MANAGEMENT (CONTINUED)

Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management, etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

In April 2008, CBB published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II framework. This document is prepared in accordance with these directives.

2.1 The risk management function

The Board of Directors has overall responsibility for risk management in the Bank. The Board lays down the risk management policies of the Bank and quantifies its risk appetite through appropriate definitions of various risk limits and tolerances. The Board discharges its risk management responsibilities through the Board Audit & Risk Management Committee ("BARMC").

Executive Credit & Investment Committee Senior Management is responsible for operating the Bank in an effective, ethical and legal manner designed to produce value for the Bank's shareholders consistent with the Bank's policies and standards, including this policy. Senior Management is also responsible for enforcing and complying with mandatory provisions of the Bank's policies and standards. Senior Management is responsible for understanding the Bank's income-producing activities and the material risks being incurred by the Bank and is responsible for avoiding conflicts of interest with the Bank and its shareholders. The Bank has established an Executive Credit and Investment Committee ("ECICOM") to assist the Chief Executive and the Executive Management in discharging their credit-risk responsibilities. The ECICOM's principal objectives are to review and approve transactions within their discretionary powers. It is also responsible for assessing and mitigating the credit risk of the Bank as well as directing the Bank's credit strategy.

The day-to-day risk management functions are performed by the Risk Management Department ("RMD") of the Bank. RMD is responsible to ensure that the policies laid down by the Board are consistently implemented across the Bank and to review the adequacy of these policies periodically. It monitors all risk-taking activities and ensures that the risk limits defined by the Board are complied with. The department has specialised personnel dealing with Credit, Market, and Operational Risks. It is independent of all risk-taking functions in the Bank and reports to the BARMC through the ECICOM chaired by the CEO.

The Asset Liability Management Committee ("ALCO") of the Bank acting through the Treasury Department monitors the Bank's liquidity position and recommends appropriate action to the Board where necessary. There is a high level of coordination between the RMD, ECICOM and ALCO. The ALCO of the Bank assist the Management with its risk oversight with its primary responsibility being the Market & Liquidity risks of the Bank.

The RMD prepares a risk overview report on a semi-annual basis which covers in detail the various risks faced by the Bank and the same is discussed at the ECICOM, BARMC and the Board on a semi-annual basis. While a summarised overview covering the more urgent risk concerns is discussed on a quarterly basis with the Board and BARMC.

The Bank considers that its overall risk management strategies have been effective throughout the reporting period.

All policies having significant impact on the overall internal control framework existing in the Bank are subject to periodic review and approval by the Board of Directors.

The RMD, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO

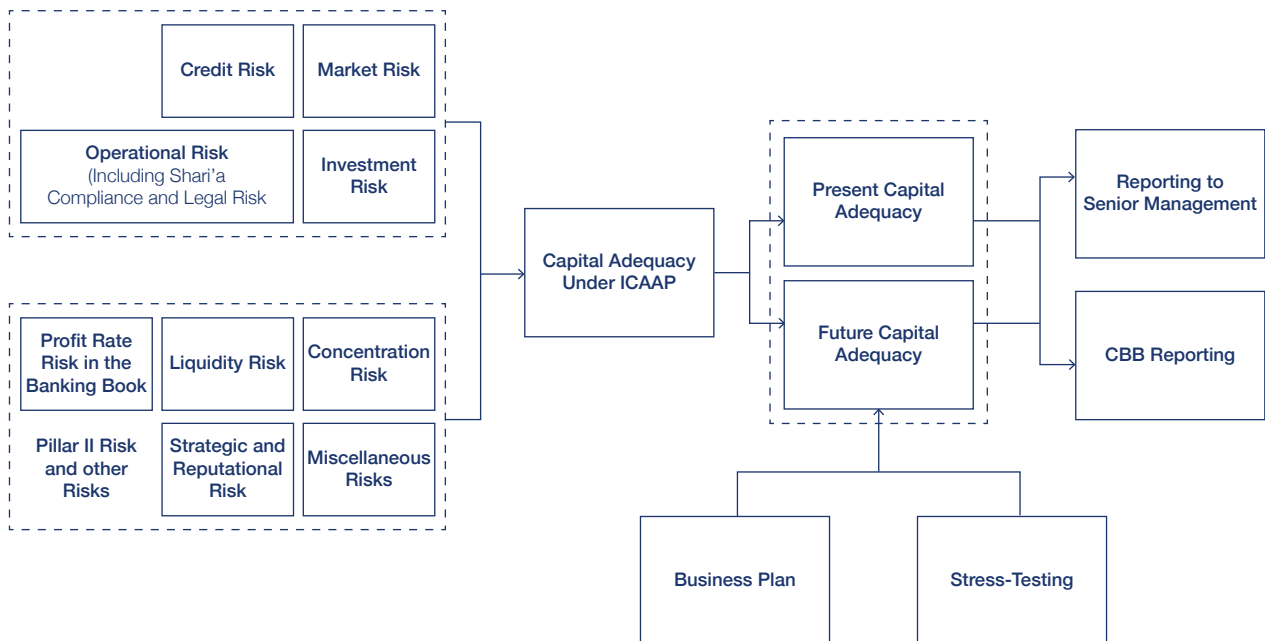
3.1 Capital management

The Bank’s policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognises the impact of a high level of capital on shareholders’ returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

3.2 Internal Capital Adequacy Assessment Process (“ICAAP”)

The Bank has an established ICAAP as per the requirements under Pillar II of Basel II. ICAAP prescribes procedures and measures designed to ensure appropriate identification, measurement, aggregation and monitoring of the Bank’s risks. It also defines an appropriate level of internal capital in relation to the Bank’s overall risk profile and business plan.

ICAAP framework at the Bank



3.2.1 Risk addressed by the ICAAP

Risk Type	Metrics based on which internal capital is allocated
Credit risk Market risk Investment risk Operational risk	Regulatory capital adequacy guidelines to be used as proxy for internal capital for Pillar I risks
Liquidity risk	Maximum cumulative maturity gap, Liquidity ratio, Financing-to-deposit ratio
Profit rate risk (banking book)	Revaluation / sensitivity of the re-pricing gaps
Credit concentration risk	Thresholds for counterparty, country, sector exposures
Fiduciary Risk	Size of off-balance sheet special purpose vehicles (RIA's) & Large Investment Products
Reputational risk	Credit quality, Operational risk, Reputation related loss
Other Risks (strategic, Shari'a/ regulatory compliance, business cycle)	Additional capital based on Pillar I risk weighted exposures

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.3 Statement of Financial position under the regulatory scope of consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of Financial position as in published financial statements	Statement of Financial position as per regulatory reporting	Reference
Assets			
Cash and bank balances	104,376	104,377	
Of which ECL (stage 1&2)	(1)	-	a
Placements with financial institutions	65,508	65,509	
Of which ECL (stage 1&2)	(1)	-	b
Financing assets	324,355	333,309	
Of which ECL (stage 1&2)	(7,311)	-	c
Of which financing to subsidiary (commercial entity)	(1,643)	-	
Investment in sukuk	195,050	195,061	
Of which ECL (stage 1&2)	(11)	-	d
Assets acquired for leasing	129,097	129,097	
Lease rental receivables	17,102	17,618	
Of which ECL (stage 1&2)	(516)	-	e
Investment in equity securities	43,989	43,989	
Of which related to insignificant investments in financial entities	11,174	11,174	f
Of which capital adjustments related to investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% cet1a)	2,626	2,626	
Of which related to other investments	32,815	32,815	
Investment in real estate	17,781	17,781	
Development property	6,251	248	
Of which development property of subsidiary (commercial entity)	6,003	-	
Other assets	28,493	28,592	
Of which receivable from subsidiary (commercial entity)	(99)	-	
Property and equipment	7,750	7,750	
Total assets	939,752	943,331	
Liabilities			
Placements from financial institutions	127,453	127,453	
Placements from non-financial institutions and individuals	134,654	134,654	
Customers' current accounts	58,105	58,114	
Of which account of subsidiary (commercial entity)	(9)	-	
Other liabilities	19,798	17,758	
Of which ECL (stage 1&2)	192	-	h
Of which payables of subsidiary (commercial entity)	1,847	-	
Total liabilities	340,010	337,979	
Equity of investment account holders	511,835	511,835	
Owners' equity			
Share capital	105,000	105,000	i
Statutory reserve	8,225	8,225	j
Treasury shares	(11,730)	(11,730)	k
Employee share incentive scheme	-	-	l
Retained earnings	(15,788)	(16,010)	m
Of which retained earnings of subsidiary (commercial entity)	(222)	-	
Total equity attributable to shareholders of the parent	85,707	85,485	
ECL (stage 1&2)	-	8,032	a+b+c+d+e-h
Non-controlling interest	2,200	-	
Total liabilities, equity of investment account holders and owners' equity	939,752	943,331	

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.4 Composition of Capital as at 31st December 2019

Composition of Capital as at 31 st December 2019	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation	
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	113,225	i+j+l
Retained earnings	(16,010)	m
Accumulated other comprehensive income (and other reserves)	–	
Not applicable		
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	
Common Equity Tier 1 capital before regulatory adjustments	97,215	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	–	
Goodwill (net of related tax liability)	–	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	–	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	
Cash-flow hedge reserve	–	
Shortfall of provisions to expected losses	–	
Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
Not applicable		
Defined-benefit pension fund net assets	–	
Investments in own shares	(11,730)	k
Reciprocal cross-holdings in common equity	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	11,174	f
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	(2,626)	g
Mortgage servicing rights (amount above 10% threshold)	–	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	
Amount exceeding the 15% threshold	–	
of which: significant investments in the common stock of financials	–	
of which: mortgage servicing rights	–	
of which: deferred tax assets arising from temporary differences	–	
CBB specific regulatory adjustments	–	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	
Total regulatory adjustments to Common equity Tier 1	(14,356)	
Common Equity Tier 1 capital (CET1)	82,860	

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.4 Composition of Capital as at 31st December 2019 (Continued)

	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Composition of Capital as at 31st December 2019	
Additional Tier 1 capital: instruments	
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	–
of which: classified as equity under applicable accounting standards	–
of which: classified as liabilities under applicable accounting standards	–
Directly issued capital instruments subject to phase out from Additional Tier 1	–
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	–
of which: instruments issued by subsidiaries subject to phase out	–
Additional Tier 1 capital before regulatory adjustments	–
Additional Tier 1 capital: regulatory adjustments	
Investments in own Additional Tier 1 instruments	–
Reciprocal cross-holdings in Additional Tier 1 instruments	–
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–
CBB-specific regulatory adjustments	–
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–
Total regulatory adjustments to Additional Tier 1 capital	–
Additional Tier 1 capital (AT1)	–
Tier 1 capital (T1 = CET1 + AT1)	82,860
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	–
Directly issued capital instruments subject to phase out from Tier 2	–
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–
of which: instruments issued by subsidiaries subject to phase out	–
Provisions	5,726
Tier 2 capital before regulatory adjustments	5,726
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	–
Reciprocal cross-holdings in Tier 2 instruments	–
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.4 Composition of Capital as at 31st December 2019

		Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Composition of Capital as at 31st December 2019		
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
National specific regulatory adjustments	–	
Total regulatory adjustments to Tier 2 capital	–	
Tier 2 capital (T2)	5,726	
Total capital (TC = T1 + T2)	88,585	
Total risk weighted assets	532,793	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.55%	
Tier 1 (as a percentage of risk-weighted assets)	15.55%	
Total capital (as a percentage of risk-weighted assets)	16.63%	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	9%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	N/A	
of which: D-SIB buffer requirement	N/A	
Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	5.55%	
National minima including CCB (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	9.0%	
CBB Tier 1 minimum ratio	10.5%	
CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	11,174	f
Significant investments in the common stock of financials	–	
Mortgage servicing rights (net of related tax liability)	–	
Deferred tax assets arising from temporary differences (net of related tax liability)	–	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	8,032	a+b+c+d+e-h
Cap on inclusion of provisions in Tier 2 under standardised approach	5,726	
N/A	–	
N/A	–	
Capital instruments subject to phase-out arrangements (only applicable between 1st Jan 2019 and 1 Jan 2023)		
Current cap on CET1 instruments subject to phase out arrangements	NA	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on AT1 instruments subject to phase out arrangements	NA	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	NA	
Current cap on T2 instruments subject to phase out arrangements	NA	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	NA	

