FIRST ENERGY BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

Commercial registration	:	69089-1 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Bahrain Financial Harbour, West Tower, 20th Floor P.O. Box 209, Manama, Kingdom of Bahrain Telephone +973 17170000
Directors	:	Khaleefa Butti Bin Omair, *Chairman* Dr. Faisel Ahmed Gergab, *Vice-Chairman* Matar Mohamed Al Blooshi Dr. Ali Mahmoud Hassen Mohammed Mohammed Salem Al Shamsi Ammar Ali Mohamed Jaber Abdulla Abdulkarim Showaiter Adel A. Aziz Al Jabr Abdulla Ahmed Al Suwaidi Mayssoun Habra Saif Abugulal
Chief Executive Officer	:	Mohamed Shukri Ghanem
Auditors	:	KPMG Fakhro, Bahrain

First Energy Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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مصرف الطاقة الأول
FirstEnergyBank

مجلس الإدارة
Board of Directors

Dear Shareholders,

Board of Directors Report for the Year Ended 31 December 2019

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

On behalf of the Board of Directors, it is my privilege to present to you the annual report of First Energy Bank B.S.C. ("FEB" or "Bank") for the year ended 31 December 2019.

The Bank in-spite of various global challenges and intensified market volatility managed to maintain positive performance as measured by its financial results. Looking at the year, the focus has been on diversifying the Bank's capital into profitable ventures to generate sustainable income and create long-term value for our stakeholders.

During 2019, the Bank strengthened its institutional capability, in order to support the realisation of Bank's revised strategy and continued business growth. This involved strategic alignment of people, products, processes and systems across the organisation. Building a solid and sustainable financial institution remains a key strategic objective of the Bank. The Board and the management team remains fully committed to generate sustainable returns for shareholders over the upcoming periods.

The Bank reported a net profit of US$ 16.5 million for the year ended 31 December 2019 compared to a net profit of US$ 12.2 million for the year 2018. Additionally, the Bank as part of conservative measures also took provisions on few of its investments amounting to US$ 3 million during 2019. The Bank's strategic focus remains on diversifying its investment portfolio into profit generating sectors which have created sustainable income for the Bank, strengthened its financial position and has achieved the growth objectives.

FEB's balance sheet also remained robust and strong. The Bank's Basel III Total capital adequacy ratio at the end of the year was 60.2% and Tier 1 ratio was 59.7%. Liquidity of the Bank remained strong and Bank reported positive and healthy Liquidity Coverage Ratio of 224%, as of the year ended 31 December 2019.

We believe that with our revised strategy of diversification and investments across new sectors, the revenue streams can be further enhanced. For the upcoming year, the Bank will look to grow in these sectors, to achieve targets of growth and profitability.

Lastly, I would like to express my sincere appreciation for the solid confidence and support of our shareholders, the continued encouragement and cooperation of our counterparties, and the ongoing advice and guidance of the regulatory and supervisory bodies in the various jurisdictions where FEB operates, especially the Central Bank of Bahrain. I also take this opportunity to pay special tribute to the commitment and professionalism of our management and staff.

Yours truly,

Khaleefa Butti Bin Omair
Chairman of the Board of Directors

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مصرف الطاقة الأول
FirstEnergyBank

هيئة الرقابة الشرعية
Shari'a Supervisory Board

20th February 2020
26th Jamadah II 1441 AH

SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
On the Activities of First Energy Bank B.S.C. (c)
For the Financial Year Ending 31st December 2019

Praise be to Allah, Lord of the Worlds, and Allah's blessings and peace be upon the noblest of Messengers, Prophet Mohammed, and upon his household and the companions,

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

Respective responsibility of the Board of Directors and the SSB

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

Basis of opinion

In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the Independent External Shari'a Compliance Audit ("IESCA") report. The SSB in collaboration with Shari'a Coordination and Implementation Department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31st December 2019.

