Financial Statements

1999 2019

Twenty Years of Delivering Distinction

gfh

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

As our financial statements attest, GFH continues to grow and deliver value to its shareholders and investors through organisational efficiency as well as sustainable business practices

04

Consolidated Financial Statements

Sharia Supervisory Board Report on The activities of GFH Financial Group B.S.C

for the financial year ending 31 December 2019

12 February 2020. 18 Jumada II 1441 AH.

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2019.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board's through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2019 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
- Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles have been directed to the Charity account
- Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method and the shareholders should pay their portion of Zakah on their shares as stated in the Zakah guide
- The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia-related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB

Praise be to Allah, Lord of the worlds.

Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaquby	**Sheikh Abdulla Al Manie**	**Sheikh Abdulaziz Al Qassar**	**Sheikh Fareed Hadi**

Independent Auditors' Report to the Shareholders

GFH Financial Group B.S.C, Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, changes in owners' 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated 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) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 100
12 February 2020

Consolidated statement of financial position

as at 31 December 2019

US$ 000's

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and bank balances	6	362,345	341,567
Treasury portfolio	7	1,588,661	818,000
Financing assets	8	1,272,777	1,208,947
Real estate investments	9	1,806,009	1,840,010
Proprietary investments	10	268,175	234,012
Co-investments	11	96,507	77,644
Assets held-for-sale	12	101,213	147,141
Receivables and prepayments	13	424,146	229,142
Property and equipment	14	25,440	92,902
Total assets		**5,945,273**	4,989,365
LIABILITIES			
Clients' funds		70,858	46,639
Placements from financial, non-financial institutions and individuals	15	2,447,249	1,628,389
Customer current accounts		147,487	177,906
Term financing	16	279,418	256,137
Liabilities directly associated with assets held-for-sale	12	39,936	42,749
Other liabilities	17	448,909	517,857
Total liabilities		**3,433,857**	2,669,677
Equity of investment account holders	18	**1,218,545**	896,910
OWNERS' EQUITY			
Share capital	19	975,638	975,638
Treasury shares	19	(73,419)	(85,424)
Statutory reserve		125,312	117,301
Fair value reserve		(4,831)	(4,725)
Foreign currency translation reserve		(29,425)	(43,380)
Retained earnings		10,070	98,318
Share grant reserve	20	1,198	1,086
Total equity attributable to shareholders of Bank		**1,004,543**	1,058,814
Non-controlling interests		262,932	323,408
Non-controlling interests held-for-sale	12	25,396	40,556
Total owners' equity		**1,292,871**	1,422,778
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		**5,945,273**	4,989,365

The consolidated financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated income statement

for the year ended 31 December 2019

US$ 000's

	Note	2019	2018
Continuing operations			
Investment banking income			
Asset management		2,880	2,572
Deal related income		92,971	40,100
		95,851	42,672
Commercial banking income			
Income from financing		83,113	70,465
Treasury and investment income		27,924	23,220
Fee and other income		15,189	7,539
Less: Return to investment account holders	18	(40,018)	(22,817)
Less: Finance expense		(18,418)	(23,050)
		67,790	55,357
Income from proprietary and co-investments			
Direct investment income, net		10,520	17,731
Restructuring related income	22	29,406	35,300
Dividend from co-investments		1,959	1,098
		41,885	54,129
Real estate income			
Development and sale		37,872	5,851
Rental and operating income		2,543	2,741
		40,415	8,592
Treasury and other income			
Finance income		24,081	1,446
Dividend and net gain on treasury investments		48,606	7,341
Income from settlement of liability		–	77,847
Other income, net		17,059	38,786
		89,746	125,420
Total income		**335,687**	286,170
Staff costs	23	50,590	53,135
Other operating expenses	24	51,845	64,377
Finance expense		111,330	39,534
Impairment allowances	25	54,264	17,614
Total expenses		**268,029**	174,660
Profit from continuing operations		**67,658**	111,510
(Loss) / profit from assets held-for-sale and discontinued operations, net	12	(467)	3,539
Profit for the year		**67,191**	115,049
Attributable to:			
Shareholders of the Bank		80,108	114,076
Non-controlling interests		(12,917)	973
		67,191	115,049
Earnings per share			
Basic and diluted earnings per share (US cents)		**2.37**	3.22
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**2.39**	3.12

The consolidated financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of changes in owners' equity

for the year ended 31 December 2019

US$ 000's

2019	Share capital	Treasury share	Statutory reserve	Investment fair value reserve	Attributable to shareholders of the Bank: Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Non-controlling interests held-for-sale	Total owners' equity
Balance at 1 January 2019 *	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
Profit for the year	–	–	–	–	–	80,108	–	80,108	(12,917)	–	67,191
Fair value changes during the year	–	–	–	(106)	–	–	–	(106)	–	–	(106)
Total recognised income and expense	**–**	**–**	**–**	**(106)**	**–**	**80,108**	**–**	**80,002**	**(12,917)**	**–**	**67,085**
Bonus shares issued (note 19)	55,000	–	–	–	–	(55,000)	–	–	–	–	–
Extinguishment of treasury											
Shares (note 19)	(55,000)	50,549	–	–	–	4,451	–	–	–	–	–
Dividends declared (note 19)	–	–	–	–	–	(30,000)	–	(30,000)	–	–	(30,000)
Transfer to zakah and charity fund	–	–	–	–	–	(2,219)	–	(2,219)	(223)	–	(2,442)
Issue of shares under incentive scheme	–	–	–	–	–	–	112	112	–	–	112
Purchase of treasury shares	–	(183,174)	–	–	–	–	–	(183,174)	–	–	(183,174)
Sale of treasury shares	–	176,669	–	–	–	(26,596)	–	150,073	–	–	150,073
Treasury shares acquired for share incentive scheme (note 19)	–	(32,039)	–	–	–	–	–	(32,039)	–	–	(32,039)
Acquisition of NCI without a change in control (note 21)	–	–	–	–	–	(51,412)	–	(51,412)	(40,588)	–	(92,000)
Transfer to statutory reserve	–	–	8,011	–	–	(8,011)	–	–	–	–	–
Foreign currency translation differences	–	–	–	–	13,955	–	–	13,955	(6,748)	–	7,207
Disposal of subsidiary held-for-sale	–	–	–	–	–	431	–	431	–	(15,160)	(14,729)
Balance at 31 December 2019	**975,638**	**(73,419)**	**125,312**	**(4,831)**	**(29,425)**	**10,070**	**1,198**	**1,004,543**	**262,932**	**25,396**	**1,292,871**

** The Bank used to recognise gain / (loss) on sale of treasury shares in the statutory reserve. The Bank has regrouped the losses on sale of treasury shares of US$ 24,818 thousand for the year ended 31 December 2018 to retained earnings.*

2018	Share capital	Share premium	Treasury share	Statutory reserve	Fair value reserve	Attributable to shareholders of the Bank: Foreign currency translation reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Non-controlling interests held-for-sale	Total owners' equity
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	–	–	122,825	1,026	1,150,023	345,770	–	1,495,793
Impact of adoption of FAS 30	–	–	–	–	–	–	(16,586)	–	(16,586)	(13,092)	–	(29,678)
Impact of adoption of FAS 30 by associates	–	–	–	–	–	–	(965)	–	(965)	–	–	(965)
Balance at 1 January 2018 (restated)	975,638	3,058	(58,417)	105,893	–	–	105,274	1,026	1,132,472	332,678	–	1,465,150
Profit for the year	–	–	–	–	–	–	114,076	–	114,076	973	–	115,049
Foreign currency translation differences	–	–	–	–		(43,380)	–	–	(43,380)	(15,331)	–	(58,711)
Fair value changes during the year	–	–	–	–	(4,725)	–	–	–	(4,725)	–	–	(4,725)
Total recognised income and expense	–	–	–	–	(4,725)	(43,380)	114,076	–	65,971	(14,358)	–	51,613
Dividends declared for 2017	–	–	–	–	–	–	(82,412)	–	(82,412)	–	–	(82,412)
Transfer to zakah and charity fund	–	–	–	–	–	–	(2,432)	–	(2,432)	(522)	–	(2,954)
Derecognition on loss of control	–	–	–	–	–	–	(24)	–	(24)	(804)	–	(828)
Issue of shares under incentive scheme	–	–	–	–	–	–	62	60	122	98	–	220
Transfer to statutory reserve	–	–	–	11,408	–	–	(11,408)	–	–	–	–	–
Purchase of treasury shares	–	–	(160,973)	–	–	–	–	–	(160,973)	–	–	(160,973)
Sale of treasury shares	–	(3,058)	133,966	–	–	–	(24,818)	–	106,090	–	–	106,090
Non-controlling interests arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	6,316	40,556	46,872
Balance at 31 December 2018	975,638	–	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019

US$ 000's

	2019	2018
OPERATING ACTIVITIES		
Profit for the year	67,191	115,049
Adjustments for:		
Income from deal-related income	(92,971)	(8,500)
Income from commercial banking	(22,133)	(20,686)
Income from proprietary investments	(12,344)	(8,859)
Income from dividend and gain / (loss) on treasury investments	(48,606)	(7,341)
Foreign exchange loss / (gain)	2,264	(434)
Restructuring related income	(29,406)	(113,147)
Other income	–	(6,902)
Finance expense	129,748	62,585
Impairment allowances	54,264	17,614
Depreciation and amortisation	2,173	2,099
	50,180	31,478
Changes in:		
Placements with financial institutions (original maturities of more than three months)	(280,706)	(168,286)
Financing assets	(108,524)	(21,209)
Other assets	(213,269)	9,458
CBB Reserve and restricted bank balance	(27,176)	(8,913)
Clients' funds	24,218	7,226
Placements from financial and non-financial institutions	818,860	769,893
Customer current accounts	(30,421)	(11,701)
Equity of investment account holders	321,635	(9,443)
Payables and accruals	(68,948)	(132,128)
Net cash generated from operating activities	**485,849**	466,375
INVESTING ACTIVITIES		
Payments for purchase of equipment	(860)	(2,814)
Proceeds from sale of proprietary, co-investment securities, net	2,156	26,512
Purchase of treasury portfolio, net	(353,003)	(249,502)
Proceeds from sale of a subsidiary	–	104,591
Proceeds from sale of investment in real estate	38,805	–
Purchase of investment in real estate	–	(2,931)
Dividends received from proprietary investments and co-investments	5,426	25,308
Advance paid for development of real estate	(25,792)	(13,021)
Acquisition of additional stake in a subsidiary	–	(17,276)
Net cash used in investing activities	**(333,268)**	(129,133)