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.5 Unconsolidated legal entities for regulatory purposes

- a) Legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Legal Entity name	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank for regulatory purposes	Extracts of financial information as at 31 st December 2019 (Amount in BD 000's)	
			Total assets	Total equity
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	9,006	9,006
Harbour West 4 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	6,042	6,042
Surooh LTD	Commercial entity	Risk weighted	6,042	2,734

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.6 Disclosure template for main feature of regulatory capital instruments

Issuer	Khaleeji Commercial Bank B.S.C
Unique identifier	KHCB
Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
Regulatory treatment	
Transitional CBB rules	Common Equity Tier 1
Post-transitional CBB rules	Common Equity Tier 1
Eligible at solo/group/group & solo	Group and solo
Instrument type (types to be specified by each jurisdiction)	Equity Shares
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 105 million
Par value of instrument	BD 0.100
Accounting classification	Shareholders' Equity
Original date of issuance	Various
Perpetual or dated	Perpetual
Original maturity date	No Maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	Not applicable
Subsequent call dates, if applicable	Not applicable
Coupons / dividends	
Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
Coupon rate and any related index	Not applicable
Existence of a dividend stopper	Not applicable
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	Not applicable
If convertible, fully or partially	Not applicable
If convertible, conversion rate	Not applicable
If convertible, mandatory or optional conversion	Not applicable
If convertible, specify instrument type convertible into	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable
Write-down feature	No
If write-down, write-down trigger(s)	Not applicable
If write-down, full or partial	Not applicable
If write-down, permanent or temporary	Not applicable
If temporary write-down, description of write-up mechanism	Not applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
Non-compliant transitioned features	No
If yes, specify non-compliant features	Not applicable

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.7 Capital structure, minimum capital requirements and capital adequacy

Eligible capital	31 st December 2019
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	105,000
Less: Employee stock incentive program funded by the bank (outstanding)	–
Statutory reserve	8,225
Retained earnings	(916)
Current interim cumulative net profit	(15,094)
Total CET1 capital prior to the regulatory adjustments	97,215
Less: Investment in own shares	(11,730)
Less: Investments in financial entities where ownership is <10% of the issued common share capital (amount above 10% CET1a)	(2,626)
Total Common Equity Tier 1 capital after the regulatory adjustments	82,859
Other Capital	
AT1	–
General financing loss provision – (Tier 2)	5,726
Total available AT1 & T2 Capital	5,726
Total Capital	88,585
Risk Weighted Assets	
Credit risk weight exposures	458,075
Market risk weight exposures	9,403
Operational risk weight exposures	65,315
Total risk weighted assets	532,793
Capital adequacy ratio (CET1 and T1)	15.55%
Capital adequacy ratio (Total capital)	16.63%

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total RWAs.

Risk-weighted assets

Credit risk

For regulatory reporting purposes, the Bank calculates the capital requirements for credit risk based on the standardised approach. Under this approach, the on and off-balance sheet credit exposures are assigned risk weights based on the type of counterparty, type of the exposure, and source of funding (equity of investment account holders (“IAH”) or own funds). Further for capital adequacy computations, 100% of the RWAs is reckoned for self-financed assets while only 30% is considered for assets funded through equity of IAH. The risk weights for types of counterparties and exposures are prescribed by CBB.

Risk Management Disclosures

3. CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.7 Capital structure, minimum capital requirements and capital adequacy (Continued)

Market risk

The Bank uses the standardised approach to measure market risk. Market risk for the Bank is primarily on account of the foreign exchange exposures that are considered as specific risks. As per the CBB guidelines, capital for foreign exchange risk is computed at 8% of overall net open foreign currency positions of the Bank and this is multiplied by 12.5 to derive the market RWAs.

Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB Capital Adequacy Module for Islamic Banks. According to this approach, the Bank's average gross income for the past three financial years is multiplied by a fixed coefficient alpha of 15% set by the CBB to arrive at the capital required and a multiple of 12.5 is used to arrive at the RWAs that are subject to capital charge.

Break-up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 31st December 2019 is as follows:

Exposure classification	Exposure			Risk-Weighted Assets [1]			Capital requirement @ 12.5%		
	Self-financed [2]	IAH [3]	Total	Self-financed	IAH	Total	Self-financed	IAH	Total
Cash and collection items	5,299	–	5,299	–	–	–	–	–	–
Sovereigns	31,092	179,479	210,571	–	–	–	–	–	–
Claims on PSEs	27,848	33,472	61,320	–	1,924	1,924	–	241	241
Banks	–	108,110	108,110	–	11,019	11,019	–	1,377	1,377
Corporates	78,739	180,301	259,040	88,867	52,960	141,827	11,108	6,620	17,728
Past due facilities	46,973	–	46,973	57,483	–	57,483	7,185	–	7,185
Investment in equities/sukuks	12,217	–	12,217	18,325	–	18,325	2,291	–	2,291
Holdings of real estate	70,934	–	70,934	220,885	–	220,885	27,611	–	27,611
Other assets	6,613	–	6,613	6,613	–	6,613	827	–	827
Credit Risk	279,715	501,362	781,077	392,173	65,903	458,076	49,022	8,238	57,260
Market Risk	9,403	–	9,403	9,403	–	9,403	1,175	–	1,175
Operational Risk	65,315	–	65,315	65,315	–	65,315	8,164	–	8,164
Total	354,433	501,362	855,795	466,891	65,903	532,794	58,361	8,238	66,599

1. For capital adequacy computations, 100% of the RWAs are reckoned for self-financed assets while only 30% is considered for assets funded through equity of investment account holders (IAH).
2. Excludes credit risk mitigants of BD 154,359 thousand.
3. Excludes credit risk mitigants of BD 10,473 thousand.

Risk Management Disclosures

4. CREDIT RISK

4.1 Credit risk management

Credit Risk is the risk that counterparty fails to meet its obligations in accordance with agreed terms and conditions. The major sources of credit risk in the Bank are under the following classes of assets:

- Placements with financial institutions,
- Financing assets,
- Assets acquired for leasing (including lease rentals receivable), and
- Investments in Sukuk.

For the purpose of capital adequacy computation (as well as certain other tables below) the following have also been considered as a part of credit risk:

- Investments in quoted and unquoted equity,
- Investment in real estate, and
- Other assets (including property and equipment).

The Bank has the necessary internal processes for assessing, monitoring and controlling credit risk both at the individual credit and portfolio levels. Credit limits are approved after a thorough assessment which takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business being financed, the adequacy and quality of the cash flow available for repayment, etc. in addition to availability of collateral security by way of physical assets or guarantees. The RMD reviews every credit proposal and incorporates its remarks on the proposal before the same is considered by the appropriate authority as per delegated approval levels granted by the Bank's Board of Directors.

At the portfolio level, the Board has established risk concentration limits for single counterparties and related counterparties forming a business group, geographical and economic sectors as well as exposures to counterparties related to the Bank and/or its major shareholders. The RMD regularly monitors compliance with these limits and deviations if any are reported regularly to the Senior Management, Executive Credit & Investment Committee and the Board of Directors.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.2 Levels of exposure

The table below shows gross credit exposure along with average credit exposure broken down under different exposure classes as at 31st December 2019:

Gross/ Average Credit Exposures	Average Exposure ¹	Gross Exposure		
		Self-financed	IAH	Total
Cash and bank balances	98,335	36,346	68,031	104,377
Placement with financial institutions	93,475	–	65,509	65,509
Financing assets	333,926	150,075	183,234	333,309
Investment in sukuk	185,129	–	195,061	195,061
Assets acquired for leasing	123,933	132,037	–	132,037
Lease rentals receivable	15,169	14,678	–	14,678
Investment in equity securities	47,369	43,989	–	43,989
Investments in associates	4,531	4,524	–	4,524
Investment in real estate	18,006	17,781	–	17,781
Development property	6,251	248	–	248
Other assets (Including property and equipment)	29,425	31,818	–	31,818
Total funded exposures	955,549	431,496	511,835	943,331
Financial guarantees	4,866	5,011	–	5,011
Undrawn commitments to extend finance	24,285	–	–	–
Total unfunded exposures ²	29,151	5,011	–	5,011

¹ Represents quarterly average balances for the year ended 31st December 2019.

² Represents unfunded exposures amounts after considering their credit conversion factors.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.3 Concentration of credit risk

4.3.1 Geographic distribution

The geographical exposure profile as at 31st December 2019 was as follows:

31 st December 2019	GCC Countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	91,971	1,593	10,786	26	–	104,376
Placement with financial institutions	65,508	–	–	–	–	65,508
Financing assets	320,083	4,258	–	14	–	324,355
Investment in sukuk	195,050	–	–	–	–	195,050
Assets acquired for leasing (including lease rentals receivable)	146,160	–	–	39	–	146,199
Investment in equity securities	25,938	–	–	14,383	3,668	43,989
Investment in real estate	17,781	–	–	–	–	17,781
Development property	6,251	–	–	–	–	6,251
Other assets	27,727	15	–	750	1	28,493
Property and equipment	7,750	–	–	–	–	7,750
Total funded exposures	904,219	5,866	10,786	15,212	3,669	939,752
Commitments and financial guarantees	80,712	–	–	–	–	80,712

4.3.2 Industry/sector-wise distribution

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry/sector wise exposure as at 31st December 2019 was as follows:

31 st December 2019	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	104,376	–	–	104,376
Placements with financial institutions	65,508	–	–	65,508
Financing assets*	7,857	72,043	244,455	324,355
Investment in sukuk	11,737	7,539	175,774	195,050
Assets acquired for leasing (including lease rentals receivable)	–	133,657	12,542	146,199
Investment in equity securities	11,174	29,147	3,668	43,989
Investment in real estate	–	17,781	–	17,781
Development property	–	6,251	–	6,251
Other assets	954	19,395	8,144	28,493
Property and equipment	–	6,739	1,011	7,750
Total funded exposure	201,606	292,552	445,594	939,752
Commitments and financial guarantees	–	51,779	28,933	80,712

* Financing asset exposures have been classified based on the purpose of financing.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.3 Concentration of credit risk (Continued)

4.3.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB.

Detailed break-up is presented in note 27 of the consolidated financial statements for the year ended 31st December 2019.

4.3.4 Exposures exceeding materiality thresholds

The Bank is required to carry out capital adjustments (deduction) for its exposure to significant investments in capital of banking and financial entities subject to certain materiality thresholds as defined in the Capital Adequacy Module ("CA Module") of the CBB Rule Book.

Further, the exposures in excess of limits prescribed by Credit Risk Management Module ("CM Module") (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. For investment in a financial entity where ownership is <10% of the issued common capital, 100% of the amount exceeding 10% of CET1 (a) is subject to deduction from CET1 (a). The following table summarises the exposures exceeding regulatory limits as of 31st December 2019:

Counterparty	Exposure type	Total exposure	Total Exposure as a % of eligible capital	Exposures exceeding threshold
Connected counterparties	Investments, financing and other assets	13,867	15.65%	–
Investment in financial entities	Investment in financial entities <10%	11,174	12.61%	2,626*
Single Obligor Limit	Financing	14,735	16.63%	1,447

**In line with the transitional provisions of CA module 100% of the exposure exceeding materiality threshold (BD 2,626 thousand) has been considered for regulatory capital adjustment.*

4.3.5 Exposures in highly leveraged counterparties

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

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	11,314	845	10,469
Counterparty # 2	8,518	4,260	4,528
Counterparty # 3	4,185	815	3,369

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.3 Concentration of credit risk (Continued)

4.3.6 Residual contractual maturity of the credit portfolio and investment in sukuk

The Bank's policy allows exposures up to a maximum period of seven years for corporate customers and 25 years for retail customers with any exceptions to be approved by the Board of directors. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuk is given in the table below:

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	42,864	28,278	24,120	38,297	80,926	45,502	56,338	245	6	316,576
Mudharaba	134	20	30	60	227	228	433	-	-	1,132
Wakala	4,316	-	-	-	-	-	-	-	-	4,316
Istisna	-	23	19	67	326	437	1,459	-	-	2,331
Ijarah	2,890	2,892	11,191	8,358	38,729	20,006	37,947	21,470	2,716	146,199
Total	50,204	31,213	35,360	46,782	120,208	66,173	96,177	21,715	2,722	470,554
Investment in sukuk	-	1,951	-	-	18,183	20,671	154,245	-	-	195,050
Grand Total	50,204	33,164	35,360	46,782	138,391	86,844	250,422	21,715	2,722	665,604

4.4 Equity risk in banking book

The Bank has certain equity investments classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include unquoted equity investments, and investments in associates being non-financial entities.