Opinion

Based on our review, the SSB is satisfied that:

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

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

Shaikh Dr. Nedham Yaqoobi	**Shaikh Dr. Mohamed Elgari**	**Shaikh Dr. Osama Bahar**
SSB Chairman	**SSB Member**	**SSB Member**

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

First Energy Bank B.S.C. (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of First Energy Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, changes in equity, cash flows, 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 equity, 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 Rule Book issued by the Central Bank of Bahrain ("CBB"), 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 applicable provision of the Commercial Companies Law and the CBB Financial Institutions Law for 2006 (amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's 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. 137
20 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019 USD 000's

	Note	**31 December 2019**	31 December 2018
ASSETS			
Cash and bank balances	5	20,976	15,407
Placements with financial institutions	6	40,168	89,818
Financing assets	7	163,109	117,426
Ijarah assets	8	71,500	75,100
Investment securities	9	415,750	428,737
Equity accounted investees	10	71,149	29,341
Other assets	11	55,349	52,080
Property and equipment	12	24,591	17,857
Total assets		**862,592**	825,766
Liabilities and equity			
LIABILITIES			
Placements from financial institutions	14	36,949	92,884
Bank financing	15	191,350	122,628
Other liabilities	16	37,118	23,434
Total liabilities		**265,417**	238,946
EQUITY			
Share capital	17	600,000	600,000
Treasury shares		(4,356)	(7,261)
Statutory reserve		14,678	13,034
Investments fair value reserve		-	(2,011)
Foreign exchange translation reserve		(6,843)	(2,171)
Accumulated losses		(50,232)	(61,968)
Total equity attributable to shareholders of the parent		**553,247**	539,623
Non-controlling interests		43,928	47,197
Total equity		**597,175**	586,820
Total liabilities and equity		**862,592**	825,766

The consolidated financial statements were approved by the Board of Directors on 20 February 2020 and signed on its behalf by:

Khaleefa Butti Bin Omair Chairman	Abdulla Ahmed Al Suwaidi Board Member	Mohamed Ghanem Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2019 USD 000's

	Note	2019	2018
INCOME			
Income from investment securities	18	14,995	23,905
Income from financing and placements with financial institutions		16,209	12,754
Net income from Ijarah assets	19	2,887	2,692
Fees and commission income		5,152	7,868
Other income		2,545	97
Share of results of equity accounted investees	10	2,902	(773)
Loss on dilution of investment in associates	10	-	(6,102)
Total income		**44,690**	40,441
Less: Finance cost		(5,822)	(4,244)
Total income after finance cost		**38,868**	36,197
EXPENSES			
Staff cost	20	12,851	12,679
Depreciation and amortization		854	497
Other operating expenses	21	6,948	11,031
Total expenses		**20,653**	24,207
Profit from continuing operations before impairment allowance		**18,215**	11,990
Net impairment (losses) / reversal	22	(1,715)	2,921
Profit from continuing operations		**16,500**	14,911
Discontinued operation			
Loss from discontinued operation (Assets held for sale)	13	-	(2,612)
PROFIT FOR THE YEAR		**16,500**	12,299
Attributable to:			
Shareholders of the parent		16,435	12,256
Non-controlling interests		65	43
		16,500	12,299

Khaleefa Butti Bin Omair
Chairman

Abdulla Ahmed Al Suwaidi
Board Member

Mohamed Ghanem
Chief Executive Officer

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

USD 000's

	Equity attributable to shareholders of the parent								
2019	**Share capital**	**Treasury shares**	**Statutory reserve**	**Investments fair value reserve**	**Foreign exchange translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2019	600,000	(7,261)	13,034	(2,011)	(2,171)	(61,968)	539,623	47,197	586,820
Changes in fair value of investments at fair value through equity	-	-	-	1,248	-	-	1,248	-	1,248
Transfer to income statement on impairment	-	-	-	763	-	-	763	-	763
Effect of exchange rate difference on equity accounted investee	-	-	-	-	(4,672)	-	(4,672)	-	(4,672)
Profit for the year	-	-	-	-	-	16,435	16,435	65	16,500
Total recognised income and expense for the year	**-**	**-**	**-**	**2,011**	**(4,672)**	**16,435**	**13,774**	**65**	**13,839**
Transfer to zakah and charity fund	-	-	-	-	-	(150)	(150)	-	(150)
Transfer to statutory reserve	-	-	1,644	-	-	(1,644)	-	-	-
Distribution from subsidiary	-	-	-	-	-	-	-	(3,294)	(3,294)
Dividends of subsidiary	-	-	-	-	-	-	-	(40)	(40)
Adjustment on capital reduction	-	2,905	-	-	-	(2,905)	-	-	-
At 31 December 2019	**600,000**	**(4,356)**	**14,678**	**-**	**(6,843)**	**(50,232)**	**553,247**	**43,928**	**597,175**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019 (continued)