US$ 000's

	2019	2018
FINANCING ACTIVITIES		
Financing liabilities, net	28,613	(9,810)
Finance expense paid	(106,078)	(55,665)
Dividends paid	(31,037)	(76,151)
Acquisition of NCI	(9,026)	-
Purchase of treasury shares, net	(65,140)	(54,883)
Net cash used in financing activities	**(182,668)**	(196,509)
Net (decrease)/increase in cash and cash equivalents during the year	**(30,087)**	140,733
Cash and cash equivalents at 1 January *	397,620	256,887
Cash and cash equivalents at 31 December	**367,533**	397,620
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	278,251	284,649
Placements with financial institutions (original maturities of 3 months or less)	89,282	112,971
	367,533	397,620

** net of expected credit loss of US$ 1,098 thousand (31 December 2018: US$ 1,087 thousand)*

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of changes in restricted investment accounts

for the year ended 31 December 2019

31 December 2019	**Balance at 1 January 2019**			**Movements during the year**						**Balance at 31 December 2019**		
Company	**No. of units (000)**	**Average value per share US$**	**Total US$ 000's**	**Investment/ (withdrawal) US$ 000's**	**Revaluation US$ 000's**	**Gross income US$ 000's**	**Dividends paid US$ 000's**	**Group's fees as an agent US$ 000's**	**Administration expenses US$ 000's**	**No. of units (000)**	**Average value per share US$**	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.33	50	–	–	–	–	–	–	150	0.33	50
Al Basha'er Fund	13	7.03	91	–	13	–	–	–	–	13	8	104
Safana Investment (RIA 1) #	6,254	2.65	16,573	–	–	–	–	–	–	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100	–	–	–	–	–	–	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	–	–	–	–	–	–	2,633	1.00	2,633
			28,447	**–**	**13**	**–**	**–**	**–**	**–**			**28,460**

31 December 2018	Balance at 1 January 2018			Movements during the year						Balance at 31 December 2018		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	–	(3)	–	–	–	–	150	0.33	50
Al Basha'er Fund	13	7.03	91	–	–	–	–	–	–	13	7.03	91
Safana Investment (RIA 1) #	6,254	2.65	16,573	–	–	–	–	–	–	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,529	2.65	9,352	(252)	–	–	(690)	–	–	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	–	–	–	–	–	–	2,633	1.00	2,633
			28,702	(252)	(3)	–	(690)	–	–			28,447

 # Represents restricted investment accounts of Khaleeji Commercial Bank BSC, a consolidated subsidiary.

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of sources and uses of Zakah and Charity Fund

for the year ended 31 December 2019

US$ 000's

	2019	2018
Sources of zakah and charity fund		
Contributions by the Group	2,437	2,954
Non-Islamic income (note 30)	336	48
Total sources	**2,773**	3,002
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(2,001)	(1,208)
Total uses	(2,001)	(1,208)
Surplus of sources over uses	**772**	1,794
Undistributed zakah and charity fund at 1 January	4,635	2,841
Undistributed zakah and charity fund at 31 December (note 17)	**5,407**	4,635
Represented by:		
Zakah payable	383	755
Charity fund	5,024	3,880
	5,407	4,635

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2019

1. REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges.

The Bank's activities are regulated by the CBB and supervised by a Religious Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

Consolidated financial statements

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The principal subsidiaries of the Bank consolidated in these financial statements are:

Investee name	Country of incorporation	Effective ownership interests 2019	Activities
GFH Capital Limited	United Arab Emirates	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain	55.41%	Islamic retail bank
Al Areen Project companies	Kingdom of Bahrain	100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')	Kingdom of Bahrain	51.72%	Cement manufacturing
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	89.26%	Real estate development
Tunis Bay Investment Company ('TBIC') *	Cayman Islands	82.92%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Cayman Islands	80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	51.18%	Investment in real estate
Residential South Real Estate Development Company (RSRED) *	Bahrain	100%	Real estate development

** refer to note 21*

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

Subsequent event

Subsequent to the year-end, the Group raised US$ 300 million through issue of Sukuk certificates with corporate rate of 7.5% per annum and maturity of 5 years. The Sukuk Certificates are unsecured and listed on the London Stock Exchange.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of certain investment securities. The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), which is also the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing 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 5.

Change in presentation:

Effective January 2019, the Group has changed its description and presentation of the statement of financial position and income statement to better align them with the various revenue generating activities of the Group and to enhance disclosures to enable users have a better understanding of the activities and financial performance of the Group. The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include: a) to provide investment opportunities and manage assets on behalf of its clients as an agent, b) to provide commercial banking services, c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

Notes to the consolidated financial statements

for the year ended 31 December 2019

Segments:

To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The Group acts as both a principal and an intermediary by acquiring, managing and realising investments in assets for institutional and high net-worth clients. The asset management unit is responsible for identifying and managing investments in income-yielding real estate and leased assets in the target markets. Investment banking activities focuses on acquiring, managing and realising investments to achieve and exceed benchmark returns. Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include proprietary private equity, co-investments and strategic non-banking investments.
Commercial banking	This includes all sharia-compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.
Real Estate development	This business unit is primarily involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.
Corporate and treasury	All common costs and activities that are undertaken at Group-level, including treasury and residual investment assets, is considered as part of the Corporate and treasury activities of the Group.

Each of the above operating segments, except commercial banking which is a separate subsidiary has its own dedicated team of professionals and is supported by a common placement team and support units.

The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision-makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length-basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs are allocated based on cost drivers/factors that can be identified with the segment and/or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

3. BASIS OF PREPARATION (contd.)

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	Products	Types of revenue
Investment banking activity	Deal-by-deal offerings of private equity, income-yielding asset opportunities.	Deal-related income, earned by the Group from investee companies in connection with new acquisitions. Fee-based income, in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature.
Commercial banking income	Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services.	Financing income, fees and investment income (net of direct funding costs).
Proprietary investments	Proprietary investments comprise the Group's strategic and co-investment exposure. This also includes non-banking subsidiaries and equity -accounted investees where the Bank has significant influence.	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments, co-investments and share of profit / (loss) of equity accounted investees. Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments.
Co-investment	Represent the Group's co-investment along with its clients in the products promoted by the Group.	Dividends, gain / (loss) on co-investments of the Bank.
Real estate	Proprietary holdings of real estate for direct sale, development and sale, and/or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	Development and sale income, from development and sale of real estate projects of the Group based on percentage of completion (POC) method. Rental and operating income, from rental and other ancillary income from investment in real estate.
Treasury operations	Represents the Bank's liquidity management operations, including its fundraising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short-term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

4. 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 applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by the Group except for changes arising from adoption of FAS 28 as set out below.

(a) Impact of new accounting standards and changes in accounting policies
There are no new AAOIFI standards and interpretations for financial year beginning on or after 1 January 2019 that would be expected to have a material impact on the Group.

i) New 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.

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).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(a) Impact of new accounting standards and changes in accounting policies (contd.)

Agent (contd.)

On-balance-sheet approach

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

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

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

Transitional provisions

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

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.

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

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 institution's 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.

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

Transitional provisions

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

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

Notes to the consolidated financial statements

for the year ended 31 December 2019

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

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

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

Transitional provisions

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

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.

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

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(ii) Subsidiaries

Subsidiaries are those enterprises (including special-purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(b) Basis of consolidation (contd.)

(iii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquire, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Special purpose entities

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

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 these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 27.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Equity accounted investees

This comprise investment in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and joint ventures are accounted for under equity method. These are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees 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 investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, 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 equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale.

Notes to the consolidated financial statements

for the year ended 31 December 2019

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees 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 equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Assets held-for-sale

(i) Classification

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

(ii) Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

If the criteria for classification as held-for-sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held-for-sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date 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.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(e) Offsetting of financing instruments
Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net-basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net-basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(f) Investment securities
Investment securities are categorised as propritory investments, co-investments and treasury portfolio. (Refer note 3 for the basis of the categorisation).

Investment securities comprise debt-type and equity-type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (b) (ii) and (vi)).

(i) Classification
The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments
Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield- basis or designated on initial recognition as FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. This comprise investments in Sukuk.

At amortised cost
These are debt-type instruments that are managed on contract yield basis and are not designated as FVTIS.

Equity-type instruments
Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported internally by management on a fair value basis.

At fair value through equity (FVTE)
Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition
Investment securities are recognised at the trade date i.e. the date that the Group commits 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 plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

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 consolidated 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 owners equity and presented in a separate investment fair value reserve in 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 owners' equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less 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 uncollectibility. 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 measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

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

(h) Assets acquired for leasing
Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease 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 losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

(i) Placements with and from financial and other institutions
These comprise placements made with financial and other institutions or received under shari'a-compliant contracts. Placements are usually short-term in nature and are stated at their amortised cost.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(j) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash-on-hand, bank balances and placements with financial institutions with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day-to-day operations of the Group are not included in cash and cash equivalents.