Please refer to notes 5 of the consolidated financial statements for policies covering the accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. An impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Quarterly updates of investments are reviewed by the Board of Directors and are submitted to the CBB.

The Bank's equity investments are predominantly in its own products, which includes private equity and infrastructure development projects. The intent of such investments is a later stage exit along with the investors, by means of strategic sell-outs at the project level or through initial public offerings. The Bank also has a strategic investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments	Amount
Privately held	43,989
Dividend income	287

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.4 Equity risk in banking book (Continued)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge @12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Unlisted	12,217	–	18,326	–	2,291	–
Investments in unlisted real estate companies	29,147	–	116,588	–	14,574	–
Investment in equity shares exceeding exposure threshold	2,626	–	–	–	–	–
Total	43,989	–	134,914	–	16,865	–

4.5 Risk grading of exposures

The Bank adopts a well-structured internal Credit Risk Rating/Grading system as a means of differentiating the degree of credit risk in the different credit exposures of the Bank to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, Credit Risk Ratings (CRRs) provide a key input for the capital charges and risk weights. The Bank's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative credit-worthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Bank, (c) monitor the overall credit risk inherent in the Bank's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasise focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.

The Bank allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The grading sheets are prepared by the Business Department and reviewed by the RMD. Grades are continuously monitored by the Bank's Credit Management Department and exposures are downgraded depending on the days past due, if any based on clear criteria laid out in the Bank's credit policy. Further, the grading for corporate customers is also subject to review at least once on an annual basis. Movement of grades for credit exposures is reported quarterly to the Board.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposures are rated 1 to 10, with 1 being good and 7 being watch list and 8, 9 and 10 default grades.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.5 Risk grading of exposures (Continued)

The Bank relies on credit/risk ratings for financial institutions, as they are generally rated by an ECAI, as per the following guidelines:

- The Bank will use ratings issued by ECAIs approved by the Central Bank of Bahrain (“CBB”) only. These currently comprise S&P, Moody’s, Fitch, Capital Intelligence (“C.I.”), and Islamic International Rating Agency (“IIRA”);
- Ratings will be used consistently for risk assessment purposes from selected ECAIs;
- The Bank will utilise the lowest rating, in case of multiple ECAIs rating for any financial institutions;
- The Bank will not use the issue specific risk rating of an un-rated financial institutions except in case of specific investment in that financing instrument or bank claim pari passu to the issuer;
- Domestic currency ratings will be used to assess claims in domestic currency while foreign currency rating would be used for foreign currency exposures;
- Short-term rating of the financial institutions cannot be used for risk assessments of un-rated long-term claims.

Different ECAIs issue different coding-references to refer to the risk rating of the financial institutions. The following rating equalisation table, provided by CBB, is to be used to map the ECAIs ratings into the Bank’s internal ratings:

S&P	Moody’s	Fitch	C.I.	IIRA	Internal		Class
					Grade		
AAA	Aaa	AAA	AAA	AAA	1	Prime	Investment Rated
AA+	Aa1	AA+	AA+	AA+	2	Excellent	
AA	Aa2	AA	AA	AA	2		
AA-	Aa3	AA-	AA-	AA-	2		
A+	A1	A+	A+	A+	3	Very Good	
A	A2	A	A	A	3		
A-	A3	A-	A-	A-	3		
BBB+	Baa1	BBB+	BBB+	BBB+	4	Good	
BBB	Baa2	BBB	BBB	BBB	4		
BBB-	Baa3	BBB-	BBB-	BBB-	4		
BB+	Ba1	BB+	BB+	BB+	5	Satisfactory	Non-Investment Rated
BB	Ba2	BB	BB	BB	5		
BB-	Ba3	BB-	BB-	BB-	5		
B+	B1	B+	B+	B+	6	Average	
B	B2	B	B	B	6		
B-	B3	B-	B-	B-	6		
CCC+	Caa1	CCC+	C+	CCC+	7	Watch List	
CCC	Caa2	CCC	C	CCC	7		
CCC-	Caa3	CCC-	C-	CCC-	7		
CC	Ca	CC	D	CC	8	Sub-Standard	
C	C	C	–	C	9	Doubtful	Classified
D	–	D	–	D	10	Loss	

Please refer to note 35 of the consolidated financial statements for the year ended 31st December 2019, for details of the grading profile of credit exposures of the Bank.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.6 Past dues, impaired accounts, provisions

Customers may occasionally fail to meet their obligations to the Bank on due dates. Any amount not paid when due is classified as past due and the Bank initiates focused recovery efforts on such accounts.

In 2018 the Bank has adopted FAS 30 / IFRS 9 standards that classify exposures into three stages to measure ECL on exposures subject to credit risk. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures classified in Stage 3 are considered Credit impaired, this includes exposures with past dues exceeding 90 days.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank considers a financial asset to be in default when:

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

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realisable Value approach ("NRV") and 3) Impairment approach.

The Bank recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

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

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

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

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

The Bank makes provisions for impairment on individual assets classified under grades 8, 9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available.

For a detailed policy on impairment of financial assets, please refer to note 5 (k) of the consolidated financial statements for the year ended 31st December 2019.

For the quantitative disclosures relating to exposures which were past due or impaired as of 31st December 2019, please refer to note 35 of the consolidated financial statement for the year ended 31st December 2019.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.6 Past dues, impaired accounts, provisions (Continued)

4.6.1 Geographical and sector-wise break-up of impairment allowances and Credit impaired (stage 3) and past due but not credit impaired

	GCC Countries	Europe	Total
Credit Impaired:			
3 months to 1 year	66,219	–	66,219
1 year to 3 years	28,138	8,518	36,656
More than 3 years	3,551	–	3,551
	97,908	8,518	106,426
Less: Stage 3 impairment allowance:			
At 1 January 2019	15,777	–	15,777
Net transfer to stage 3	834	482	1,316
Charge during the year	12,569	3,778	16,347
Write off during the year	–	–	–
	29,180	4,260	33,440
Carrying amount	68,728	4,258	72,986
Past due but not credit impaired:			
Up to 3 months	69,019	–	69,019
3 months to 1 year	–	–	–
More than 1 year	–	–	–
	69,019	–	69,019
Stage 1 and Stage 2 impairment allowance	4,721	3,106	7,827

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.6 Past dues, impaired accounts, provisions (Continued)

4.6.1 Geographical and sector-wise break-up of impairment allowances and Credit impaired (stage 3) and past due but not credit impaired (Continued)

	Banks and financial institutions	Real estate	Others	Total
Credit Impaired:				
3 months to 1 year	1,047	22,558	42,614	66,219
1 year to 3 years	–	4,375	32,281	36,656
More than 3 years	–	439	3,112	3,551
	1,047	27,372	78,007	106,426
Less: Stage 3 impairment allowance:				
At 1 January 2019	–	2,643	13,134	15,777
Net transfer to stage 3	129	76	1,111	1,316
Charge during the year	395	1,118	14,834	16,347
Write off during the year	–	–	–	–
	524	3,837	29,079	33,440
Carrying amount	523	23,535	48,928	72,986
Past due but not credit impaired:				
Up to 3 months	2,404	43,924	22,691	69,019
3 months to 1 year	–	–	–	–
More than 1 year	–	–	–	–
	2,404	43,924	22,691	69,019
Stage 1 and Stage 2 impairment allowance	71	1,136	6,620	7,827

4.7 Renegotiated facilities

For disclosure of renegotiated facilities, please refer to note 35 of the consolidated financial statements for the year ended 31st December 2019.

4.8 Legal action and write-off of exposures

The Bank has policy for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means.

As of 31st December 2019, the Bank did not have any material legal contingency from pending legal actions. Based on management estimates there is no potential liability arising from these pending legal actions.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.9 Penalties for delayed payments

In cases where customers delay the payment of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy, such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the year ended 31st December 2019, an amount of BD 54 thousand was thus transferred to Charity and Zakah fund.

For quantitative disclosures, please refer to consolidated statement of sources and uses of charity and Zakah fund in the consolidated financial statements for the year ended 31st December 2019.

4.10 Credit risk mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral security. While existence of collateral security is not a policy precondition for financing, in practice a large part of existing exposures are at least partially supported by collateralised security. The Bank has clear policies on the type of assets that can be accepted as collateral security and the mode of valuation of these assets. In general, all assets accepted as collateral are valued at least once in a year. The legal validity and enforceability of the documents used for creating these collaterals have been established by external legal experts.

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 31st December 2019 is given in the table below:

Collateral Type	Murabaha	Wakala	Istisna	Ijara	Value of collateral ¹	Gross Exposure ²	% of cover	% of Total
Real estate	211,854	3,016	1,593	226,744	443,207	310,281	143%	94%
Listed securities	-	-	-	-	-	-	0%	0%
Unlisted securities	-	-	-	-	-	-	0%	0%
Bank guarantee	-	-	-	-	-	-	0%	0%
Cash collateral	23,280	-	-	574	23,854	44,724	53%	5%
Others	4,856	-	-	-	4,856	13,292	37%	1%
Unsecured	-	-	-	-	-	143,524	0%	0%
Total	239,990	3,016	1,593	227,318	471,917	511,821		

¹ Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of facility.

² The amounts are gross of ECL of BD 41,267 thousand.

Real estate properties are reckoned at values certified by qualified valuers. Other physical assets like machinery are valued at book value, invoice value or as certified by an outside expert. Listed securities are valued at market price while un-listed ones are carried at cost less impairment. The Bank has an approved panel of valuers for real estate property. Valuation exercises are supervised by the RMD, independent of the business units.

Financing facilities are also often secured by personal/corporate guarantees, joint ownership of vehicles, assignment of contract proceeds, assignment of insurance policies, etc. However under the Bank's credit policy these are not treated as tangible securities and the value of such guarantees/assignments, though significant in many cases, are taken as nil for the purpose of the above analysis.

Assets financed under Ijara Muntahia Bittamleek are considered at par with physical collateral and included under Real Estate or Others in the above calculations.

Risk Management Disclosures

4. CREDIT RISK (CONTINUED)

4.10 Credit risk mitigation (Continued)

The declared value of exposures in all cases is the gross exposure before any provisions. The Bank does not carry out any on or off-balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4.7 of the Capital Adequacy Module of CBB rule book and hence all exposures are risk weighted at their gross values for the purpose of computation of capital adequacy ratio.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities.

4.11 Regulatory capital requirements by type of financing contracts

Equity investments in banking book	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	144,432	181,501	126,166	51,308	15,771	6,414
Ijara assets (including lease rentals receivable)	146,199	–	–	–	–	–
Musharaka	105	–	105	–	13	–
Mudharaba	1,047	–	1,047	–	131	–
Wakala	5,007	–	5,007	–	626	–
Istisna	–	1,733	–	520	–	65
Total	296,790	183,234	132,325	51,828	16,541	6,479

5 MARKET RISK

5.1 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

CBB rules require that the Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and Sukuk exposure, although this is quite limited. There is also an extent of profit rate risk arising out of mismatches in its asset liability structure. The Bank has well-defined policies approved by the Board with clear risk limits and thresholds to effectively manage its market risk.

In 2012, the Bank had commenced trading in Sukuk on a very selective basis. Trading is restricted to listed and traded Sukuk issued by sovereign/quasi sovereign entities or by other GCC issuers with an investment grade rating from Moody's or S&P.

The Sukuk risk is monitored by marking to market of the portfolio on a daily basis. The size of the portfolio and more importantly the number of instruments is too small for any statistical model to be reliable.