USD 000's

	Equity attributable to shareholders of the parent								
2018	Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
At 1 January 2018	1,000,000	(7,261)	11,808	5,664	(2,171)	(355,202)	652,838	47,163	700,001
Changes in fair value of investments at fair value through equity	-	-	-	(5,155)	-	-	(5,155)	-	(5,155)
Transfer to income statement on disposal of investments	-	-	-	(2,520)	-	-	(2,520)	-	(2,520)
Profit for the year	-	-	-	-	-	12,256	12,256	43	12,299
Total recognised income and expense for the year	-	-	-	(7,675)	-	12,256	4,581	43	4,624
Transfer to zakah and charity fund	-	-	-	-	-	(250)	(250)	-	(250)
Transfer to statutory reserve	-	-	1,226	-	-	(1,226)	-	-	-
Dividends of subsidiary	-	-	-	-	-	-	-	(23)	(23)
Capital reduction (note 17)	(400,000)	-	-	-	-	280,355	(119,645)	-	(119,645)
Adjustment on asset transfer to shareholders	-	-	-	-	-	2,099	2,099	14	2,113
At 31 December 2018	600,000	(7,261)	13,034	(2,011)	(2,171)	(61,968)	539,623	47,197	586,820

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019 USD 000's

	Note	2019	2018
OPERATING ACTIVITIES			
Net profit for the year		**16,500**	12,299
Adjustments for:			
Depreciation on Ijarah assets	8	3,600	3,600
Depreciation and amortization		854	497
Amortization of premium / (discount) on Sukuk		559	(483)
Net impairment losses / (reversal)	22	1,715	(2,921)
Share of results of equity accounted investees	10	(2,902)	773
Fair value gain on investment securities		(1,679)	-
Loss on dilution of investment in associates	10	-	6,102
Loss / (gain) on disposal of investment securities	18	354	(6,396)
Operating profit before changes in operating assets and liabilities		**19,001**	13,471
Net changes in operating assets and liabilities:			
Financing assets		(46,527)	11,737
Other assets		(2,644)	(15,717)
Placements from financial institutions		(55,935)	13,483
Other liabilities		15,387	2,921
Payment to charities		(153)	(235)
Net cash (used in) / from operating activities		**(70,871)**	25,660
INVESTING ACTIVITIES			
Purchase of investment securities		(171,561)	(144,599)
Proceeds from disposal / maturity of investment securities		143,002	131,546
Adjustment on asset transfer to shareholders		-	2,113
Purchase of property and equipment and intangible assets		(8,377)	(2,068)
Net cash used in investing activities		**(36,936)**	(13,008)
FINANCING ACTIVITIES			
Return of capital to non-controlling interests		(3,294)	-
Dividend paid to shareholders		(1,700)	-
Proceeds from bank financing		149,427	40,000
Dividend paid to non-controlling interests		(40)	(23)
Repayment of bank financing		(80,705)	(44,409)
Net cash from / (used in) financing activities		**63,688**	(4,432)
Net (decrease) / increase in cash and cash equivalents		**(44,119)**	8,220
Cash and cash equivalents at beginning of the year		105,225	97,053
Effect of net impairment losses on placements with financial institutions		38	(48)
Cash and cash equivalents at end of the year		**61,144**	105,225
Cash and bank balances	5	20,976	15,407
Placements with financial institutions with original maturity of 90 days or less	6	40,168	89,818
		61,144	105,225

The accompanying notes 1 to 30 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 USD 000's

	2019	2018
Sources of zakah and charity funds		
Undistributed charity and zakah funds at the beginning of the year	38	23
Contributions by the Bank	150	250
Non-Shari'a income	9	-
Total sources of zakah and charity funds during the year	**197**	273
Uses of zakah and charity fund		
Contributions for charitable purposes	(153)	(235)
Total uses of funds during the year	**(153)**	(235)
Undistributed zakah and charity fund at end of the year	**44**	38

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

1 REPORTING ENTITY

First Energy Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089-1. The Bank operates under an Islamic Wholesale Banking license issued by the Central Bank of Bahrain (the "CBB") on 17 June 2008. The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") are mainly Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

2 STATEMENT OF COMPLIANCE

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

3 BASIS OF PREPARATION

The consolidated financial statements are presented in United States Dollars (USD), which is also the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain investments.