(k) Investment property

Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:

(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(ii) commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

(i) commencement of own use, for a transfer from investment property to owner-occupied property;
(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

(l) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

(m) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Machinery	8 – 40 years
Other equipment comprising:	
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

Notes to the consolidated financial statements

for the year ended 31 December 2019

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

(n) Intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

(o) Impairment of exposures subject to credit risk

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; 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.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(o) Impairment of exposures subject to credit risk (contd.)

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure 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. 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 that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result 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 that are 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').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are 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.

Measurement of ECLs

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

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

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset 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 Bank on terms that the Bank 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 exposures subject to credit risk are deducted from the gross carrying amount of the assets.

(p) Impairment of 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.

(q) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk 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.

(r) Clients' funds

These represent funds of projects set up and promoted by the Group and placed with the Group pending disbursement to the projects concerned and carried at amortised cost.

(s) Customers' current accounts

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

(t) Term financing

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing is initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the term financing are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(u) 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 to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 37).

(v) Dividends and board remuneration

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

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(w) Share capital and reserves
The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

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 on the Group's consolidated income statement on the sale of treasury shares.

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

(x) Equity of investment account holders
Equity of investment account holders are funds held by the Group, 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 and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit-sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank 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 Bank 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 these reserves results in an increase in the liability towards the pool of investment accounts holders.

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 Mudaraba 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.

(y) Revenue recognition
Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business
Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

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.

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

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.

Non-banking business
Revenue from the sale of goods is recognised when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

(z) 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 means.

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

(bb) Employees benefits
(i) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus 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. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

4. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(bb) Employees benefits (contd.)

(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 under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, 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 a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated 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 consolidated income statement when they are due.

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions'). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(cc) 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.

(dd) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(ee) 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.

(ff) Investment account holder protection scheme

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

(gg) Income tax

The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect 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.

Judgements

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 4(o) and note 37(a);

(i) Going concern

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

(ii) 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 investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. 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 (note 4 (f)).

(iii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (contd.)

Estimations

Impairment of exposures subject to credit risk

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(o) and note 37(a).

(i) Fair value of investments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using well recognised valuation techniques such as discounted cash flow, market multiple and recent transactions. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and 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. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

(ii) Impairment of investments carried at fair value through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than nine months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, ease of raising liquidity for the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions, long-term asset objectives and available information. 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.

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property using either sales comparable approach or the residual value basis or the market value of the property considering its current physical condition. The Group's investment property are situated in Bahrain, UAE and Morocco. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other non-financial assets and cash-generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash-generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash-generating units is described in accounting policy note 4 (n). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 21.

6. CASH AND BANK BALANCES

US$ 000's

	31 December 2019	31 December 2018
Cash	14,067	21,609
Balances with banks	198,418	225,024
Balances with Central Bank of Bahrain:		
– Current account	82,406	39,709
– Reserve account	67,454	55,225
	362,345	341,567

The reserve account with the Central Bank of Bahrain of US$ 67,454 thousand (2018: US$ 55,225 thousand) and balances with banks of US$ 16,640 thousand (2018: US$ 1,693 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 8 thousand (2018: US$ 134 thousand).

Notes to the consolidated financial statements

for the year ended 31 December 2019

7. TREASURY PORTFOLIO

US$ 000's

	31 December 2019	31 December 2018
Placements with financial institutions	546,575	289,558
Equity type investments		
At fair value through income statement		
- Structured notes *	239,807	-
Debt-type investments		
At fair value through income statement		
- Quoted sukuk	284,904	100,527
At amortised cost		
- Quoted sukuk *	517,375	427,915
	1,588,661	818,000

** Includes structured notes of US$ 239,807 thousand (31 December 2018: Nil) and quoted sukuk of US$ 51,070 thousand (31 December 2018: US$ 177,092 thousand) pledged against term financing of US$ 215,326 thousand (31 December 2018: US$ 142,447 thousand) (note 16).*

Equity type investments - At fair value through income statement

US$ 000's

	31 December 2019	31 December 2018
At 1 January	-	-
Additions	598,725	-
Disposals during the year, at carrying value	(359,248)	-
Fair value changes	330	-
At 31 December	**239,807**	-

Notes to the consolidated financial statements

for the year ended 31 December 2019

8. FINANCING ASSETS

US$ 000's

	31 December 2019	31 December 2018
Murabaha	1,008,580	948,188
Musharaka	277	9,393
Wakala	13,280	13,281
Mudharaba	2,776	2,782
Istisnaa	4,597	5,448
Assets held-for-leasing	350,976	294,788
	1,380,486	1,273,880
Less: Impairment allowances	(107,709)	(64,933)
	1,272,777	1,208,947

Murabaha financing receivables are net of deferred profits of US$ 68,233 thousand (2018: US$ 66,546 thousand).

The movement on impairment allowances are as follows:

US$ 000's

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2019	12,632	9,801	42,500	64,933
Net movement between stages	(53)	(3,239)	3,292	-
Net charge for the year (note 25)	(430)	679	42,526	42,775
At 31 December 2019	**12,149**	**7,241**	**88,319**	**107,709**

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	7,021	25,520	27,149	59,690
Net movement between stages	6,751	(12,711)	5,960	-
Net charge for the year (note 25)	(1,140)	(3,008)	13,546	9,398
Write-off	-	-	(4,155)	(4,155)
At 31 December 2018	12,632	9,801	42,500	64,933

9. REAL ESTATE INVESTMENT

US$ 000's

	31 December 2019	31 December 2018
Investment Property		
– Land	490,412	482,851
– Building	40,841	40,841
	531,253	523,692
Development Property		
– Land	797,535	811,684
– Building	477,221	504,634
	1,274,756	1,316,318
	1,806,009	1,840,010

(i) Investment property

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 40.84 million (2018: US$ 192.2 million) is pledged against Wakala facilities and Ijarah facility (note 16).

The fair value of the Group's investment property at 31 December 2019 was US$ 543,850 thousand (31 December 2018: US$ 536,804 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

US$ 000's

	31 December 2019	31 December 2018
At 1 January	523,692	616,263
Additions during the year	8,360	49,740
Disposals	–	(6,154)
Transfer to development property	–	(657)
De-recognition on deconsolidation of a subsidiary	–	(135,500)
Impairment allowances (note 25)	(799)	–
At 31 December	**531,253**	523,692

(ii) Development properties

This represent properties under development for sale in UAE, Bahrain, North Africa and India. Development property of US$ Nil (31 December 2018: US$ 42.3 million) is pledged against a Wakala facility.

US$ 000's

	31 December 2019	31 December 2018
At 1 January	1,316,318	893,037
Acquisitions arising on consolidation of a subsidiary (note 21)	–	377,332
Additions during the year	44,553	93,712
Transfer from investment property	–	657
Disposals	(71,956)	(17,602)
Foreign currency translation impact	(14,159)	(30,818)
At 31 December	**1,274,756**	1,316,318

Notes to the consolidated financial statements

for the year ended 31 December 2019

10. PROPRIETARY INVESTMENTS

US$ 000's

	31 December 2019	31 December 2018
Equity-type investments		
At fair value through income statement		
Unquoted equity securities	29,640	34,875
	29,640	34,875
At fair value through equity		
Listed equity securities (at fair value) *	27,324	29,093
Unquoted equity securities (at cost less impairment)	95,594	103,080
	122,918	132,173
Equity-accounted investees	**115,617**	66,964
	268,175	234,012

** Listed equity securities of US$ 26,216 thousand (2018: US$ 26,214 thousand) are pledged against Murabaha facility (note 16).*

(i) Unquoted equity securities – At fair value through income statement

US$ 000's

	2019	2018
At 1 January	34,875	34,875
Fair value changes during the year	(5,235)	–
At 31 December	**29,640**	34,875

(ii) Listed equity securities at fair value through equity

US$ 000's

	2019	2018
At 1 January	29,093	103
Additions during the year	26,282	59,958
Disposals during the year, at carrying value	(27,945)	(26,243)
Fair value changes	(106)	(4,725)
At 31 December	**27,324**	29,093

(iii) Unquoted equity securities fair value through equity

US$ 000's

	2019	2018
At 1 January	103,080	103,080
Distributions during the year	(7,486)	–
At 31 December	**95,594**	103,080

These are carried at cost less impairment in the absence of quoted prices or reliable measure of fair value.

10. PROPRIETARY INVESTMENTS (contd.)

(iv) Equity-accounted investees

Equity-accounted investees represent investments in the following material associates:

Name	Country of incorporation	% holding 2019	2018	Nature of business
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco')	Kingdom of Bahrain	17.92%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	28.69%	28.69%	Islamic wholesale banking
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.
AlAreen Hotel SPC	Kingdom of Bahrain	60%	–	Hospitality

US$ 000's

	2019	2018
At 1 January	66,964	81,440
De-recognition on acquiring controlling stake (note 22)	–	(27,260)
Additions during the year (note 21)	41,225	9,623
Share of profit for the year, net	7,428	3,161
At 31 December	**115,617**	66,964

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the Board of Directors, the investment is accounted for as an investment in equity-accounted investee. The Group through shareholder's agreement agreed to exercise joint control with 40% shareholding over AlAreen Hotel SPC with another partner, hence, it is considered as an equity-accounted investee.