The Bank has formulated a comprehensive Sukuk Trading and Sukuk Fund Participation policy duly approved by the Board of Directors. The primary objective being trading in Sukuk and participation in Sukuk funds and/or other fixed-income Shari'a-compliant structured products as a part of Treasury Business. The policy sets clear guidelines for Sukuk Trading and participation in Sukuk funds, limits, target market, sectors, country, tenor, stop loss triggers and actions and reporting. The portfolio is monitored on a mark-to-mark basis and reported to the ALCO.

Risk Management Disclosures

5. MARKET RISK (CONTINUED)

5.1 Market risk management (Continued)

The ALCO committee reviews these investments as part of the overall monitoring of cash management and treasury and investment activities of the Bank.

Details on market risk management, net exposures and sensitivities are given as part of note 35 of the consolidated financial statements for the year ended 31st December 2019.

5.2 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at 31st December 2019 along with the maximum and minimum values during the period:

	As at 31 st December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk*	-	-	-
Foreign exchange risk	752	752	592
Commodity risk	-	-	-
Total (A)	752	752	592
Risk-Weighted Assets (A x 12.5)	9,403	9,403	7,400
Capital requirement @ 12.5%	1,175	1,175	925

* represents 30% of the exposure since these sukuk investments are allocated from IAH pool.

6 OPERATIONAL RISK

6.1 Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and/or from external events which includes but is not limited to, legal risk and Shari'a compliance risk. Operational risk is an inherent part of normal business operations. Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. Various procedures and processes used to manage operational risk including effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting.

Details on operational risk management are given as part of note 35 of the consolidated financial statements for the year ended 31st December 2019.

RMD monitors all operational processes to ensure that the Board directives are fully implemented and deviations are reported if any to the Senior Management and to the Board. The department has specialised personnel engaged in this process. The Bank has implemented an Operational Risk Management System which monitors Key Risk Indicators and controls across all major areas of operation and generates appropriate triggers as and when pre-defined risk events occur (through breach of triggers set) and also generates periodical update report to the Board and to the Management. In addition, the Bank's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions.

The Bank's operational risk management framework includes components such as Key Risk Indicators ("KRIs"), operational loss data and Risk & Control Self-Assessment across the Bank. These are monitored periodically which helps in quickly detecting and correcting deficiencies in processes and procedures. The collected data is maintained to create a loss database which could be the starting point for a more advanced operational risk measurement approach in future.

Risk Management Disclosures

6. OPERATIONAL RISK (CONTINUED)

6.2 Litigation

As of the reporting date, the Bank has no material legal contingencies including pending legal actions except as reported in Para 4.8 above. The Bank has a dedicated legal team which provides legal advice and services to all business units of the Bank.

6.3 Shari'a compliance

The Shari'a Supervisory Board ("SSB") is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

6.4 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach in calculating its regulatory capital requirement for operational risk.

The risk-weighted assets and capital requirement for operational risk as at 31st December 2019 is as given below:

Average gross income for 3 years (A)	34,835
Operational Risk-Weighted Assets (B) = A x 15% x 12.5	65,315
Capital requirement = B x 12.5%	8,164

7 OTHER RISKS

7.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to manage liquidity is to ensure that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of the Asset Liability Management Committee ("ALCO"), Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the bank, as well as gap limits under each time bucket of the maturity ladder. It is the Bank's policy to keep adequate level of high-quality liquid assets such as inter-bank placements and Sukuk to ensure that funds are available to meet maturing Mudharaba deposits, current accounts and other liabilities, as and when they fall due. The day-to-day management of liquidity risk is the responsibility of the Treasury Department, which monitors the sources and maturities of assets and liabilities closely, and ensures that limits stipulated by the ALCO are complied with. RMD and Financial Control Department ("FCD") monitors the liquidity position and any violations are reported to ALCO, ECICOM and the Board of Directors.

Risk Management Disclosures

7. OTHER RISKS (CONTINUED)

7.1 Liquidity risk (Continued)

For maturity profile of assets and liabilities, please refer to note 32 of the consolidated financial statements for the year ended 31st December 2019.

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

	Figures in %				
	2019	2018	2017	2016	2015
Interbank assets to interbank liabilities	84.82%	62.61%	47.02%	162.20%	115.60%
Liquid assets to total assets	38.83%	30.02%	22.19%	27.30%	22.75%
Liquid assets to total deposits	51.79%	47.55%	35.12%	35.94%	30.65%
Net liquid assets to total deposits	33.70%	18.08%	10.07%	25.78%	20.96%

7.2 Profit rate risk in the banking book

The other principal risk to which the banking book is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the RMD in its day-to-day monitoring activities.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis points (bps) parallel fall or rise across all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	200bp parallel increase/ decrease
At 31st December 2019	±865
At 31 st December 2018	±298

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank enters into Shari'a-compliant foreign exchange risk/profit rate risk transactions to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit market transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the RMD.

7.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees 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. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. To manage this risk, the Bank has established exposure limits to various geographic regions and industry sectors. Such limits are monitored by the RMD and deviations, if any, are reported to the Board on quarterly basis. As at 31st December 2019, there have been some concentration to few clients that have been within the Bank's strategy and within Board and CBB approvals. For break-up of exposure geography and industry/sector wise, please refer to notes 4.3.1 and 4.3.2 above.

Risk Management Disclosures

7. OTHER RISKS (CONTINUED)

7.5 Reputational risk

Reputational risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base that could have an adverse impact on liquidity or capital of the Bank. This may also lead to litigation against the bank which apart from avoidable legal expenses will also damage Bank's credibility which in turn will adversely affect business growth and profitability. Being an Islamic Bank, reputation is an important asset and one of the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments, growth of non-performing asset portfolio and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

7.6 Displaced commercial risk

Displaced commercial risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

7.7 Other risks

Other risks include strategic risk, fiduciary risks, and regulatory risks, etc., which are inherent in all businesses and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

8. PRODUCT DISCLOSURES

8.1 Product descriptions & consumer awareness

The Bank has a disclosure policy which applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable local and regulatory requirements.

The Bank offers a comprehensive mix of Shari'a-compliant commercial and investment banking products. These include, apart from traditional financing products, a range of innovative structured investment products like funds, repackaged investments and restricted Mudharabas. The Investment Department of the Bank has expertise in creating innovative high-end and value-added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Executive Credit & Investment Committee ("ECICOM") of the Bank reviews such proposal to ensure that the new product/business are in line with the Bank's business and risk strategy. All new products will need the approval of the Board of Directors and the Shari'a Supervisory Board of the Bank.

Information on new products or any change in existing products will be placed on the Bank's website www.khcbonline.com and/or published in the media. Product details are also shared with customers and the general public through brochures and/or advertisements.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.2 Complaint handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended, these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

The Bank has a designated officer for handling of all external complaints and his contact details are displayed on the website, at the Branch and in all printed publicity materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint is advised. A periodical report on status of complaints is also submitted to the Board.

8.3 Equity of investment account holders (IAH's)

The Bank accepts funds in the form of Mudharaba from small investors and high net-worth individuals. Equity of investment account holders ("IAH") represents funds offered by customers to the Bank to be invested in a Shari'a compliant manner, at the Bank's discretion as Mudharib. All IAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudharib fee as its share of profit.

The Bank accepts IAH funds in Bahraini Dinar, US Dollar and other international and GCC currencies for maturity periods ranging from 1 month to 36 months. The Bank completes its full range of KYC due diligence prior to accepting any investment. The customer also signs a written agreement covering all terms and conditions of the investment including tenor, basis of profit allocation, early withdrawal, etc.

Since 2009, the Bank offers a savings account product called "Al Waffer" which entitles the investors to certain prizes in cash and in kind, decided based on a raffle draws held on monthly, quarterly and annual basis apart from the normal share of profits declared and distributed after reducing the Mudharib fees.

IAH is a significant funding source for the Bank and the returns offered to investors are in line with the market. However, any shortfall in yield on the investments made out of these funds exposes the Bank to displaced commercial risk. The Bank regularly monitors rate of return offered by competitors to evaluate the expectations of its IAHs. Bank's policy also provides for whole or partial waiver of the Mudharib share of income from investments due to it, to provide a reasonable return to its investors.

The Bank comingles its own funds and IAH funds and these are invested together. The Bank has identified two pools of assets where the IAH funds are invested and the income from which is allocated to such accounts. One pool is short term in nature to meet IAH short-term investment requirements. The other pool is long term in nature to meet their long-term investment requirements. Out of the gross income the investor's share is computed after deducting the Mudharib share. The profit allocation schedule signed by the customer prior to investment contains the scheme of allocation of the Mudharib share. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. Equity of IAHs are carried at their book value.

Subject to the provisions thereof, deposits held with the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.3 Equity of investment account holders (IAHs) (Continued)

The details of income distribution to (IAH) for the last five years are given below:

	2019	2018	2017	2016	2015
Allocated income to IAH	23,544	14,221	14,884	16,286	16,933
Distributed profit	15,087	8,602	7,447	7,156	7,382
Mudharib fees*	8,457	5,619	7,437	9,130	9,551
As at 31st December					
IAH 1	467,268	343,849	383,561	380,975	378,596
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

Represents average balance.

** Includes contribution towards deposit protection scheme.*

Ratio of financing of the IAH by type of IAH contracts as at 31st December 2019:

Type of IAH contracts	Ratio of financing
1-Month Mudharaba ¹	34.9%
3-Months Mudharaba	5.5%
6-Months Mudharaba	4.2%
12-Months Mudharaba	23.4%
18-Months Mudharaba	0.0%
24-Months Mudharaba	4.4%
36-Months Mudharaba	1.9%
VIP Mudharaba	25.6%
Total	100.0%

¹ Includes saving account, Al Wafer account and call mudharaba accounts.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.3 Equity of investment account holders (IAHs) (Continued)

Ratio of profit distributed to PSIA by type of IAH (based on tenor):

Mudharaba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
1-Month ¹	1,657	1,029	959	834	1,009	11.0	11.79	12.9	11.6	13.7
3-Months	763	290	297	405	350	5.1	3.38	4.0	5.7	4.7
6-Months	658	536	1,012	1,346	1,330	4.4	6.23	13.6	18.8	18.0
12-Months	4,592	3,936	3,024	3,039	3,667	30.4	45.75	40.6	42.5	49.7
18-Months	6	6	6	8	2	0.0	0.07	0.1	0.1	–
24-Months	1,078	122	239	25	5	7.1	1.42	3.2	0.4	0.1
36-Months	514	367	3	–	–	3.4	4.26	–	–	–
VIP	5,819	2,316	1,907	1,499	1,019	38.6	26.92	25.6	20.9	13.8
Total	15,087	8,602	7,447	7,156	7,382	100.0	100.0	100.0	100.0	100.0

¹ Includes saving account, Al-Wafer account and call mudharaba accounts.

Distribution of profits by type of IAH products:

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
2019	5.04	–	–	1.81	3.23
2018	4.14	–	–	1.63	2.5
2017	3.88	–	–	1.94	1.94
2016	4.27	–	–	2.40	1.88
2015	1.95	–	–	2.57	1.99

Following are the average profit rates declared and distributed to the investors by the Bank:

	2019	2018	2017	2016	2015
1-Month Mudharaba ¹	1.03%	0.86%	0.64%	0.64%	0.78%
3-Months Mudharaba	3.66%	2.51%	1.79%	1.55%	1.75%
6-Months Mudharaba	3.69%	2.96%	3.07%	2.85%	2.69%
12-Months Mudharaba	3.86%	3.37%	2.81%	2.62%	2.75%
18-Months Mudharaba	3.44%	2.81%	2.73%	2.67%	2.80%
24-Months Mudharaba	5.48%	3.26%	3.49%	3.01%	2.91%
36-Months Mudharaba	5.22%	4.93%	3.39%	–	–
VIP Mudharaba	4.94%	3.10%	2.39%	2.32%	2.00%

¹ Includes saving account, Al-Wafer account and call mudharaba accounts.