4 SIGNIFICANT ACCOUNTING POLICIES

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

(i) New standards, amendments and interpretations effective from 1 January 2019

The following standards, amendments and interpretations, which became effective as of 1 January 2019, are relevant to the Bank:

FAS 28 - Murabaha and Other Deferred Payment Sales

FAS 28 is effective on the financial statements of the institutions beginning on or after 1 January 2019. This standard supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale".

The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures to apply in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions.

Inventories

In the books of the Bank acting in the capacity as seller, the inventory is recognized at cost and subsequently at lower of cost or net realizable value. In the books of the Bank acting in the capacity as buyer, the asset purchased shall be initially recognized at cost and subsequently shall be tested for net realizable value, if the asset represents inventory or all other assets shall be tested for impairment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Banks acting in the capacity of seller shall recognize revenue when the inventory is sold under Murabaha or deferred payment sale contract. Subsequent to initial recognition, gross receivables shall be carried at their outstanding amount less any allowance for credit losses. Revenue can be recognized only when the inventory is sold and control is transferred. For Banks acting in the capacity of buyer, the accounts payable on account of Murabaha and other deferred payment sales an amount equal to the face value once the control to the asset is procured.

The adoption of this standard had no significant impact on the consolidated financial statements.

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

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

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

Principal (Investor)

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

Pass through approach

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

Wakala venture approach

Wakala venture approach can be adopted when the investment agency contracts 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 recognize 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 recognize the assets and / or liabilities owned by the investor(s) (principal(s)) in its books of account.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The adoption of this standard had no significant impact on the consolidated financial statements.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

FAS 34 - Financial Reporting for Sukuk-holders
The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-holders.

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

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

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

a. Basis of consolidation

(i) 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.

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. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. 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.

Loss of control
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

Non-controlling interests
Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(ii) Equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement,

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of post-acquisition profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Dividends received from an equity accounted investee reduces the carrying amount of the investment.

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

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

The significant subsidiaries are as follows:

Name of subsidiary	**Equity interest**		**Country of incorporation**	**Nature of business**
	2019	**2018**		
North Africa Investment Company	100%	100%	Kingdom of Bahrain	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy Oman	100%	100%	Cayman Islands	To hold 15% direct interest in Al Izz Islamic Bank in Oman.
FEB-Novus Aircraft Holding Company	98.50%	98.50%	Commonwealth of the Bahamas	To purchase and lease one A330-300 aircraft to Malaysian Airlines.
Al Dur Energy Investment Company	59%	59%	Cayman Islands	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.
FEB Aqar S.P.C.	100%	100%	Kingdom of Bahrain	Real estate activities to own or lease property.
FEB Capital Limited	100%	100%	United Arab Emirates	Financial institution

b. Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of 90 days or less and is measured at amortised cost.

c. Placements with and from financial institutions

These comprise inter-bank and over the counter placements made/ received using Shariah compliant murabaha and wakala contracts. Placements are usually short term and are stated at amortised cost.

d. Ijarah assets

Ijarah assets are stated at cost less accumulated depreciation and impairment allowance. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their useful life.

Ijarah assets are de-recognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on de-recognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated income statement in the year the asset is de-recognised.

The Group assesses at each reporting date whether there is objective evidence that Ijarah assets are impaired. Impairment losses are measured as a difference between carrying value of the asset and estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

e. Investment securities

Investment securities comprise equity type instruments (quoted and unquoted shares), debt type instruments (sukuk) and structured products. Investment securities exclude investments in subsidiaries and equity accounted investments.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Investment securities (continued)

(i) Classification

The Group classifies its investment securities into debt-type instruments, equity-type instruments and structured products. Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. 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.

Debt-type Instruments:
Investments in debt-type instruments are classified in the following categories: 1) at amortised cost or 2) at fair value through income statement (FVTIS).