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

US$ 000's

	2019	2018
Total assets	331,268	270,911
Total liabilities	29,621	79,755
Total revenues	88,292	74,884
Total profit / (loss)	35,553	(168)

Notes to the consolidated financial statements

for the year ended 31 December 2019

11. CO-INVESTMENTS

US$ 000's

	31 December 2019	31 December 2018
At fair value through equity		
– Unquoted equity securities (at cost less impairment)	96,507	77,644
	96,507	77,644
At 1 January	77,644	82,282
Additions during the year	29,513	9,900
Disposals during the year, at carrying value	(1,680)	(8,689)
Impairment charge for the year (note 25)	(8,970)	(5,849)
At 31 December	**96,507**	77,644

These are carried at cost less impairment in the absence of quoted price or a reliable measures of fair value.

12. ASSETS HELD-FOR-SALE AND LIABILITIES RELATED TO IT

US$ 000's

	31 December 2019	31 December 2018
Assets	101,213	147,141
Liabilities	39,936	42,749
Non-controlling interests	25,396	40,556

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), the Group's subsidiary acquired in 2018. The Group has an active plan approved by the Board, to sell its stake in FCC, and accordingly, the asset, liabilities and non-controlling interests acquired are classified as held-for-sale in the consolidated statement of financial position. The net profit / (loss) from operations is presented in the condensed consolidated income statement as 'Profit / (loss) from assets held-for-sale and discontinued operations, net. Interest acquired is classified as held-for-sale in the consolidated statement of financial position. The net profit / (loss) from operations is presented in the condensed consolidated income statement as 'Profit / (loss) from assets held- for- sale and discontinued operations, net.

During the year, the Group disposed off its entire stake (along with the additional interests acquired during the year) in Sheffield Dubai Investment Company (SDIC) that was previously classified as 'held-for-sale' resulting in loss of control, accordingly, the assets and liabilities of SDIC were derecognised in the consolidated financial statements and the resulting gain of US$ 8 million is included under 'deal-related income'.

13. RECEIVABLES AND PREPAYMENTS

US$ 000's

	31 December 2019	31 December 2018
Investment banking receivables	53,262	22,588
Financing to projects, net	27,202	25,001
Receivable on sale of development properties	32,547	18,881
Advances and deposits	73,625	44,300
Employee receivables	14,616	17,292
Profit on sukuk receivable	8,619	7,485
Lease rentals receivable	45,363	30,570
Receivable from sale of investments	46,000	-
Re-possessed assets	35,844	2,263
Prepayments and other receivables	87,068	60,762
	424,146	229,142

During the year, the Group recognised reversal of US$ 146 thousand (2018: reversal of US$ 80 thousand) and charge of US$ 2,029 thousand (2018: charge of US$ 1,923 thousand) impairment allowance on other receivables and lease rentals receivable respectively (note 25).

14. PROPERTY AND EQUIPMENT

US$ 000's

	31 December 2019	31 December 2018
Land	17,811	29,170
Buildings and infrastructure on leasehold land	2,191	45,981
Others including furniture, vehicles and equipment	5,438	17,751
	25,440	92,902

Depreciation on property and equipment during the year was US$ 2,172 thousand (2018: US$ 2,099 thousand)

15. PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions and individuals (including corporates and individuals) as part of the Group's treasury activities. This includes US$ 84 million (2018: US$ 84 million) of funds placed by a non-financial entity which is subject to regulatory sanctions.

Notes to the consolidated financial statements

for the year ended 31 December 2019

16. TERM FINANCING

US$ 000's

	31 December 2019	31 December 2018
Murabaha financing	249,435	191,205
Wakala financing	-	24,797
Ijarah financing	24,653	26,743
Other borrowings	5,330	13,392
	279,418	256,137
Current portion	240,721	197,054
Non-current portion	38,697	59,083
	279,418	256,137

Murabaha financing comprise:

i) US$ 6.8 million financing facility for a period of three years with profit rate of six-month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;

ii) US$ 14 million facility obtained for general corporate purposes for a period of five years at a profit rate of three-month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and

iii) Short-term and medium-term facilities of US$ 228,526 thousand (2018: US$ 132,739 thousand) are secured by quoted sukuk of US$ 51,070 thousand (2018: US$ 152,845 thousand), structured notes of US$ 239,807 thousand (2018: US$ Nil thousand) (note 7) and equity type investments of US$ 26,216 thousand (2018: US$ 26,214 thousand) (note 10).

Ijarah financing facility:

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US$ 40.84 million (note 9(i)), repayable over a period of eight years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

These comprise financing availed by subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and is held through special purpose vehicle that does not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of subsidiaries.

17. OTHER LIABILITIES

US$ 000's

	31 December 2019	31 December 2018
Employee-related accruals	14,132	19,008
Board member allowances and accruals	1,799	3,500
Unclaimed dividends	12,608	13,676
Mudaraba profit accrual	23,637	11,348
Provision for employees' leaving indemnities	3,219	3,437
Zakah and Charity fund	5,407	4,635
Advance received from customers	114,704	203,314
Accounts payable	170,886	146,862
Other accrued expenses and payables	102,517	112,077
	448,909	517,857

18. EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

US$ 000's

	31 December 2019	31 December 2018
Balances with banks	111,792	125,497
CBB reserve account	67,454	55,225
Placements with financial institutions	173,761	115,748
Debt type instruments – sukuk	517,377	427,923
Financing assets	348,161	172,517
	1,218,545	896,910

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

US$ 000's

	2019	2018
Returns from jointly invested assets	(62,451)	(37,731)
Banks share as Mudarib	22,433	14,904
Return to investment account holders	**(40,018)**	(22,827)

The average gross rate of return in respect of unrestricted investment accounts was 5.12% for 2019 (2018: 4.21%). Approximately 3.28% (2018: 2.55%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 9 thousand (2018: US$ 9 thousand) and investment risks reserve of US$ 5 thousand (2018: US$ 5 thousand).

19. SHARE CAPITAL

US$ 000's

	31 December 2019	31 December 2018
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2018: 9,433,962,264 shares of US$ 0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2018: 3,681,650,441 shares of US$ 0.265 each)	**975,638**	975,638

The movement in the share capital during the year is as follows:

US$ 000's

	2019	2018
At 1 January	975,638	975,638
Issue of bonus shares	55,000	-
Extinguishment of treasury shares	(55,000)	-
At 31 December	**975,638**	975,638

As at 31 December 2019, the Bank held 296,537,880 (31 December 2018: 255,455,953) of treasury shares. During the year, the Bank purchased 133,287,880 shares for US$ 31.8 million in connection with employee long-term incentive plan which is included in treasury shares.

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) 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%	2,292,177,483	7,464	62.26
1% up to less than 5%	735,902,932	14	19.99
5% to less than 10% #	653,570,026	2	17.75
Total	**3,681,650,441**	**7,480**	**100**

** Expressed as a percentage of total outstanding shares of the Bank.*
 # Includes treasury shares held by the Bank.

(iii) As at 31 December 2019, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
Abu Dhabi Financial Group LLC and related entities	357,032,146	9.69
GFH Financial Group BSC (Treasury shares)	296,537,880	8.06

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders.

In the shareholders meeting held on 28 March 2019, the following were approved and effected during the year:
a) Cash dividend of 3.34% of the paid-up share capital amounting to US$ 30 million;
b) Bonus shares of US$ 55 million representing 5.97% of the nominal value of shares (1 share for every 16.74 shares held);
c) Appropriation of US$ 1 million towards charity for the year;
d) Appropriation of US$ 941 thousand towards zakah for the year;
e) Transfer of US$ 11.4 million to statutory reserve; and
f) Extinguishment of 207,547,170 treasury shares held by the Bank as of the date of the AGM, after obtaining the approval of relevant authorities.

In the shareholders meeting held on 31 December 2019, the shareholders approved the use of 140 million treasury shares for the purpose of strategic acquisition of another financial institutions

Proposed appropriations

The Board of Directors proposes the following appropriations for 2019 subject to shareholders' and regulatory approval:
- Cash dividend of 5.12% of the paid-up share capital amounting to US$ 50 million;
- Transfer of US$ 8.01 million to statutory reserve; and
- US$ 1 million towards charity and US$ 568 thousand towards zakah for the year.

20. SHARE GRANT RESERVE

US$ 000's

	2019	2018
At 1 January	1,086	1,026
Issue of share under incentive scheme	112	158
Transfer between interests	–	(98)
At 31 December	**1,198**	1,086

21. ACQUISITION OF SUBSIDIARIES

(i) During the year, the Group acquired additional stake in the following subsidiaries

The Group's existing stake and additional stake acquired are given below:

	Current Stake	Additional stake acquired	Total stake
Tunis Bay Investment Company (TBIC)	51.41%	31.51%	82.92%
Residential South Real Estate Development Company (RSRED)	51.18%	48.82%	100%

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

US$ 000's

Carrying amount of NCI acquired (based on historical cost)	49,469
Consideration to NCI (based on transaction price)	(100,881)
Decrease in equity attributable to shareholders of the Bank	**(51,412)**

(ii) During 2018, the Group acquired additional stake of 31.39% in Gulf Holding Company KSC (Holding) (GHC), a company incorporated in the State of Kuwait taking the Group's holding to 51.18% and obtaining control over GHC. Accordingly, GHC's assets, liabilities and results have been consolidated from the date the Group obtained control.

GHC has the following subsidiaries:

Name	Country of incorporation	Effective ownership interests	Activities
Residential South Real Estate Development Co SPC (RSRED)	Kingdom of Bahrain	100%	Undertake Villamar Project in Bahrain
AlAreen Down Town Real Estate Development Co SPC (AADT)	Kingdom of Bahrain	100%	Undertake AlAreen Down Town Project in Bahrain
The Royal Real Estate Development Co Holding Co SPC (RREDH)	Kingdom of Bahrain	100%	Holding investment in Villa Royale project and real estate development project in Morocco

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were partially in the form of cash and treasury shares of the Bank. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted fair values of the acquired entities as at 30 June 2018, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of this consolidated financial statements, has not concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management based on various market and income analyses and asset appraisals at the effective date. No goodwill or negative goodwill has been recognised on the effective date.