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.3 Equity of investment account holders (IAH's) (Continued)

IAH account by type of assets:

The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 31st December 2019:

Particular	Allocation at 1 st January 2019	Movement	Allocation at 31 st December 2019	Proportion of total assets (%)	% of funding by IAH as at 31 st December 2019
Cash and bank balances	76,321	(8,291)	68,030	13.29%	65.18%
Placements with financial institutions	43,637	21,872	65,509	12.80%	100.00%
Financing assets:	65,091	118,143	183,234	35.80%	56.21%
-Murabaha	63,037	118,464	181,501	35.46%	55.68%
-Istisna	2,054	(321)	1,733	0.34%	0.53%
Investment securities – Sukuk	161,324	33,738	195,062	38.11%	100.00%
Total	346,373	165,462	511,835		

Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio

	2019	2018	2017	2016	2015
Average mudarib share as a percentage of total income allocated to IAH	46.56%	41.82%	41.86%	53.57%	55.68%
Average mudarib share contractually agreed with IAH	59.38%	62.20%	58.80%	64.80%	62.81%
Average mudarib fees sacrificed by the Bank	12.82%	20.38%	16.94%	11.23%	7.13%

8.4 Restricted Investment Accounts (RIA's)

The Bank offers Restricted Investment Accounts (“RIAs”) to both small investors and high net-worth individuals in the GCC. The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels. No RIA product was introduced/marketed by the Bank in 2019.

All RIA offering documents (“Offering Document”) are drafted and issued with input from the Bank’s Investment Banking, Shari’a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors.

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the IAHS are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles (“SPVs”) for management of the investment, the Board ensures that the management of such SPVs is conducted in a professional and transparent manner by a duly appointed Board.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.4 Restricted Investment Accounts (RIAs) (Continued)

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's Policy regarding its fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately advising investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the investors with the same level of rigor as the Bank requires for its own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Putting in place suitable resources and systems to manage and administer the investment and any necessary RIA SPV(s) and to proactively manage all risks;
- Preparing and disseminating periodical investment updates to investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the investor in a just and equitable manner as Mudharib; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the above mentioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Investment update reports are prepared and disseminated by the Bank to the RIA Investors on a periodic (at least on a half yearly) basis outlining any material contracts/decisions, investment performance, distribution (if any) or exit criteria/information.

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.4 Restricted Investment Accounts (RIAs) (Continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2019	2018	2017	2016	2015
RIA 1 – Safana	<p>An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. In 2011, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalised in a letter to investors dated 25th May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.</p> <p>KHCB and NS12 (special purpose vehicle incorporated by the Bank on behalf of investors with the principle purpose of holding plots of lands in the Nurana Project) recently appointed Key Point to work out an in-kind exit scheme for the RIA investors by offering the 19 plots. Scheme documents has been received from Key Point and approved by KHCB and NS 12 management to be circulated to investors.</p> <p>Approved Scheme Documents have been circulated by Key Point to all investors and followed by a workshop conducted at KHCB offices on the 24th August 2016, to explain and answer any queries or information needed to exercise the Plots Application Forms.</p> <p>Last date of returned Application Forms was 7th September 2016, along with the Opening Date which was held at 24th Floor, KHCB Offices managed and monitored by Key Point and witnessed by KHCB employs; the result was six plots were allotted out of 19 plots.</p> <p>The in-kind exit scheme has been completed and an open auction held on 22nd November, 2016 to allow maximum opportunities to the Investors to re-participate once again on the remaining plots. KPMG was engaged by KHCB to audit the whole in-kind exit process.</p> <p>Following the three allotment rounds of which RIA one investors participated, six plots have been allocated.</p> <p>Total revise fund BD 5,176,246 which included KHCB and total remaining NS 12 BD 6,979,665 as at 31st December 2019.</p>	2007	61.78% over product tenor	Bullet payment on maturity	–	–	–	–	–

Risk Management Disclosures

8. PRODUCT DISCLOSURES (CONTINUED)

8.4 Restricted Investment Accounts (RIAs) (Continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualised (%)				
					2019	2018	2017	2016	2015
RIA 5 - North Gate	<p>A restricted investment product which owns a 6% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works.</p> <p>During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below were exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15th June 2015 and during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.</p> <p>Moreover, during December 2018 dividend declared amount of BD 259,500 to all RIA investors and it was paid by following quarter.</p>	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 - Locata	<p>A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities. During the year, 479 shares were bought back from investors.</p>	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES

9.1 Corporate governance structure

The Bank is governed by the Bahrain Commercial Companies Law No. 21 of 2001 and its amendments (the “Companies Law”), the Kingdom of Bahrain Corporate Governance Code (the “CGC”), volume 2 and volume 6 of the Rulebook of the CBB (and in particular the High-Level Controls (“HC Module”), and the Bahrain Stock Exchange Law of 1987 (collectively, the “Regulations”).

The Bank acknowledges its responsibility to all of its stakeholders and is committed to the highest standards of corporate governance. The Bank believes good corporate governance enhances stakeholder value and provides an appropriate guidance to the Board, its committees, and the Bank's Executive Management to carry out their duties in the best interest of the Bank and its stakeholders. The Bank maintains the highest levels of transparency, accountability and good management through the adoption and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

9.2 Code of conduct

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes the process of dealing with conflict of interests. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. A declaration is made by the Board members prior to each Board meeting confirming that they have disclosed all external appointments and notified the Chairman if there have been any changes to their external appointments since the previous meeting. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity.

9.3 Compliance with regulations

The Bank ensures compliance with the regulations applicable to an Islamic licensed bank at all times. It would report any non-compliance with the guidelines should there be any. The Bank's obligations to comply with the Regulations have been addressed through following a Corporate Governance Handbook in accordance with the corporate governance (“CG”) and the High-Level Controls Module of the CBB Rulebook. The CG Handbook was developed to manage the Board and committees Charter, Management Committee Charters, Board and Management Code of Conduct, Conflict of Interest Policy, Whistle Blowing Policy, Corporate Governance Guidelines, Social Responsibility, Directors' Appointment Agreement, Board and Directors' Evaluation, and a Key Persons' Dealing Policy.

The Bank is committed to continuously review and develop its corporate governance policies to ensure compliance with the changing requirements of the Regulations and to ensure compliance with the international corporate governance best practice. The Bank, through its Board and Board Committees, endeavors to deliver the highest standards of governance for the benefit of its stakeholders.

9.4 Board of directors

As at 31st December 2019, the Board of the Bank comprise ten members. Members of the Board were elected/appointed for a three-year renewable term during the Annual General Meeting (“AGM”) meeting held in March 2017. The current composition of the Board complies with the requirements of the Regulations, except for the requirements stated in paragraph 9.16 below.

The Board Nominations, Remunerations and Governance Committee (“BNRGC”) reviews the skills and qualifications required of directors on periodic basis for potential nominee director. A nominee director may be elected by the shareholders upon receiving majority of votes during the election process. Positions at the Board are filled in compliance with the Bank's Articles of Association and the Commercial Companies Law. A Director's membership to the Board shall terminate in the cases provided for by the Companies Law and the Articles of Association of the Bank.

The Chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of directors (Continued)

The Board has formalised the division of work responsibilities between the Board and the Bank's management. Working in consultation with the Bank's management team, the Board provides oversight for the overall management of the Bank's business. The Board reviews and approves the corporate strategy for the Bank and has overall responsibility for risk management, financial reporting and corporate governance issues. Matters that specifically require Board approval include, amongst other things, the financial statements and the acquisition and disposal of companies. The Board also ensures that the Bank upholds the Bank's core values including the values set out in the Bank's internal policies.

The Board Audit and Risk Management Committee ("BARMC") in addition to the functions of control, ensures that all policies prescribed are reviewed and updated on annual basis. The Risk management department in conjunction with the Internal Audit and Control unit ensures the policies and procedures are updated and adhered to under the oversight of the related management committees. The Board is also responsible for approving any related party transaction as per the Bank's authority matrix. Related party transactions concerning a Board member should be minimally approved by the Board Investment and Credit Committee ("BICC"). In addition, any material transaction defined by the Bank (10% of the Banks' capital) should be approved by the Board. The preparation of the consolidated financial statements of the Bank and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles is the responsibility of the Board of Directors. The duties, functions, and responsibilities are detailed in the Bank's Corporate Governance Framework.

In compliance with the CBB requirements, the position of the Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

Members of the Board have access to the Bank's management at all times. The CEO together with the Bank's senior management monitors the Bank's performance against pre-set corporate objectives and manages the Bank's day-to-day affairs based upon the policies, objectives, strategies and guidelines laid down and approved by the Board from time to time.

The Board of Directors of the Bank comprises of Executive and Non-Executive Directors. The Board has five independent members (out of a total of ten Directors).

Upon appointment, each Director is provided with a comprehensive, formal and tailored induction which includes, amongst other things, a review of the Board's role and duties and the relevant Director's roles and duties to the Bank; meetings with the bank's senior management; visits to the Bank's branches and other sites; presentations to explain the Bank's strategic plans and significant financial, accounting, risk and legal issues and compliance programs; and meetings with internal and external auditors and legal counsel. In accordance with paragraph 1.9.1 of the HC module of CBB Rulebook, the Board and its committees are also individually evaluated and assessed for their performance effectiveness. The Board has conducted an evaluation of its performance and the performance of each committee and each individual director during the year 2019.

Each independent Director of the Bank is a professional in their field and possesses a background in the financial and banking field.

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from Internal Audit, Risk Management, Financial Control, Compliance & AML, Shari'a Coordination and Implementation Department, Internal Shari'a Audit, and Operations Departments.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of Directors (Continued)

The names, titles, and other positions held by the Board of Directors are set out below:

Mr. Jassim Mohamed Alseddiqi

Chairman

Experience:

- Director since April 2018 (Non-Independent and Executive)
- Over 15 Years of experience in the fields of Engineering, Investment & Management
- Nominated by GFH Financial Group
- CEO of Shuaa Capital – UAE
- Chairman of GFH Financial Group – Bahrain
- Chairman of Eshraq Properties – UAE
- Chairman of The Entertainer – UAE
- Chairman of Salama Insurance Company – UAE
- Board Member of First Abu Dhabi Bank – UAE
- Board Member of Abu Dhabi Capital Group – UAE
- Board Member of ADNOC Distributions
- Board Member of Dana Gas

Qualification:

- MS in Electrical Engineering from Cornell University – USA
- BS in Electrical Engineering from the University of Wisconsin – USA

Sh. Ahmed Bin Isa Al Khalifa

Vice Chairman

Experience:

- Director since March 2017 (Independent and Non-Executive)
- Over 31 years of experience in governance and Project & information management
- Currently the Assistant Undersecretary of Nationality, Passports & Residence Affairs (NPRA) at the Ministry of Interior – Bahrain

Qualification:

- Master Certificate in Project Management from the George Washington University – USA
- BSc in Computer Science from Saint Edwards University – USA

Abdulla Abdulkarim Showaiter

Board Member

Experience:

- Director since February 2008 (Independent and Non-Executive)
- Over 41 years of experience in the banking industry
- Board Member of First Energy Bank – Bahrain
- Advisor to the Board Ajman Bank – UAE

Qualification:

- Attended several courses in the field of banking and finance

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of Directors (Continued)

Fawad Tariq-Khan

Board Member

Experience:

- Board Director of KHCB since September 2017 (Non-Independent and Executive)
- Over 15 years of experience in the field of Management & Investment
- Nominated by SHUAA Capital psc
- Head of Investment Banking of Abu Dhabi Financial Group, UAE
- Previously CEO and Board Director of SHUAA Capital UAE
- Director, Northacre Plc, UK
- Director, Amwal Investment Company, Kuwait
- Director, Gulf Finance Corporation psc
- Director, SHUAA Capital Saudi Arabia
- Director, SHUAA Securities Egypt
- Director, SHUAA Securities LLC

Qualification:

- MSc in Business Studies, University College Dublin Michael Smurfit Graduate Business School, Ireland
- BSc in Computer Science & Economics, University College Cork, Ireland

Hisham Ahmed Al Rayes

Board Member

Experience:

- Director since June 2012 (Non-Independent and Executive)
- Over 22 years of experience in the financial and banking sector
- Nominated by GFH Financial Group BSC
- Chief Executive Officer and Board Member of GFH Financial Group BSC
- Chairman Tunis Bay Project Co. – Tunisia
- Chairman Gulf Holding Company – Kuwait
- Chairman, Royal Ranches Marrakesh – Morocco.
- Chairman of Balexco – Bahrain
- Chairman of Falcon Cement Co
- Chairman Global Banking Corporation (GBCORP) B.S.C (closed).
- Director of GFH Capital Limited