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

Debt-type investment classified and measured at FVTIS include investments held for trading or designated at FVTIS. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at FVTIS if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. The Group does not have any debt type instruments at FVTIS.

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

Equity-type investments classified and measured at FVTIS include investments held for trading or designated at FVTIS.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. The Group does not have any investments held for trading or FVTIS.

On initial recognition, the Bank makes an irrevocable election to designate certain equity instruments that are not designated at FVTIS to be classified as investments at fair value through equity. These include investments in certain quoted and unquoted equity securities.

Structured products:
Investments in structured products are classified at fair value through profit or loss. Fair value gain or loss is recognized in the income statement.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given plus transaction costs for investments not at FVTIS. For investments measured at FVTIS, transaction costs are expensed in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Investment securities (continued)

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 equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the consolidated statement of changes in equity is transferred to the consolidated income statement.

Investments at FVTE where there is no market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt type investments, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

f. Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment allowance. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is calculated using the straight-line method over the estimated useful lives of 3 to 4 years other than freehold land, which is deemed to have an indefinite life.

g. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight line basis in the consolidated income statement over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 3 years.

h. Financing assets

Financing assets represents financing facilities provided to customers. They are recognized when they are originated. Financing assets are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing income, dividends and losses relating to the assets are recognised in the consolidated income statement as income from financing.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Assets held for sale
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.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Once classified as held-for-sale, depreciable assets are no longer depreciated.

The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. If the criteria for classification as held for sale are no longer met, the entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued.

j. Dividends
Dividends to shareholders are recognised as liabilities in the period in which they are declared.

k. Revenue recognition

(i) Profit from murabaha and wakala contracts
Profit from murabaha and wakala contracts is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the contract using the effective profit method.

(ii) Rental income from ijarah assets
Rental income from investment in ijarah assets is recognized as revenue on a straight line basis over the term of the lease.

(iii) Income from investment in sukuk
Income from investment in sukuk is recognised over the term of the instrument using the effective profit rate method.

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

(v) Fees and commission income
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.

l. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund which the Group uses for social welfare activities.

m. Zakah
Zakah is calculated on the zakah base of the Group in accordance with FAS 9 Zakah using the net invested funds method. Zakah is paid by the Group based on statutory reserve, investment fair value reserve, foreign exchange translation reserve and retained earning balances at the end of the year and remaining zakah is payable by shareholders. The Group calculates and notifies the shareholders of their pro-rate share of zakah payable. The calculation of zakah is approved by Shari'a Supervisory Board.

n. Employees' end of service 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 and recognised as staff cost in the consolidated income statement. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits
Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as staff cost in the consolidated income statement when they are due. 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.

Certain employees on fixed contracts are also 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. The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the consolidated income statement when they are due. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised as staff cost in the consolidated income statement.

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

p. Impairment of financial assets

(i) Financial assets carried at amortised cost

The Group recognises loss allowances for ECLs on:

- Bank balances and placements with financial institutions;
- Financing assets; and
- Debt type securities at amortised cost (Sukuk);

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.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Impairment of financial assets (continued)

Stage 1: 12-months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses from default events that are possible within 12 months after the reporting date.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets 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 financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

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

Significant Increase in credit risk

When determining whether the credit risk of a financial asset 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.

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

- ➢ downgrades in risk rating according to the approved ECL policy;
- ➢ Exposures over due by 30 days at the reporting date subject to rebuttal.

Definition of default

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

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

In general, for externally rated investments and exposures, if the credit rating of the sukuk is within investment grade (Bank considers externally rated investments from AAA to BBB as investment grade) as on the measurement date, the sukuk will be treated as a Stage 1 asset. However, for assets wherein the credit rating is below investment grade, two-notches downgrade as on the measurement date, compared to the origination rating will qualify as a significant deterioration of credit quality and will therefore result in moving the asset to Stage 2. Additionally, all assets domiciled in countries where the transfer risk is designated as "High" will classified as Stage 2. All assets that are credit impaired at the reporting date will be considered as Stage 3.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Impairment of financial assets (continued)

Measurement of ECLs

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

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

ECL on Investment in government of Bahrain sovereign debts has been calculated with LGD of zero as there has been no history of default.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of market price and a 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 assessed to be below the cost of the investment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Impairment of non-financial assets

The carrying amount of the Group's non-financial assets or its cash generating unit, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell.