Carrying value of assets acquired and liabilities assumed at the effective date were:

US$ 000's

Investment properties	40,373
Development properties	387,332
Cash and bank balances	1,547
Other receivables and pre-payments	26,280
Total assets	**455,532**
Sukuk financing *	202,784
Advances from customers	168,857
Other liabilities	70,817
Total liabilities	**442,458**
Total net identifiable assets	**13,074**
Carrying value of Group's previously held equity interest in investee	–
Consideration transferred	6,691
Non-controlling interests recognised	6,383
Total consideration	**13,074**
Consideration paid	6,691
Less: Cash bank balances acquired on consolidation	(1,547)
Net cash paid for the purpose of consolidated statement cash flows	**5,144**

** sukuk financing was settled subsequent to acquisition*

22. RESTRUCTURING-RELATED INCOME

This represents income from restructuring of liabilities of a subsidiary. During the year, the Group agreed to settle a liability of US$ 56 million to a contractor through for cash and partial stake (40%) in a subsidiary enagaged in hospitality management. The excess of the the carrying amount of liability over the total consideration of cash and carrying value of the 40% stake in the subsidiary is recognised as 'restructuring-related income' representing income from settlement of liabilities at lower amounts. As the investee is now jointly managed between the contractor and the Group (a joint venture), this has resulted in loss of control of the subsidiary and the carrying value of the joint venture is recognised as 'equity-accounted investee' and included under Proprietary investment.

2018 income of US$ 35.3 million respresents income from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group following litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming creditors claims was completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. Accordingly the difference between the previously recognised liability / provisions and the court-approved amounts was reversed to the income statement.

23. STAFF COST

US$ 000's

	2019	2018
Salaries and benefits	47,054	49,748
Social insurance expenses	3,536	3,387
	50,590	53,135

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of three years and option exercise period over ten years ending 2018 at an exercise price of USD 0.65 / share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a three years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the three-year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 – 2019 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus		

Notes to the consolidated financial statements

for the year ended 31 December 2019

US$ 000's

Share incentive scheme	2019		2018	
	No. of Shares	**US$ 000's**	No. of Shares	US$ 000's
Opening balance	26,547,980	10,408	35,872,407	9,568
Awarded during the period	24,531,867	6,259	10,073,642	4,502
Dividends	2,893,887	–	–	–
Forfeiture and other adjustments	–	–	–	–
Transfer to employees / settlement	(13,803,722)	(5,628)	(19,398,069)	(3,662)
Closing balance	**40,170,012**	**11,039**	26,547,980	10,408

In case of the employee share purchase plans, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares.

24. OTHER OPERATING EXPENSES

US$ 000's

	2019	2018
Investment advisory expenses	14,186	14,477
Rent	4,976	4,990
Professional and consultancy fees	5,616	7,119
Legal expenses	3,502	156
Depreciation	2,172	2,099
Expenses relating to non-banking subsidiaries	4,562	15,475
Other operating expenses	16,831	20,061
	51,845	64,377

25. IMPAIRMENT ALLOWANCES

US$ 000's

	2019	2018
Bank balances (note 6)	(126)	132
Treasury portfolio (note 7)		
– Placements with financial institutions	161	948
– Debt type securities (Quoted sukuk at amortised cost)	19	(265)
Financing assets (note 8)	42,775	9,398
Investment property (note 9)	799	–
Co-investment (note 11)	8,970	5,849
Lease rental receivables (note 13)	2,029	1,923
Other receivables (note 13)	(146)	(80)
Commitments and financial guarantees	(217)	(291)
	54,264	17,614

Notes to the consolidated financial statements

for the year ended 31 December 2019

26. 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 entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third-parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

US$ 000's

2019	Associates/ Joint venture	Key management personnel	Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Transactions					
Sale of real estate development	–	–	60,000	–	60,000
Subscription in projects promoted by the Group	–	–	10,080	–	10,080
Repayment of term finance	–	–	25,800	–	25,800
Assets					
Financing assets	–	5,350	15,146	60,752	**81,248**
Proprietary investment	115,617	–	6,058	47,881	**169,556**
Co-investment	–	–	–	51,950	**51,950**
Receivables and prepayments	2,393	–	5,000	60,642	**68,035**
Liabilities					
Clients' funds	72	–	–	15,409	**15,481**
Customer current account	–	4,732	–	–	**4,732**
Placements from financial, non-financial institutions and individuals	515	162	14,193	3,202	**18,072**
Payables and accruals	1,133	1,800	11,679	11,679	**26,291**
Equity of investment account holders	1,072	1,586	299,416	1,008	**303,082**
Income					
Income from investment banking	–	–	–	95,771	**95,771**
Income from commercial banking	(151)	292	(10,027)	(29)	**(9,915)**
Income from proprietary and co-investments	7,410	–	–	2,358	**9,768**
Real estate income	–	50	13,392	–	**13,442**
Treasury and other income	313	–	–	1,301	**1,614**
Expenses					
Operating expenses	–	12,717 *	–	–	**12,717**
Finance expenses	–	–	623	–	**623**

** The amount presented excluded bonus to key management personnel for 2019 as allocation has not been finalised at the date of approval of these consolidated financial statements.*

Notes to the consolidated financial statements

for the year ended 31 December 2019

US$ 000's

2018	Associates/ Joint venture	Key management personnel	Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	–	6,016	15,146	44,810	65,972
Proprietary investments	54,829	–	6,058	54,958	115,845
Co-investments	–	–	–	16,798	16,798
Receivables and prepayments	914	–	13,257	47,605	61,776
Liabilities					
Client's funds	129	–	–	14,412	14,541
Placements from financial, non-financial institutions and individuals	–	–	8,404	–	8,404
Customer current account	178	2,117	1,844	3,196	7,335
Term financing	–	–	24,797	–	24,797
Payables and accruals	–	3,499	3,132	8,364	14,995
Equity of investment account holders	1,273	3,634	28,592	1,241	34,740
Income					
Income from investment banking	–	–	23,500	18,710	42,210
Income from commercial banking	(32)	271	(7,308)	(350)	(7,419)
Income from proprietary and co-investments	3,256	–	–	585	3,841
Expenses					
Operating expenses	–	13,747	–	156	13,903
Finance expense	–	–	3,286	–	3,286
Transactions					
Purchase of assets	–	–	25,000	–	25,000
Purchase of investments	–	–	29,700	–	29,700
Financing obtained	–	–	4,666	–	4,666
Financing repaid	–	–	(4,709)	–	(4,709)
Subscription in projects promoted by the Group	–	–	87,100	–	87,100
Discount on subscription	–	–	8,100	–	8,100

26. RELATED PARTY TRANSACTIONS (contd.)

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 and its significant banking subsidiary.

During the year, there were no direct participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

US$ 000's

	2019	2018
Board members' remuneration, fees and allowance	3,095	4,536
Salaries, other short-term benefits and expenses	12,507	8,821
Post-employment benefits	210	390

27. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group 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 US$ 1,975 million (31 December 2018: US$ 1,677 million). During the year, the Group had charged management fees amounting to US$ 2,880 thousand (2018: US$ 2,571 thousand) to its assets under management.

28. EARNINGS PER SHARE

Basic 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.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

US$ 000's

	2019	2018
In thousands of shares		
Weighted average number of shares for basic & diluted earnings	**3,343,148**	3,543,155

Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2019. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

29. ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank 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 Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2019 is US$ 0.0001542/share and the current year calculations for zakah are yet to be approved by the Group's Shari'a Supervisory Board and will be provided for in the Bank's website.

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

30. EARNINGS PROHIBITED BY SHARIA

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 means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 336 thousand (2018: US$ 48 thousand).

31. SHARIA SUPERVISORY BOARD

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

32. MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation/settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 37.

US$ 000's

31 December 2019	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**No stated maturity**	**Total**
Assets							
Cash and bank balances	325,751	12,538	14,553	9,440	-	63	362,345
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	-	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	-	1,272,777
Real estate investment	-	-	4,349	899,472	902,188	-	1,806,009
Proprietary investments	2,451	-	18,718	115,505	131,501	-	268,175
Co-investments	-	2,676	-	87,080	6,751	-	96,507
Assets held-for-sale	-	-	101,213	-	-	-	101,213
Receivables and prepayments	115,841	113,598	56,799	133,584	4,324	-	424,146
Property and equipment	-	-	-	-	25,440	-	25,440
Total assets	**1,502,572**	**287,618**	**561,577**	**1,931,752**	**1,661,691**	**63**	**5,945,273**
Liabilities							
Client's funds	55,931	-	-	14,927	-	-	70,858
Placements from financial, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	-	2,447,249
Customer current account	40,746	15,000	16,288	18,615	56,838	-	147,487
Term financing	47,649	30,888	164,059	23,431	13,391	-	279,418
Liabilities related to assets held-for-sale	-	-	39,936	-	-	-	39,936
Payables and accruals	37,029	44,519	30,893	325,153	11,315	-	448,909
Total liabilities	**1,183,354**	**563,058**	**659,792**	**933,643**	**94,010**	**-**	**3,433,857**
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	-	1,218,545
Off-balance-sheet items							
Commitments	87,000	46,645	15,801	105,415	270	-	255,131
Restricted investment accounts	154	-	-	-	28,306	-	28,460