Qualification:

- Master in Business Administration from University of DePaul – USA
- Bachelor of Science in Electrical / Electronic Engineering from University of Bahrain

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of Directors (Continued)

Mohammad Abdulmohsen Al Rashed

Board Member

Experience:

- Director since March 2017 (Non-Independent and Non-Executive).
- Over 11 years of experience in the field of business & finance
- Nominated by GFH Financial Group
- Consultant, Abdulmohsen Rashid Al Rashid
- Chairman, Food Capital Company – KSA
- Managing Director, Fine Food Co. – KSA
- Director, Alshifa Medical Syringe MFG Co. – KSA
- Director, Orange Fuel Company – KSA
- Director, Mahra Co. – KSA
- Manager, Hadaf Sport Entertainment Company – KSA
- Director, Rimal Co. – KSA
- Director, Express Parcel Co. – KSA

Qualification:

- Bachelor in Business Management from Fairleigh Dickinson University – Canada

Mustafa Ghazi Kheriba

Board Member

Experience:

- Director since April 2018 (Non-Independent and Executive)
- Over 23 Years of experience in the field of Professional Banking & Management
- Nominated by GFH Financial Group
- Currently the Deputy Chief Executive Officer and Head of Asset Management and Investment Solutions of Abu Dhabi Financial Group – UAE
- Board Member of GFH Financial Group BSC – Bahrain
- Director and Senior Executive Officer of ADCM Altus Investment Management Limited – UAE
- Director of Spadille Ltd – Jersey Islands
- Executive Director of Northacre Plc – UK
- Board Member of Reem Finance – UAE
- Non-Executive Director at Qannas Investments Limited – Cayman Island
- Vice Chairman at Gulf Finance Corporation PJSC – UAE
- Board Member of Gulf Finance Corporation – KSA
- Deputy Chief Executive Officer and Head of Asset Management and Investment Solutions of Shuaa Capital PSC
- Director of ADCM Ltd. – Cayman Islands

Qualification:

- Bachelor of Arts (BA), University of Toronto, Economics & Business Communication
- Masters of Business Ohio Dominican University, Corporate Strategy
- Administration (MBA) Class President, Magna Cum Laude Honours

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of Directors (Continued)

Dr. Khalid Mohammed Al Khazraji

Board Member

Experience:

- Director since March 2017 (Independent and Non-Executive)
- Over 32 years of experience from three major sectors: Academic, Government and Private sectors. In Academic, he was the associate dean of School of Business and Economic at the UAE University. In government, he held the position of the Deputy Minister of Labor. Finally in private sector, he was the Deputy Chairman of Majed Al Futtaim Retail and a business owner
- Major professional contributions to the UAE's Ministry of Labor
- Major professional contributions to the United Arab Emirates University
- Participation in various training workshops, conferences & programs in the US & Switzerland
- Chairman of Al Kawthar Investment Company – UAE
- Member of the Board of Trustee of Mohammed Bin Rashid School of Government – UAE
- Member of the Board of Trustee of the University of Dubai – UAE
- Adjunct Professor at the University of Dubai – UAE

Qualification:

- Ph.D. in Business Administration from the University of Mississippi, USA
- Master in Business Administration from Loyola University, USA
- Bachelor in Business Administration from the University of Miami, USA

Mr. Reyadh Eid Abdulla Al Yaqoob

Board Member

Experience:

- Director since October 2018 (Independent and Non-Executive)
- 31 Years of experience in the field of Leadership, Management & Project Supervision within the Government Sector
- Board Director – Telecommunications Regulatory Authority, Kingdom of Bahrain

Qualification:

- MSc in Systems Management from the Naval Postgraduate School, USA
- National Diploma in Aerospace Studies from the Brunel
- Certificate in Operation Research (OR) from the Royal Military College of Science – UK

Yousef Ibrahim Al Ghanim

Board Member

Experience:

- Director since March 2017 (Non-Independent and Non-Executive)
- Over 12 Years of experience in the financial and banking sector
- Vice Chairman & CEO of Alaman Investment Co. – Kuwait

Qualification:

- Bachelor in Accounting from Kuwait University
- Certificate in Credit Management from the Institute of Banking Studies – Kuwait
- Attended several courses in the field of Banking and Finance

* The qualifying criteria for 'Independent Directors' are as per the Corporate Governance guidelines of the CBB.

The Chairman, the Board of Directors, and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance, Internal Sharia Audit, and Shari'a Sharia Coordination and Implementation.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.5 Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of the Bank. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 34-(2) of the Articles of Association of the Bank.

9.6 Board of Directors' interests

The members of the Board collectively held 1,050,763 shares in the Bank as of the year ended 31st December 2019 (2018: 1,050,763 shares).

Director's name	No. of Shares As of Dec. 2018	No. of Shares As of Dec. 2019	Movement During the Year	% of SubTotal Shares
Jassim Mohamed Alseddiqi	-	-	-	-
Sh. Ahmed Bin Isa Al Khalifa	-	-	-	-
Abdulla Abdulkarim Showaiter	1,050,763	1,050,763	-	0.10%
Fawad Tariq Khan	-	-	-	-
Hisham Ahmed Al-Rayes	-	-	-	-
Dr. Khalid Mohamed Al Khazraji	-	-	-	-
Mohammed Abdulmohsen Al Rashed	-	-	-	-
Mustafa Ghazi Kheriba	-	-	-	-
Reyadh Eid Al Yaqoob	-	-	-	-
Yousif Ebrahim Al Ghanim	-	-	-	-
Total	1,050,763	1,050,763	-	0.10%

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.7 Board committees

The Board of Directors has constituted three Committees with specific delegated authorities.

Committee	Members	Primary responsibilities
Board Nominations, Remunerations and Governance Committee (BNRGC)	<ul style="list-style-type: none"> • Dr. Khalid Mohamed Al Khazraji • Sh. Ahmed Bin Isa Al Khalifa • Mohamed Abdulmohsen Al Rashed • Reyadh Eid Al Yaqoob • Sh. Dr. Fareed Yaqoob Al Muftah 	<ul style="list-style-type: none"> • Human Resources • Compensation and incentives • Administration • Corporate Governance
Board Audit and Risk Management Committee (BARMC)	<ul style="list-style-type: none"> • Sh. Ahmed Bin Isa Al Khalifa • Yousif Ebrahim Al Ghanim • Abdulla Abdulkarim Showaiter 	<ul style="list-style-type: none"> • Internal Audit • External Audit • Compliance • Anti-Money Laundering • Risk management • Policies related to risk management
Board Investment and Credit Committee (BICC)	<ul style="list-style-type: none"> • Hisham Ahmed Al-Rayes • Mustafa Ghazi Kheriba • Fawad Tariq Khan • Sattam Sulaiman Algosaibi (non-voting member) 	<ul style="list-style-type: none"> • Investment & credit approval • Setting limits • Investment policies • Asset Liability Management • Banking relationship • Oversight of Off-Balance Sheet Vehicles

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met six times in 2019. The Bank held its Annual General Assembly (AGM) on 13th March 2019. In addition to physical meetings, several written resolutions were circulated to the Directors during 2019 for approval by mail and facsimile.

During the year, the Board Audit and Risk Management Committee (BARMC) held five meetings, the Board Investment and Credit Committee (BICC) held four meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held four meetings.

9.8 Election system of directors and any termination arrangements

The system for the election and termination of Directors is governed by the Companies Law and Articles 24 - 28 of the Bank's AOA. Also, Articles 28 and 29 of the AOA define the cases in which the Bank may terminate the Director's membership. Furthermore, in line with the Article 179 of Companies Law and Articles 30 of the AOA, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.9 Board and Subcommittees meeting dates and attendance

• Board of Directors meetings

	6 th Feb.	28 th Mar.	2 nd May	17 th Oct.	6 th Nov.	9 th Dec.	Attendance %
Jassim Mohamed Alseddiqi	√	√	√	√	√	√	100%
Sh. Ahmed Bin Isa Al Khalifa	√	√	√	√	√	√	100%
Dr. Khalid Mohamed Al Khazraji	√	√	√	–	√	√	75%
Abdulla A.Kareem Showaiter	√	√	√	√	√	√	100%
Fawad Tariq Khan	√	–	√	√	–	√	Less than 75%
Reyadh Eid Al Yaqoob	√	√	√	√	√	√	100%
Mohamed Abdulmohsen Al Rashed	√	√	√	√	√	√	100%
Mustafa Ghazi Kheriba	–	√	√	√	√	√	75%
Hisham Ahmed Al Rayes	–	√	–	√	√	√	Less than 75%
Yousif Ebrahim Al Ghanim	√	√	√	√	√	√	100%

• BARMC meetings

	5 th Feb.	1 st May	5 th Nov.	9 th Dec.
Dr. Khalid Mohamed Al Khazraji	√	√	√	√
Sh. Ahmed Bin Isa Al Khalifa	√	√	√	√
Mohamed Abdulmohsen Al Rashed	√	–	√	√
Sh. Dr. Fareed Yaqoob Al Muftah	√	√	–	√
Reyadh Eid Al Yaqoob ¹	–	√	√	√

¹ Joined the Committee on 11th Feb. 2019.

• BARMC meetings

	27 th Jan.	5 th Feb.	1 st May	16 th Oct.	5 th Nov.
Sh. Ahmed Bin Isa Al Khalifa	√	√	√	√	√
Yousif Ebrahim Al Ghanim	√	√	√	√	√
Abdulla A.Kareem Showaiter	√	√	√	√	√

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.9 Board and Subcommittees meeting dates and attendance (Continued)

• BICC meetings*

	6 th Feb.	2 nd May	17 th Oct.	6 th Nov.
Jassim Mohamed Alseddiqi	–	√	√	√
Mustafa Ghazi Kheriba	√	√	√	–
Hisham Ahmed Al Rayes	√	–	√	√
Fawad Tariq Khan	√	√	√	–
Sattam Sulaiman Algosaibi	√	√	√	√

*On 6th November, 2019, Mr. Jassim Al Siddiqi exited the formation of the committee

9.10 Shari'a Supervisory Board (SSB)

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

Sh. Dr. Fareed Yaqoob Al-Miftah *Chairman*

Experience:

- Member of the Supreme Council of Islamic Affairs
- Undersecretary – Court of Cassation, Supreme Judicial Council – Bahrain
- Member, International Islamic Fiqh Academy
- Former judge of the high Shari'a Court
- Former Lecturer at the University of Bahrain

Qualification:

- BA & Master degree from Imam Muhammad ibn Saud University – KSA
- Ph.D. from the University of Edinburgh – United Kingdom

Sh. Dr. Fareed Mohammed Hadi *Vice Chairman and Executive Member*

Experience:

- Assistant Professor at the College of Business Administration, University of Bahrain
- Founder of Islamic Banking and Finance B.Sc. and Master Programs, University of Bahrain
- Member – Board of Directors BCC Waqf Fund, Central Bank of Bahrain
- Chairperson and member of a number of Shari'a Supervisory Board in Islamic banks & insurance companies

Qualification:

- BA & Master degree from Imam Muhammad ibn Saud University – KSA
- Ph.D. in Ibn Hazm's Methodology of Jahala, University of Edinburgh – UK
- Ph.D. in Al-Bukhari's Methodology, University of Mohammed V – Morocco

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.10 Shari'a Supervisory Board (SSB) (Continued)

Sh. Dr. Nizam Mohammed Saleh Yaqoobi
Member

Experience:

- Member of the Shari'a Council of AAOIFI, Bahrain
- Member of Centralized Shari'a Supervisory Board of the Central Bank of Bahrain
- Chairperson and member of a number of Shari'a Supervisory Board in Islamic banks & insurance companies

Qualification:

- BA in Economics and Comparative Religion from the McGill University – Canada
- Ph.D. in Islamic Studies

9.11 Executive management committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manage the Bank through the following management committees:

Committee	Primary Responsibilities
Management Committee	Strategy, Performance review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance sheet management, Funding, Liquidity, Banking Relationships
Executive Credit & Investment Committee	Review of investments, Exit and credit proposals, Monitoring of investments
Executive Risk Management Committee	Risk Management policies, Risk review, Provisions and impairment
Human Resources Committee	Approving the policies and strategy of human resources

9.12 Executive management & other senior management

Some of the most significant changes that occurred at the executive management level during 2019 were the resignation of the following: Mr. Ahmed Abdulrahman Seyadi, Assistant General Manager – Information Technology, Mr. Talal Nabeel Al-Mahroos, Assistant General Manager – Investments, and Mohammed Abdulla Al Tamimi, Head of Compliance and MLRO. On the other hand, the following members were appointed as follows: Mr. Nawaf Abdulsalam Al-Hosani, as a Head of Internal Sharia Audit & Shari'a Supervisory Board Secretary, Miss Fajer Sami Albusmait, as a Head of Compliance, Mr. Mohamed Abbas Radhi, as a Head of Anti-Financial Crimes & MLRO, Mrs. Nada Mohamed Abdulrahman, as a Head of IT, and Mr. Ebrahim Khalil Al Awadhi, as an Acting Head of Delivery Channels & Cards.