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 expected return 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 consolidated 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.

r. Foreign currency transactions

Foreign currency transactions

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

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at the spot exchange rates at the dates of the transactions. Foreign currency differences are recognised in the consolidated statement of changes in equity, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in statement of changes in equity, and accumulated in the translation reserve within equity.

s. De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is de-recognised when:

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

u. Statutory reserve

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

v. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

w. 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.

x. Judgments and estimates

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

Judgments:

(i) Classification of investments

Management decides on acquisition of an investment whether it should be classified as an equity-type instrument at fair value through statement of income, an equity-type instrument at fair value through equity or a debt-type instrument 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 (refer note 4(e) (i)).

Estimates:

(i) Impairment of financial assets at amortised cost

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(p) (i).

(ii) Impairment of equity-type instruments at fair value through equity

The Group treats equity-type instruments at fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

(iii) Useful life of Ijarah assets

The Group depreciates its Ijarah assets (note 8) over the estimated useful life of the assets. The Group annually estimates useful life and residual values of assets using an independent third party valuer who has the right experience and qualification in valuing such assets.

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5 CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash	13	13
Balances with banks	20,963	15,394
	20,976	15,407

6 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Commodity murabaha contracts	-	14,023
Wakala contracts	40,178	75,851
Total gross murabaha and wakala contracts	**40,178**	89,874
Less: Deferred profits on murabaha contracts	-	(8)
	40,178	89,866
Less: Net impairment allowance *	(10)	(48)
	40,168	89,818

The original maturity of commodity murabaha and wakala contracts are 90 days or less.
* For stage wise exposure and allowance for impairment, refer note 27 (b).

7 FINANCING ASSETS

	31 December 2019	31 December 2018
Gross commodity murabaha	181,204	131,880
Less: Deferred profits	(4,199)	(7,688)
Impairment allowance	(28,055)	(28,615)
	148,950	95,577
Ijarah financing	17,322	24,168
Less: Net impairment allowance *	(3,163)	(2,319)
	163,109	117,426

* For stage wise exposure and allowance for impairment, refer note 27 (b).

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8 IJARAH ASSETS

	31 December 2019	31 December 2018
Cost		
At 1 January 2019	100,000	100,000
At 31 December 2019	**100,000**	100,000
Depreciation		
At 1 January 2019	24,900	21,300
Charge for the year	3,600	3,600
At 31 December 2019	**28,500**	24,900
Net book value **As at 31 December 2019**	**71,500**	-
Net book value As at 31 December 2018	**-**	75,100

Ijarah assets comprise an aircraft that is leased to an airline and is mortgaged against term financing (refer note 15).

9 INVESTMENT SECURITIES

	31 December 2019	31 December 2018
Equity type instruments - *At fair value through equity*		
- Quoted equity securities (at fair value) (i)	36,893	35,645
- Unquoted equity securities (at cost less impairment) (ii)	96,407	139,280
	133,300	174,925
Debt type instruments - *At amortised cost*		
Quoted Sukuk (iii)	262,858	255,421
Less: Net impairment allowance (iv)	(837)	(1,609)
	262,021	253,812
Investment in structured products - *At fair value through profit or loss* (v)	20,429	-
Total investment securities	**415,750**	428,737

(i) During the year, the Bank recognised an impairment allowance of USD 763 thousand (2018: USD Nil) on quoted equity securities carried at fair value through equity.

(ii) During the year, the Group increased its stake in Oba Makarnacilik Sanayi ve Ticaret A.S. ("Oba Makarna"), a company incorporated in Turkey engaged in pasta production from 15% to 20%, resulting in the investee becoming an associate (note 10).

Unquoted equity securities are net of impairment allowance of USD 754 thousand (31 December 2018: USD Nil). During the year, the Bank recognised an impairment allowance of USD 754 thousand (2018: USD Nil).

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9 INVESTMENT SECURITIES (continued)

(iii) Quoted sukuk with carrying amount of USD 208 million (31 December 2018: USD 210 million) are pledged against general bank financing of USD 141 million (31 December 2018: USD 80 million) (refer note 15).