Notes to the consolidated financial statements

for the year ended 31 December 2019

US$ 000's

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	309,281	9,525	16,087	6,610	-	64	341,567
Treasury portfolio	415,270	-	302,203	-	100,527	-	818,000
Financing assets	206,529	80,319	205,274	441,592	275,233	-	1,208,947
Real estate investment	-	-	-	868,530	971,480	-	1,840,010
Proprietary investments	-	-	-	165,011	69,001	-	234,012
Co-investments	-	-	-	-	77,644	-	77,644
Assets held-for-sale	-	101,213	45,928	-	-	-	147,141
Receivables and prepayments	10,143	33,687	60,988	109,372	14,952	-	229,142
Property and equipment	-	-	-	-	92,902	-	92,902
Total assets	941,223	224,744	630,480	1,591,115	1,601,739	64	4,989,365
Liabilities							
Clients' funds	29,532	-	3,179	13,928	-	-	46,639
Placements from financial and non-financial institutions and individuals	283,914	422,702	688,949	221,562	11,262	-	1,628,389
Customer current account	48,551	18,178	19,740	22,560	68,877	-	177,906
Term financing	36,998	18,022	32,334	32,084	136,699	-	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	-	42,749
Payables and accruals	54,562	26,324	34,654	402,317	-	-	517,857
Total liabilities	453,557	525,162	781,669	692,451	216,838	-	2,669,677
Equity of investment account holders	161,409	116,220	261,812	147,247	210,222	-	896,910
Off-balance-sheet items							
Commitments	55,804	69,480	46,981	74,200	8,016	-	254,481
Restricted investment accounts	141	-	-	28,306	-	-	28,447

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

(a) Industry Sector

US$ 000's

31 December 2019	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	358,145	4,190	10	362,345
Treasury portfolio	1,525,963	–	62,698	1,588,661
Financing Assets	20,842	548,799	703,136	1,272,777
Real estate investments	–	1,806,009	–	1,806,009
Proprietary investment	106,938	93,419	67,818	268,175
Co-investment	–	96,507	–	96,507
Asset held-for-sale	–	–	101,213	101,213
Receivables and prepayments	148,905	169,645	105,596	424,146
Property and equipment	–	20,155	5,285	25,440
Total assets	**2,160,793**	**2,738,724**	**1,045,756**	**5,945,273**
Liabilities				
Client's funds	3,197	15,376	52,285	70,858
Placements from financial, non-financial institutions and individuals	1,788,063	–	659,186	2,447,249
Customer accounts	5,725	19,687	122,075	147,487
Term financing	246,429	32,989	–	279,418
Liabilities related to assets held-for-sale	–	–	39,936	39,936
Payables and accruals	18,060	312,685	118,164	448,909
Total liabilities	**2,061,474**	**380,737**	**991,646**	**3,433,857**
Equity of Investment account holders	**22,379**	**316,878**	**879,288**	**1,218,545**
Off-balance-sheet items				
Commitments	–	162,886	92,245	**255,131**
Restricted investment accounts	104	25,746	2,610	**28,460**

Notes to the consolidated financial statements

for the year ended 31 December 2019

US$ 000's

31 December 2018	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	340,374	951	242	341,567
Treasury portfolio	220,757	220,615	376,628	818,000
Financing assets	29,474	436,097	743,376	1,208,947
Real estate investments	–	1,840,010	–	1,840,010
Proprietary investment	68,103	93,295	72,614	234,012
Co-investment	49	23,214	54,381	77,644
Asset held-for-sale	–	–	147,141	147,141
Receivables and prepayments	28,867	125,791	74,484	229,142
Property and equipment	–	18,411	74,491	92,902
Total assets	687,624	2,758,384	1,543,357	4,989,365
Liabilities				
Client's funds	5,694	14,397	26,548	46,639
Placements from financial, non-financial institutions and individuals	901,257	6,255	720,877	1,628,389
Customer accounts	4,177	20,775	152,954	177,906
Term financing	190,989	26,628	38,520	256,137
Liabilities related to assets held-for-sale	–	–	42,749	42,749
Payables and accruals	45,000	370,046	102,811	517,857
Total liabilities	1,147,117	438,101	1,084,459	2,669,677
Equity of Investment account holders	16,134	34,202	846,574	896,910
Off-balance-sheet items				
Commitments	1,361	148,566	104,554	254,481
Restricted investment accounts	91	25,750	2,606	28,447

33. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (contd.)

(b) Geographic Region

US$ 000's

31 December 2019	GCC Countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	303,516	606	1,393	51,649	5,181	362,345
Treasury portfolio	1,338,826	10,028	–	29,900	209,907	1,588,661
Financing assets	1,242,257	–	37	14,307	16,176	1,272,777
Real estate investment	983,421	470,551	352,037	–	–	1,806,009
Proprietary investment	267,078	–	–	–	1,097	268,175
Co-investments	18,942	–	49,198	18,452	9,915	96,507
Assets held-for-sale	101,213	–	–	–	–	101,213
Receivables and prepayments	257,548	30,825	25,730	41,363	68,680	424,146
Property and equipment	23,185	2,255	–	–	–	25,440
Total assets	**4,535,986**	**514,265**	**428,395**	**155,671**	**310,956**	**5,945,273**
Liabilities						
Client's funds	55,409	521	–	14,928	–	70,858
Placements from financial, non-financial institutions and individuals	2,342,735	102,496	–	–	2,018	2,447,249
Customer accounts	145,165	–	1,639	–	683	147,487
Financing liabilities	97,212	–	–	–	182,206	279,418
Liabilities for assets held-for-sale	39,936	–	–	–	–	39,936
Payables and accruals	246,009	123,157	65,701	13,408	634	448,909
Total liabilities	**2,926,466**	**226,174**	**67,340**	**28,336**	**185,541**	**3,433,857**
Equity of investment account holders	1,211,821	–	4,883	–	1,841	**1,218,545**
Off-balance-sheet items						
Commitments	255,131	–	–	–	–	**255,131**
Restricted investment accounts	25,850	–	–	–	2,610	**28,460**

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

Notes to the consolidated financial statements

for the year ended 31 December 2019

US$ 000's

31 December 2018	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	239,632	516	101	80,609	20,709	341,567
Treasury portfolio	818,000	–	–	–	–	818,000
Financing assets	1,137,300	–	101	29,415	42,131	1,208,947
Real estate investment	973,441	470,057	396,512	–	–	1,840,010
Proprietary investment	231,238	–	–	–	2,774	234,012
Co-investments	1,671	–	58,114	5,850	12,009	77,644
Assets held-for-sale	147,141	–	–	–	–	147,141
Receivables and prepayments	154,451	4,299	22,173	21,320	26,899	229,142
Property plant and equipment	90,704	2,198	–	–	–	92,902
Total assets	3,793,578	477,070	477,001	137,194	104,522	4,989,365
Liabilities						
Investors' funds	32,188	521	1	13,929	–	46,639
Placements from financial institutions, other entities and individuals	1,531,898	94,021	–	2,470	–	1,628,389
Customer current accounts	176,580	–	599	–	727	177,906
Term financing	256,137	–	–	–	–	256,137
Liabilities related to assets held-for-sale	42,749	–	–	–	–	42,749
Other liabilities	394,639	30,671	87,427	2,296	2,824	517,857
Total liabilities	2,434,191	125,213	88,027	18,695	3,551	2,669,677
Equity of investment account holders	889,525	–	5,918	1,467	–	896,910
Off-balance-sheet items						
Commitments	253,802	–	–	–	679	254,481
Restricted investment accounts	25,841	–	2,606	–	–	28,447

34. OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision-makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large-scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

- **Corporate and treasury:** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the Corporate and treasury activities of the Group.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Segment revenue and expenses were net-off inter segment revenue and expenses.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2019

Information regarding the results of each reportable segment is included below:

US$ 000's

31 December 2019	**Real estate development**	**Investment banking**	**Commercial banking**	**Corporate and Treasury**	**Total**
Segment revenue*	54,803	155,149	67,790	57,945	335,687
Segment expenses (including impairment allowances)	(27,238)	(103,704)	(91,733)	(45,354)	(268,029)
Segment result	27,565	51,445	(23,943)	12,124	67,191
Segment assets	2,336,179	552,598	2,492,711	563,785	5,945,273
Segment liabilities	515,354	1,264,444	740,630	913,429	3,433,857
Other segment information					
Finance expense	14,829	61,681	18,418	34,820	129,748
Impairment allowance	49	130	54,081	4	54,264
Equity accounted investees	46,300	57,317	12,000	-	115,617
Equity of investment account holders	-	-	1,217,950	595	1,218,545
Commitments	25,541	-	214,090	15,500	255,131

31 December 2018	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
Segment revenue *	102,812	68,370	55,350	23,220	249,752
Segment expenses (including impairment allowances) *	(16,124)	(37,888)	(49,641)	(31,050)	(134,703)
Segment result	86,688	30,482	5,709	(7,830)	115,049
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
Other segment information					
Finance expense	29,338	9,896	23,049	301	62,584
Impairment allowance	-	-	(16,679)	(935)	(17,614)
Equity accounted investees	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	18,000	254,481

**Includes segment result of discontinued operations, net.*

35. FINANCIAL INSTRUMENTS

a) Fair Values 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. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2019 and 31 December 2018, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short-term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 192,101 thousand (31 December 2018: US$ 180,724 thousand) (note 10 and 11), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2019.

Investments amounting to US$ 192,101 thousand (31 December 2018: US$ 180,724 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell-outs, sale of underlying assets or through initial public offerings.

As at 31 December 2019, the fair value of term financing was estimated at US$ 279,418 thousand (carrying value US$ 279,418 thousand) (31 December 2018: fair value US$ 256,137 thousand (carrying value US$ 256,137 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of term financing as these are largely floating rate instruments.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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).