The names and title of each member of executive and other Senior Management are set out below:

Sattam Sulaiman Algosaibi
Chief Executive Officer

Experience:

- Over 21 years of experience in the Islamic Banking industry
- Joined the Bank in 2018

Qualification:

- Masters in Business Administration from DePaul University – USA
- BSc in Accounting Science from King Fahad University of Petroleum & Minerals – KSA

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.12 Executive management & other senior management (Continued)

Tawfeeq Mohamed Bastaki

Deputy General Manager - Chief Risk Officer

Experience:

- Over 39 years of experience in Corporate Banking, Structured Finance, Retail Banking, Risk, Governance, and Compliance
- Joined the Bank in 2015

Qualification:

- Masters in Finance from DePaul University – USA
- B.Sc. in Islamic Financing from University College of Bahrain - Bahrain
- Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF)
- Executive Diploma “Post Graduate” in Business Management from the University of Bahrain

Mahdi Abdulnabi Mohammed

Deputy General Manager - Support Services

Experience:

- Over 38 years of banking experience
- Joined the Bank in 2005.

Qualification:

- Diploma, Banking Studies, Intermediate Level – BIBF
- Diploma, Banking Studies, Advance Level – BIBF
- Diploma, Advanced Management – University of Bahrain
- Certified Diploma in Accounting & Finance – The Chartered Association of Certified Accountants (ACCA)
- Investment Representative Certification (Series 7)
- MBA, General Business Administration – The University of Strathclyde, Scotland, United Kingdom
- Managing Strategically, Leading for Results – Harvard Business School, Executive Education

Hussam Ghanem Saif

Assistant General Manager – Treasury and Capital Markets

Experience:

- Over 29 years of experience in treasury and Islamic banking
- Joined the Bank in 2007

Qualification:

- Graduate with a degree in Business Administration & Management from Western International University, London – UK

Mazen Salman Sater

Assistant General Manager - Retail Banking

Experience:

- Over 22 years of banking experience
- Joined the Bank in 2016

Qualification:

- Master in Business Administration, Major Marketing & Change Management from DePaul University – USA
- Bachelor degree in Business and Marketing from St. Edward's University – USA

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.12 Executive management & other senior management (Continued)

Mohammed Abdulla Saleh

Assistant General Manager - Legal and Compliance

Experience:

- Over 17 years of experience in Management, Islamic Banking, Law, Corporate Governance, Compliance, Anti-money Laundering, and Human Resources
- Joined the Bank in 2009

Qualification:

- Masters in IT, Media and E-Commerce Law from the University of Essex – UK
- B.Sc. in Law from Dubai Police Academy – UAE
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance (BIBF)
- Diploma in Business Management from the University of Bahrain
- ICA International Diploma in Compliance from the International Compliance Association ICA
- Certification of Board Secretary - Certified Board Secretary from The Institute for Corporate Governance (Hawkamah) and Dubai Financial Market (DFM)
- Attended the Waqf Fund – Leadership Grooming Program for Islamic Banks at Ivey Business School in Western University (Canada & Hong Kong)

Abdul-Nasser Omar Al-Mahmood

Head of Shari'a Coordination and Implementation Department

Experience:

- Over 28 years of experience in Shari'a Audit and Islamic banking
- Joined the Bank in 2008

Qualification:

- Masters in Business Administration with thesis in Shari'a Control and Review in Islamic Banks
- B.Sc. in Shari'a and Islamic studies
- Associate Diploma in Shari'a Control

Mohamed Hamad Fakhri

Head of Internal Audit

Experience:

- Over 12 years of experience in Internal Audit, Risk Management, Governance and controls both in Islamic Retail and Investments Banking sectors
- Joined the Bank in 2012

Qualification:

- B.Sc. in Accounting – University of Bahrain
- CFA charter holder from CFA Institute – USA
- Certified Internal Auditor (CIA) from the Institute of Internal Auditors – USA

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.12 Executive management & other senior management (Continued)

Aman Ullah Khan
Financial Controller

Experience:

- Over 15 years of extensive experience in Islamic banking, Audit & Consultancy
- Joined the Bank in 2018

Qualification:

- Chartered Financial Analyst (CFA) from the Chartered Financial Analyst (CFA) Institute – USA
- Fellow member (FCCA) of Association of Chartered Certified Accountants (ACCA) – UK
- Associate member (ACA) of Institute of Chartered Accountants of Pakistan (ICAP)

Nawaf Abdulsalam Al-Hosani
Head of Internal Shari'a Audit & Shari'a Supervisory Board Secretary

Experience:

- Over 11 years of experience in Shari'a Audit, Compliance & Governance of Islamic Banks & Investment Structures
- Joined the Bank in 2008

Qualification:

- Masters in Business Administration with concentration in Islamic Finance from University College of Bahrain
- B.Sc. in Islamic Studies "Shari'a" from University of Bahrain
- Certified Shari'a Advisor & Auditor (CSAA) from Accounting & Auditing Organization for Islamic Financial Institution "AAOIFI"
- Certified Islamic Professional Accountant (CIPA) from Accounting and Auditing Organization for Islamic Financial Institution "AAOIFI"
- Advance Diploma in Islamic Commercial Jurisprudence from BIBF

9.13 Executive and senior management interests

The following table indicates the executive and senior management shareholding as 31st December 2019:

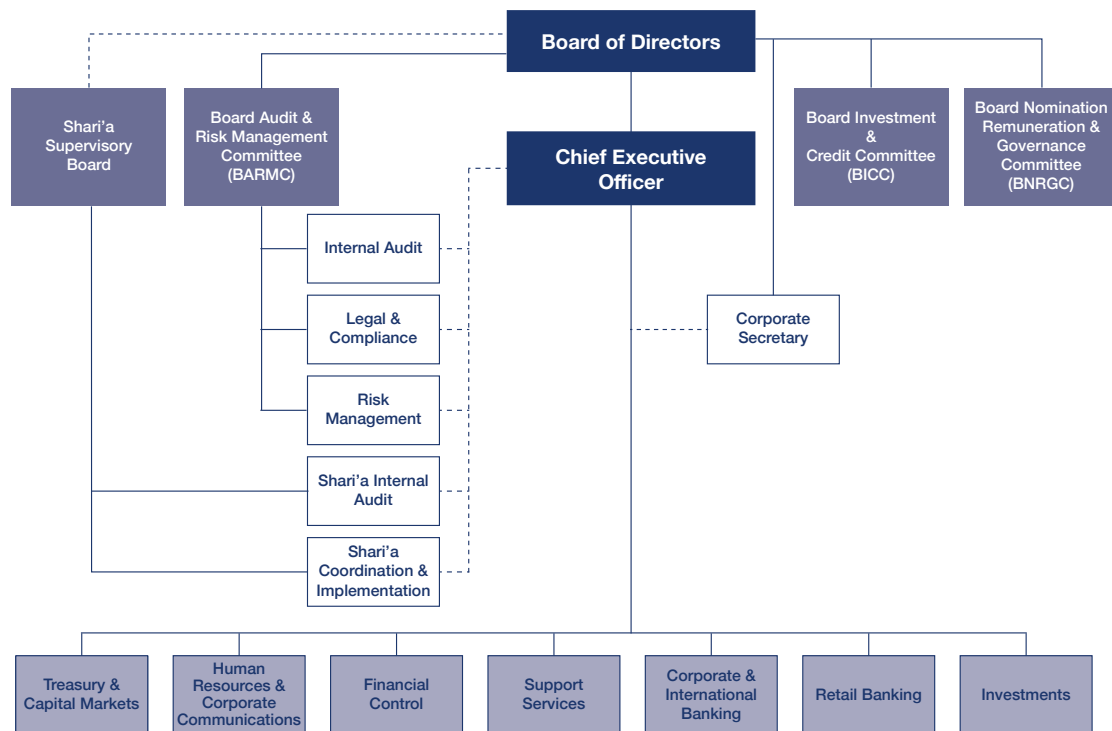
Executive and senior management	Number of outstanding shares at 31st December 2019	Number of outstanding shares at 31st December 2018	Movement during the Year
Sattam Sulaiman Algosaibi	-	-	-
Tawfeeq Mohammed Bastaki	230,395	119,847	110,548
Mahdi Abdulnabi Mohammed	1,368,729	1,213,611	155,118
Hussam Ghanem Saif	373,244	286,882	86,362
Mohammed Abdulla Saleh	-	-	-
Abdul-Nasser Omar Al-Mahmood	-	-	-
Mazen Salman Sater	68,706	28,292	40,414
Mohamed Hamad Fakhri	5,083	5,083	-
Aman Ullah Khan	-	-	-
Nawaf Abdulsalam Al Hosani	-	-	-
Total	2,046,157	1,653,715	392,442

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.14 Organisational chart

Set out below is the Bank's organisation chart, which outlines the different committees and the lines of reporting, as of 31st December 2019.



9.15 Executive compensation

The Bank has both a short-term and long-term compensation structure for its executive management which has been developed based on current market surveys and industry norms. The Bank also had an incentive scheme where eligible employees were awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. For further details please refer note 22 of the consolidated financial statements for the year ended 31st December 2019. The Bank's board remuneration is determined in line with the provisions of Article 188 of the Companies Law, and their annual remuneration is subject to the approval of the shareholders at the end of each year. The Board of Directors is also entitled to sitting fees.

9.16 Shari'a compliance, Regulatory compliance and Anti-Money Laundering

Compliance with Shari'a laws, regulatory and statutory requirements is an ongoing process and the Bank is conscious of its responsibilities in observing all applicable provisions and best international practices in its functioning. The Bank has established the Shari'a Compliance Function and the Regulatory Compliance Function in keeping with Basel and CBB guidelines. The respective units act as a focal point for all Shari'a and regulatory compliance and for adapting other best practice compliance principles.

Anti-Money Laundering measures form an important area of the Compliance Function. The Bank has an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure approved by the Board, which contains sound Customer due diligence measures, procedure for identifying and reporting suspicious transactions, a program for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The Bank's Anti-Money Laundering measures are reviewed by independent external auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and is in compliance with the guidelines issued by the CBB in relation to Anti-Money Laundering requirements.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.16 Shari'a compliance, Regulatory compliance and Anti-Money Laundering (Continued)

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, the Bank wishes to clarify the following:

- The Chairman of the Board, Mr. Jassim Alseddiqi is an Executive Director, hence he is not an Independent Director as per rule HC-1.4.6.
- The Bank was unable to comply with the requirements stated under Rule HC-1.3.7, which requires that the Board of Directors in order to fulfill its obligations stipulated under Rule HC-1.3.3, the full Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. For the third quarter of 2019, the meeting was originally scheduled on 25th Sep. 2019 (in the third quarter of the year), to discuss the routine matters that requires the consideration and decision making by the Board, and reports related to the second quarter. However, the meeting postponed due to the lack of a quorum to 17th Oct. 2019. Nevertheless, as previously mentioned, during the year the Board of Directors met six times. Also, in addition to the personal attendance at the meetings, many decisions were taken during the year by circulation.
- Two of the Board Member, Mr. Hisham Al Rayes and Mr. Fawad Tariq Khan were not able to attend the minimum of 75% of the Board Meetings as per rule HC-1.3.4. Due to some prior commitments and personal reasons.
- Contrary to guidance note HC-7.2.2 which requires all Board Members to attend the meeting, the annual shareholders meeting held on 13th March 2019, was attended by the Vice Chairman of the Board, the Chairman of Board Audit Risk Management Committee (BARMC) and the CEO.