US$ 000's

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2019				
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	29,640	29,640
- equity	27,324	-	-	27,324
	27,324	-	29,640	56,964
ii) Treasury portfolio				
Investment securities carried at fair value through income statement	284,904	239,807	-	524,711
	284,904	239,807	-	524,711
	312,228	**239,807**	**29,640**	**581,675**

	Level 1	Level 2	Level 3	Total
31 December 2018				
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	29,093	-	-	29,093
	29,093	-	34,875	63,968
ii) Treasury portfolio				
Investment securities carried at fair value through income statement	100,527	-	-	100,527
	100,527	-	-	100,527
	129,620	**-**	**34,875**	**164,495**

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

US$ 000's

	2019	2018
At 1 January	34,875	34,875
De-recognised on loss of control	-	-
Total gains / (losses) in income statement	(5,235)	-
At 31 December	**29,640**	34,875

36. COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

US$ 000's

	31 December 2019	31 December 2018
Undrawn commitments to extend finance	182,695	88,045
Financial guarantees	31,395	34,122
Capital commitments for infrastructure development projects	17,541	55,407
Purchase commitments for investment in real estate	-	58,907
Commitment to lend	23,500	18,000
	255,131	254,481

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect 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 as at 31 December 2019 due to the performance of any of its projects.

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

37. FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk.

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2019

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide 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.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) 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, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:
- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

The Risk Management Department 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. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

US$ 000's

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions				
Grade 1-6 Low-Fair Risk	547,684	–	–	547,684
Gross carrying amount	547,684	–	–	547,684
Less expected credit losses	(1,109)	–	–	(1,109)
Net carrying amount	**546,575**	**–**	**–**	**546,575**
Financing facilities				
Grade 8-10 Impaired	–	5,126	193,454	198,580
Past due but not impaired				
Grade 1-6 Low-Fair Risk	89,188	18,011	149	107,348
Grade 7 Watch list	24	18,215	16	18,255
Past due comprises:				
Up to 30 days	79,706	10,735	48	90,489
30-60 days	48	4,928	109	5,085
60-90 days	9,458	20,563	8	30,029
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	666,548	32,141	1,683	700,372
Grade 7 Watch list	231	4,721	3	4,955
Gross carrying amount	**755,991**	**78,214**	**195,305**	**1,029,510**
Less expected credit losses	- 10,153	- 7,487	- 81,525	- 99,165
Net carrying amount	**745,838**	**70,727**	**113,780**	**930,345**
Assets acquired for leasing				
Grade 1-6 Low-Fair Risk	–	–	93,202	93,202
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,549	19,896	2,040	55,485
Grade 7 Watch list	–	8,679	–	8,679
Past due comprises:				
Up to 30 days	29,761	19,793	279	49,833
30-60 days	3,788	6,920	1,761	12,469
60-90 days	–	1,862	–	1,862

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	183,589	5,966	286	189,841
Grade 7 Watch list	–	3,769	–	3,769
Gross carrying amount	217,138	38,310	95,528	350,976
Less expected credit losses	- 372	- 997	- 7,175	- 8,544
Net carrying amount	**216,766**	**37,313**	**88,353**	**342,432**
Other assets				
Grade 1-6 Low-Fair Risk	18,923	–	–	18,923
Past due but not impaired				
Grade 1-6 Low-Fair Risk	14,599	–	–	14,599
Past due comprises:				
60-90 days	14,599	–	–	14,599
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	248,172	–	–	248,172
Gross carrying amount	296,293	–	–	296,293
Less: expected credit losses	- 156	–	–	- 156
Net carrying amount	**296,137**	**–**	**–**	**296,137**
Investment in Sukuk				
Sovereign	408,615	–	–	408,615
Non-investment grade		–	3,493	3,493
Investment grade	108,789	–		108,789
Gross carrying amount	517,404	–	3,493	520,897
Less: expected credit losses	- 29	–	- 3,493	- 3,522
Net carrying amount	**517,375**	**–**	**–**	**517,375**
Balances with banks				
Grade 1-6 Low-Fair Risk	362,353	–	–	362,353
Gross carrying amount	362,353	–	–	362,353
Less: expected credit losses	(8)	–	–	(8)
Net carrying amount	**362,345**	**–**	**–**	**362,345**
Commitments and financial guarantees				
Grade 8-10 Impaired	–	15,500	4,406	19,906
Grade 1-6 Low-Fair Risk	230,915	5,077	–	235,992
Grade 7 Watch list	–	32	–	32
Gross carrying amount (note 37)	230,915	20,609	4,406	255,930
Less: expected credit losses	- 464	- 133	- 202	- 799
Net carrying amount	**230,451**	**20,476**	**4,204**	**255,131**
Total net carrying amount	**2,915,487**	**128,516**	**206,337**	**3,250,340**

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

US$ 000's

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions				
Grade 8-10 Impaired	24,358	–	–	24,358
Neither past due nor impaired	266,153	–	–	266,153
Grade 1-6 Low-Fair Risk				
Gross carrying amount	290,511	–	–	290,511
Less expected credit losses	(953)	–	–	(953)
Net carrying amount	289,558	–	–	289,558
Financing facilities				
Grade 8-10 Impaired	2,841	186	199,281	202,308
Past due but not impaired				
Grade 1-6 Low-Fair Risk	74,690	28,467	8,883	112,040
Grade 7 Watch list	37	40,457	–	40,494
Past due comprises:				
Up to 30 days	72,380	41,686	–	114,066
30-60 days	2,347	4,623	–	6,970
60-90 days	–	22,615	8,883	31,498
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	565,064	49,944	–	615,008
Grade 7 Watch list	369	8,873	–	9,242
Gross carrying amount	643,001	127,927	208,164	979,092
Less expected credit losses	(8,449)	(9,801)	(40,168)	(58,418)
Net carrying amount	634,552	118,126	167,996	920,674
Assets acquired for leasing				
Grade 8-10 Low-Fair Risk	–	838	49,371	50,209
Past due but not impaired				
Grade 1-6 Low-Fair Risk	34,456	6,334	–	40,790
Grade 7 Watch list	–	10,202	–	10,202
Past due comprises:				
Up to 30 days	32,392	5,111	–	37503
30-60 days	2,064	8,560	–	10,624
60-90 days	–	2,865	–	2,865

Notes to the consolidated financial statements

for the year ended 31 December 2019

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	188,046	5,414	–	193,460
Grade 7 Watch list	–	127	–	127
Gross carrying amount	222,502	22,915	49,371	294,788
Less expected credit losses	(281)	(369)	(5,865)	(6,515)
Net Carrying amount	222,221	22,546	43,506	288,273
Other assets				
Grade 8-10 Impaired	–	–	–	–
Past due but not impaired				
Grade 1-6 Low-Fair Risk	17,930	–	–	17,930
Past due comprises:				
60-90 days	17,930	–	–	17,930
Neither past due nor impaired				
Grade carrying amount	136,207	–	–	136,207
Gross carrying amount	172,067	–	–	172,067
Less: expected credit losses	(236)	–	–	(236)
Net carrying amount	171,831	–	–	171,831
Investment in Sukuk				
Sovereign	333,548	–	–	333,548
Non-investment grade	–	–	3,493	3,493
Investment grade	94,375			94,375
Gross carrying amount	427,923		3,493	431,416
Less: expected credit losses	(8)		(3,493)	(3,501)
Net carrying amount	427,915			427,915
Balances with banks				
Grade 1-6 Low-Fair Risk	341,701	–	–	341,701
Gross carrying amount	341,701	–	–	341,701
Less: expected credit losses	(134)	–	–	(134)
Net carrying amount	341,567	–	–	341,567
Commitments and financial guarantees				
Grade 8-10 Impaired	–	–	4,430	4,430
Grade 1-6 Low-Fair Risk	243,011	7,000	–	250,011
Grade 7 Watch list	–	40	–	40
Gross carrying amount (note 37)	243,011	7,040	4,430	254,481
Less: expected credit losses				
Net carrying amount	243,011	7,040	4,430	254,481
Total net carrying amount	2,330,655	147,712	215,932	2,694,299

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank 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 Bank'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.

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

Notes to the consolidated financial statements

for the year ended 31 December 2019

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 Group Market Risk Committee 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.

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, commercial real estate, etc.

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 an exposure subject to credit risk to be in default when:

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

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

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 Group Market Risk Committee 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.

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 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

Modified exposures subject to credit risk

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, 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 loans 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 4). 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.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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 exposure subject to credit risk.

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. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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.

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

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

US$ 000's

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
Balance at 1 January 2019	14,776	10,392	49,843	75,011
Transfer to 12-month ECL	3,549	(2,966)	(583)	-
Transfer to lifetime ECL non-credit-impaired	(1,326)	1,602	(276)	-
Transfer to lifetime ECL credit-impaired	(2,286)	(2,273)	4,559	-
Net re-measurement of loss allowance	(63)	(3,637)	3,700	-
Charge for the period	(255)	(343)	40,839	40,241
Balance at 31 December	**14,395**	**2,775**	**98,082**	**115,252**

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

Balances with banks	8	-	-	8
Treasury portfolio	1,138	-	3,493	4,631
Financing assets	10,525	8,484	88,700	107,709
Other financial receivables	2,260	(5,842)	5,687	2,105
Financing commitments and financial guarantees	464	133	202	799
Balance at 31 December	**14,395**	**2,775**	**98,082**	**115,252**

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balance at 1 January	7,902	27,950	31,548	67,400
Transfer to 12-month ECL	8,456	(8,186)	(270)	-
Transfer to lifetime ECL non-credit-impaired	(838)	1,056	(218)	-
Transfer to lifetime ECL credit-impaired	(607)	(6,534)	7,141	-
Net re-measurement of loss allowance	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December 2018	14,776	10,392	49,843	75,011

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

Balances with banks	134	-	-	134
Treasury portfolio	961	-	3,493	4,454
Financing assets	12,631	9,801	40,168	62,600
Assets acquired for leasing and lease rentals receivables	281	368	5,864	6,513
Other financial assets	238	-	-	238
Financing commitments and financial guarantees	531	223	318	1,072
Balance at 31 December 2018	14,776	10,392	49,843	75,011

Notes to the consolidated financial statements

for the year ended 31 December 2019

Renegotiated facilities

During the year, facilities of US$ 100,576 thousands (2018: BD 44,817 thousand) were renegotiated, out of which US$ 2,907 thousand (2018: US$ 23,358 thousand) are classified as neither past due nor impaired as of 31 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 US$ 440,406 thousand (2018: US$ 379,031 thousand) only instalments of US$ 97,149 thousand (2018: US$ 104,161 thousand) are past due as at 31 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 Bank 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

The 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 US$ Nil (2018: 4,154 thousand) which were fully impaired. The Bank has recovered US$ 2,557 thousand from a financing facility written off in previous years (2018: US$ 263 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.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

37. FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

Concentration risk (contd.)

The geographical and industry wise distribution of assets and liabilities are set out in notes 33 (a) and (b).

	As at 31 December 2019			As at 31 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	53,531	86,111	**139,642**	107,350	43,997	151,347
Other	5,008	-	**5,008**	5,817	-	5,817
Against past due but not impaired						
Property	93,952	63,525	**157,477**	56,756	51,013	107,769
Other	3,069	-	**3,069**	7,769	-	7,769
Against neither past due nor impaired						
Property	256,578	237,881	**494,459**	232,459	219,310	451,769
Other	24,615	-	**24,615**	32,934	-	32,934
Total	**436,753**	**387,517**	**824,270**	443,085	314,320	757,405

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

An analysis of concentrations of credit risk of financing assets of the commercial banking business at the reporting date is shown below:

US$ 000's

	As at 31 December 2019			As at 31 December 2018		
Concentration by Sector	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	20,841	-	**20,841**	27,475	-	27,475
Real estate	220,675	309,164	**529,839**	181,453	284,059	465,512
Construction	135,379	-	**135,379**	145,366	-	145,366
Trading	151,788	-	**151,788**	206,920	-	206,920
Manufacturing	37,016	-	**37,016**	36,817	-	36,817
Others	364,646	33,268	**397,914**	322,645	4,212	326,857
Total carrying amount	**930,345**	**342,432**	**1,272,777**	920,676	288,271	1,208,947

Notes to the consolidated financial statements

for the year ended 31 December 2019

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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.

Treasury receives information from 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. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress-testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Management Committee (MANCOM). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

US$ 000's

	Gross undiscounted cash flows						
31 December 2019	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Clients' funds	55,931	-	-	14,926	-	**70,857**	**70,858**
Placements from financial, non-financial institutions and individuals	1,061,149	579,770	469,679	386,881	4,859	**2,502,338**	**2,447,249**
Customer current accounts	40,746	15,000	16,288	18,615	56,838	**147,487**	**147,487**
Term financing	47,744	31,377	166,966	19,899	21,212	**287,198**	**279,418**
Liabilities related to assets held-for-sale	-	-	39,936	-	-	**39,936**	**39,936**
Payables and accruals	36,729	44,519	30,894	325,453	11,315	**448,910**	**448,909**
Total liabilities	**1,242,299**	**670,666**	**723,763**	**765,774**	**94,224**	**3,496,726**	**3,433,857**
Equity of investment account holders	186,358	236,726	345,896	236,624	254,350	**1,259,954**	**1,218,545**
Commitment and contingencies	87,000	46,645	15,801	105,415	270	**255,131**	**255,131**

37. FINANCIAL RISK MANAGEMENT (contd.)

b) Liquidity risk (contd.)

Management of liquidity risk (contd.)

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost-reduction exercises that would improve its operating cash flows.

US$ 000's

	Gross undiscounted cash flows						
31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Clients' funds	32,710	-	-	13,929	-	46,639	46,639
Placements from financial and non-financial institutions and individuals	289,948	431,520	713,760	233,801	7,677	1,676,706	1,628,389
Customer current accounts	48,550	18,178	19,740	22,560	68,878	177,906	177,906
Term financing	37,689	20,805	156,137	37,368	24,950	276,949	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	42,749	42,749
Other liabilities	54,563	26,323	34,654	402,317	-	517,857	517,857
Total liabilities	463,460	536,762	927,104	709,975	101,505	2,738,806	2,669,677
Equity of investment account holders	166,362	119,361	268,888	151,227	215,905	921,743	896,910
Commitment and contingencies	55,804	69,480	46,981	74,200	8,016	254,481	254,481

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter-bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

US$ 000's

	Liquid asset/Total asset	
	2019	2018
At 31 December	26.47%	17.61%
Average for the year	24.33%	9.71%
Maximum for the year	26.47%	17.61%
Minimum for the year	22.21%	5.53%

(c) Market Risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows 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.

Notes to the consolidated financial statements

for the year ended 31 December 2019

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed to 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. Majority of the Group's profit-based asset and liabilities are short-term in nature, except for certain long-term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

US$ 000's

	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
31 December 2019						
Assets						
Treasury portfolio	817,109	27,041	219,800	-	-	1,063,950
Financing assets	216,818	124,980	125,343	462,580	343,056	1,272,777
Total assets	**1,033,927**	**152,021**	**345,143**	**462,580**	**343,056**	**2,336,727**
Liabilities						
Client's fund	55,931	-	-	14,927	-	70,858
Placements from financial institutions, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	2,447,249
Term financing	47,649	30,888	164,059	23,431	13,391	279,418
Total liabilities	**1,105,579**	**503,539**	**572,675**	**589,875**	**25,857**	**2,797,525**
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	1,218,545
Profit rate sensitivity gap	**(251,902)**	**(580,460)**	**(562,054)**	**(356,139)**	**71,212**	**(1,679,343)**
31 December 2018						
Assets						
Treasury portfolio	117,031	-	172,527	43,042	384,873	717,473
Financing assets	108,477	24,807	98,910	228,207	748,546	1,208,947
Total assets	225,508	24,807	271,437	271,249	1,133,419	1,926,420
Liabilities						
Investors' funds	32,711	-	-	13,928	-	46,639
Placements from financial institutions, other entities and individuals	529,953	377,891	671,463	45,298	3,784	1,628,389
Term financing	36,998	18,022	142,034	32,084	26,999	256,137
Total liabilities	599,662	395,913	813,497	91,310	30,783	1,931,165
Equity of investment account holders	409,431	193,905	239,707	53,867	-	896,910
Profit rate sensitivity gap	(783,585)	(565,011)	(781,767)	126,072	1,102,636	(901,655)

37. FINANCIAL RISK MANAGEMENT (contd.)

(c) Market Risks (contd.)

Exposure to profit rate risk (contd.)

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 include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. 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) is as follows:

US$ 000's

100 bps parallel increase/(decrease)	**2019**	2018
At 31 December	±10,838	±9,017
Average for the year	±13,103	±4,340
Maximum for the year	±15,898	±11,495
Minimum for the year	±10,337	±7,975

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

US$ 000's

	2019	2018
Placements with financial institutions	3.27%	3.22%
Financing assets	6.71%	5.96%
Debt-type investments	6.85%	5.24%
Placements from financial institutions, other entities and individuals	4.02%	6.22%
Term financing	6.71%	3.61%
Equity of investment account holders	1.83%	6.15%

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 Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

US$ 000's Equivalent

	2019	2018
Sterling Pounds	9,511	(1,715)
Euro	(674)	(1,020)
Australian Dollars	12,223	12,273
Kuwaiti Dinar	41,867	227,797
Jordanian Dinar	6	6
Egyptian Pound	22,458	-
Moroccan Dirham	150,263	191,170
Tunisian Dinar	309,800	253,749
Indian Rupee	306,004	(597,608)
Other GCC Currencies (*)	(1,679,101)	(652,045)

(*) These currencies are pegged to the US Dollar.

Notes to the consolidated financial statements

for the year ended 31 December 2019

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 include a 5% plus / minus increase in exchange rates, other than GCC pegged 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:

US$ 000's

	2019 US$ '000 Equivalent	2018 US$'000 Equivalent
Sterling Pounds	±476	±86
Euros	±34	±51
Australian dollar	±611	±614
Kuwaiti dinar	±2,093	±11,390
Egyptian Pound	±1,123	-
Jordanian Dinar	±0.32	±0.32
Moroccan Dirham	±7,513	±574
Tunisian Dinar	±15,490	±9,559
Indian rupee	±15,300	±12,687

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5(ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) 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 facilitates the management of Operational Risk by way of assisting in the identification, monitoring and managing of operational risk in the Group.

38. CAPITAL MANAGEMENT

The Group's regulator 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 total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. 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 does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

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

38. CAPITAL MANAGEMENT (contd.)

The Bank'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 of instruments that meet the criteria for inclusion in AT1, 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.

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. 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 Bank 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.

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 Bank's regulatory capital position at 31 December was as follows:

US$ 000's

	2019	2018
Total risk weighted exposures	**7,370,110**	7,911,983
CET 1	1,078,076	1,169,103
AT1	9,452	9,468
Tier 1 capital	**1,087,528**	1,178,571
Tier 2 capital	36,008	35,202
Total regulatory capital	**1,123,536**	1,213,773
Total regulatory capital expressed as a percentage of total risk weighted assets	**14.00%**	16.47%

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 capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

39. COMPARATIVES

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

Invested with Insight

gfh.com