9.17 Audit fees charged by the external auditor and other non-audit services provided by the external auditor and fees paid

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

9.18 Penalties paid to the Central Bank of Bahrain

During 2019, no penalty was charged to the Bank.

9.19 Related party Transactions

For detailed discussion on the related party transactions, kindly refer to notes (no. 27) on the consolidated financial statement for the year ended 31st December 2019. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

9.20 Board approved policy on the employment of relatives of approved persons

The Bank does not permit the employment of immediate relatives of current employees. Employment of other relatives is permitted. However, employees who are relatives shall not be placed within the same department or same direct line of supervision. In case of marriage, the Bank reserves the right to terminate the employment of one of the spouses. The HR will disclose to the Board of Directors on an annual basis relatives of any approved persons (including SSB members) occupying controlled functions within the Bank up to the 4th degree of kinship.

9.21 Board Evaluation

During 2019, the Board conducted an evaluation of its performance and the performance of each committee and each individual director. The evaluation process included assessing how the Board operates, evaluating the performance of each committee in light of its specific purposes and responsibilities, reviewing each director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making, and reviewing the Board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the Board.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.22 Distribution of ownership of shares

a) by nationality

The Bank's Register of Shareholders as at 31st December 2019 indicates a total of 613 shareholders who collectively owned 1,050,000,000 (One Billion, fifty million) shares with a nominal value of BD 0.100 (One Hundred Fils) each. One of the Bank's shares were held by the Government of the Kingdom of Bahrain. The breakdown of shareholders in the Bank by nationality is as follows:

Nationality	No. of equity shares held	% of shareholders
Bahraini	652,871,800	62.18
Non-Bahraini	397,128,200	37.82
Total	1,050,000,000	100.00%

b) by size of shareholder

	No. of Shareholders	No. of Shares	% of total outstanding shares
Less than 1%	604	137,765,476	13.12
1% to less than 5%	5	122,049,555	11.62
5% to less than 10%	3	296,694,051	28.26
10% to less than 20%	Nil	Nil	Nil
20% to less than 50%	1	493,490,918	47.00
Total	613	1,050,000,000	100.00

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

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Khaleeji Commercial Bank B.S.C	Bahrain	103,592,516	9.87
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41

*As at 31st December 2019, these shares representing 47% (2018: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.23 Earnings prohibited by Shari'a and the annual Zakah contribution

For detailed discussion on how non-Shari'a-compliant earnings and expenditure occur and the manner in which they are disposed of; and the annual zakah contributions of the Bank, kindly refer to notes (no. 5) on the consolidated financial statement for the year ended 31st December 2019.

9.24 Review of internal control processes and procedures

Internal Controls are systems designed, introduced and maintained by the Bank's management and top-level executives, to provide a substantial degree of assurance in achieving business objective, while complying with the policies and regulations, safeguarding the assets, maintaining efficiency and effectiveness in regular operations and reliability of financial statements.

All KHCB staff members share responsibility of implementing adequate internal controls measures within their respective work context.

Further, Internal Audit conducts risk based reviews to ensure the existence of sound implementation of internal controls across Bank's various activities and operations.

Board Audit Risk Management Committee (BARMC) assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the systems of internal controls which are established by Management and approved by the Board of Directors.

9.25 Governance Arrangements to Ensure Shari'a Compliance

Effective implementation of Shari'a Governance is pivotal basis for controlling and drafting the Shari'a compliance in KHCB. The Bank endeavors to continually update and adopt best practices in the areas of Shari'a governance and compliance with Islamic Shari'a rules and principles in its activities. This adherence is embodied in KHCB by adopting an effective framework for Shari'a Governance that commensurate and proportionate to the size and nature of the Banks business in accordance with the Rulebook, V-2 issued by the Central Bank of Bahrain.

KHCB has adopted four main components that formed its Shari'a Governance framework and is considered as the highest degree of commitment to the Shari'a Governance Framework issued by the Central Bank of Bahrain. These components are:

- i. Shari'a Supervisory Board;
- ii. Internal Shari'a Audit function;
- iii. Shari'a Coordination and Implementation Function; and
- iv. Independent External Shari'a Compliance Audit.

This Shari'a Governance framework and arrangements ensure that the Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a-related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

9.26 Dealing with the Complaints

KHCB takes its customer complaints very seriously. The customers may provide their feedback, suggestion or complaint through different channels, such as call center, branches, or through email Complaints@khcbonline.com.

If the complaints team is unable to resolve the matter immediately; the complaints team will send a written acknowledgment of the complaints to the client within five working days. Complaints are addressed promptly in accordance with their urgency, in equitable, objective and efficient manner. The complaint team will investigate independently the matter, and will provide the client with an update on her/his complaints through contacting them on the contact numbers, written letters or emails. The customer is also outlined with the options that are open to pursue the matter further.

Risk Management Disclosures

9. CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.27 Consumer awareness programmes for information on new products and services

Throughout the year 2019, the Bank has continued to make strides to spread consumer and investor awareness about its line-up of products and services through the many channels available in the market today. On the printed/offline side, KHCB has utilised newspaper publications, branch branding, and participation in Exhibitions & conferences to launch new products and services. On the online side, KHCB has pushed electronic awareness even stronger than ever using tools like the public website www.khcbonline.com, sponsored advertisement, Search Engine Optimisation "SEO", Social Media Management Platforms and much more.

9.28 Social functions and charitable contributions of the Bank

During the year 2019, KHCB has made significant contributions to many of the Kingdom's sectors as part of its Social Responsibility to the community. KHCB has been keen on maintaining variety in its social contributions by supporting Education, Culture, Sports, and Conferences in the Islamic Banking Industry such as "AAOIFI". On the Charity side, KHCB has worked closely with different Charitable Organisations and Institutes to help those in need as part of its Islamic identity and duty, such as feeding the fasters of Ramadhan, supporting Quran Teaching Programs, care for orphans, and releasing Zakah.

10. FINANCIAL PERFORMANCE

Following are basic quantitative indicators of the financial performance:

	2019	2018	2017	2016	2015
Return on average equity	(14.99)%	0.56%	0.71%	4.77%	7.48%
Return on average assets	(1.62)%	0.08%	0.11%	0.77%	1.27%
Finance income to finance expense	119.57%	146.03%	221.37%	264.91%	231.02%
Cost-to-income *	72.58%	64.34%	60.80%	44.82%	53.64%

* Cost excludes impairment allowances.

For detailed discussion on the performance for the year, kindly refer to Chairman's report on the consolidated financial statement for the year ended 31st December 2019.

11. REMUNERATION RELATED DISCLOSURES

The Banks total compensation policy, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for directors and senior management and the key factors that were taken into account in setting the policy.

In 2014, the Bank has adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the annual general meeting held in March 2015. The policy is effective starting 2014 annual performance incentives and would be fully implemented for future periods.

The key features of the remuneration framework have been summarised below.

11.1 Remuneration strategy

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

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.1 Remuneration strategy (Continued)

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

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The long-term performance incentive plan

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

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

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk and compliance measures above all and acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the BNRGC believes the latter contributes to the long-term sustainability of the business.

11.2 BNRGC role and focus

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

The responsibilities of the BNRGC as regards the variable compensation policy of the Bank, as stated in its mandate, include, but are not limited to, the following:

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

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.2 BNRGC role and focus (Continued)

- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk-alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive directors are independent including the BNRGC members. The BNRGC comprises of the following members:

BNRGC Member Name	Appointment date	Number of meetings attended
Dr. Khalid Mohamed Al Khazraji	March 2017	4
Sh. Ahmed Bin Isa Al Khalifa	March 2017	4
Mr. Mohamed A.Mohsen Al Rashed	March 2017	3
Sh. Dr. Fareed Yaqoob Al Muftah	February 2015	3
Mr. Reyadh Eid Al Yaqoob ¹	October 2018	3

¹ Joined the Committee on 11th Feb. 2019.

The aggregate remuneration paid to the BNRGC members during the year in the form of sitting fees amounted to BHD 30,000.

External consultants

Consultants were appointed to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank. The BNRGC had appointed consultants to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the Bank.

11.3 Scope of application of the remuneration policy

The remuneration policy has been adopted on a bank-wide basis and shall not apply to its non-banking subsidiaries and operations.

11.4 Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors do not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

11.5 Variable remuneration for staff

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

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

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

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.5 Variable remuneration for staff (Continued)

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

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

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

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

Remuneration of control functions

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

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

Variable compensation for business units

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

11.6 Risk assessment framework

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

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

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

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.6 Risk assessment framework (Continued)

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

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

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

The BNRGC keeps itself abreast with the Bank's performance against the risk management framework. The BNRGC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

Risk adjustments

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

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

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

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

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

Malus and Clawback framework

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

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

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

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.7 Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of three years

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

11.8 Deferral of variable remuneration

All employees above the grade of a Senior Manager shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, Deputy and other 5 most highly paid business line employees	Other Covered Staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	–	–	Yes
Upfront shares	–	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	–	Over 3 years	–	Yes	Yes
Deferred share awards	50%	40%	Over 3 years	6 months	Yes	Yes

The BNRGC, based on its assessment of role profiles and risk taken by an employee could increase the coverage of employees that would subject to deferral arrangements.

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.9 Details of remuneration paid

(a) Board of Directors

	2019	2018
Sitting Fees	212	391
Remuneration	Nil	Nil
Others*	31	50

* This represents airfare, accommodation, transportation and food and beverages paid on behalf of the Board members.

(b) Shari'a's Supervisory Board

	2019	2018
Sitting Fees	42	42
Remuneration	Nil	Nil
Others*	1	1

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.9 Details of remuneration paid (Continued)

(c) Employee remuneration

	2019								
	Number of staff	Fixed remuneration		Variable remuneration					Total
		Cash	Others	Upfront		Deferred			
				Cash	Shares	Cash	Shares	Others	
Approved persons									
- Business lines	4	517	183	60	-	15	75	-	850
- Control & support	16	741	293	36	3	-	13	-	1,086
Other material risk-takers	6	301	128	10	-	2	12	-	453
Other staff	220	2885	1514	167	-	-	7	-	4,573
TOTAL	246	4,444	2,118	273	3	17	107	-	6,962

	2018								
	Number of staff	Fixed remuneration		Variable remuneration					Total
		Cash	Others	Upfront		Deferred			
				Cash	Shares	Cash	Shares	Others	
Approved persons									
- Business lines	5	557	198	29	-	7	36	-	827
- Control & support	14	769	319	48	3	4	29	-	1,172
Other material risk-takers	5	233	91	14	2	1	14	-	355
Other staff	251	2875	1470	301	3	-	10	-	4,659
TOTAL	275	4,434	2,078	392	8	12	89	-	7,013

Risk Management Disclosures

11. REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.9 Details of remuneration paid (Continued)

(d) Deferred awards

	2019				
	Cash (Amount)	Shares (Number)	Shares (Amount)	Others (Amount)	Total (Amount)
Opening balance	35	3,430,749	276	–	311
Awarded during the period	18	2,827,275	110	–	128
Paid out / released during the period	(13)	(1,465,997)	(113)	–	(126)
Corporate action	–	–	–	–	–
Service, performance and risk adjustments	–	(35,888)	(3)	–	(3)
Closing balance	40	4,756,139	270	–	310

	2018				
	Cash (Amount)	Shares (Number)	Shares (Amount)	Others (Amount)	Total (Amount)
Opening balance	36	4,184,410	302	–	338
Awarded during the period	12	1,182,516	96	–	108
Paid out / released during the period	(14)	(1,896,808)	(118)	–	(132)
Corporate action	–	–	–	–	–
Service, performance and risk adjustments	–	(39,369)	(3)	–	(3)
Closing balance	34	3,430,749	277	–	311

(e) Severance pay

During the fourth quarter, the Bank has offered a voluntary retirement scheme to its employees. During the year 2019, the Bank paid Eight Hundred Twenty Five Thousand as an ex-gratia.