(iv) For stage wise exposure and allowance for impairment, refer note 27 (b).

(v) This represents Bank's investment in Islamic structured products amounting to USD 18.75 million with a notional value of USD 37.5 million which includes leveraged amount of USD 18.75 million. Fair value gain of USD 3.9 million has been recognised during the year as described in note 18.

10 EQUITY ACCOUNTED INVESTEES

	31 December 2019	31 December 2018
Associates	140,834	105,128
Impairment allowance	(69,685)	(69,685)
Loss on dilution	-	(6,102)
	71,149	29,341

Movement on the equity accounted investees during the year:

	2019	2018
At 1 January	29,341	44,240
Reclassified from investment securities during the year (i)	42,935	-
Acquisition during the year	643	-
Share of results of equity accounted investees, net	2,902	(773)
Foreign exchange translation differences	(4,672)	-
Intercompany finance expense	-	(487)
Reclassified to equity type instruments on loss of significant influence (ii)	-	(7,537)
Loss on dilution (ii)	-	(6,102)
At 31 December	**71,149**	29,341

Equity accounted investees comprise the following associates:

	Country of incorporation	***% holding***	***Nature of business***
Oba Makarna (i)	Turkey	20%	Pasta production
Al Izz Islamic Bank (iii)	Oman	15.18%	Islamic retail banking
Arab Drilling and Workover Company (iv)	Libya	40%	Lease of oil drilling rigs

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10 EQUITY ACCOUNTED INVESTEES (continued)

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

	2019	2018
Total assets	2,159,707	1,869,246
Total liabilities	1,405,980	1,237,572
Total revenues	298,854	36,622
Total net loss	(22,123)	(26,240)

(i) The results of Oba Makarna used for equity accounting is based on management accounts for the period from 1 January 2019 to 30 September 2019. In 2018, the Group acquired 15% indirect investment in Oba Makarnacilik Sanayi ve Ticaret A.S. ("Oba Makarna"), a company incorporated in Turkey engaged in pasta production. During the year, the Group acquired an additional 5% stake in Oba Makarna increasing the Group's interest to 20% therefore acquiring significant influence, resulting in a reclassification of the investment from "investment securities" to "equity accounted investees" (note 9 (ii)).

(ii) In 2018, the Group signed a Share Sale and Investment Agreement (SSIA) to sell part of its equity holdings in Adcan and Medisal. One of the condition precedents in the SSIA was the formation of a new holding company (Holdco) into which the assets of these companies were to be novated and equivalent shares in the Holdco issued to the existing shareholders. The Holdco was established in 2019 in UAE for the two entities in which the Group holds 18.49% interest. The Group's interest in the new Holdco has been accounted for as equity type investment at fair value through equity (note 9).

(iii) The results of Al Izz Islamic Bank used for equity accounting is based on the management accounts for the period from 1 October 2018 to 30 September 2019. The Group is in the process of selling its stake in the bank to another financial institution.

(iv) Due to the political situation in Libya, the investments have been fully provided for.

11 OTHER ASSETS

	31 December 2019	31 December 2018
Receivable from investee *	10,938	11,957
Ijarah rental receivable	31,457	24,612
Prepayments and advances	1,937	5,330
Intangible assets	927	139
Dividend receivable	-	3,000
Fees and commission receivable	7,995	4,430
Others	2,318	2,671
	55,572	52,139
Less: Net impairment allowance **	(223)	(59)
	55,349	52,080

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11 OTHER ASSETS (continued)

* This represents an amount advanced to Al Dur Power and Water Company, an investment of the Group, to meet liability reserve account (LRA) funding requirement under a common term agreement, whereby the shareholders are required to fund such account for the purpose of meeting the repayment of senior debt obligations of the investee.

** For stage wise exposure and allowance for impairment, refer note 27 (b).

12 PROPERTY AND EQUIPMENT

31 December 2019	**Land***	**Capital work-in-Progress ***	**Computers and equipment**	**Motor vehicles**	**Furniture And fixtures**	**2019 Total**	2018 Total
Cost							
At 1 January	23,657	2,762	1,857	641	1,438	30,355	28,383
Additions	-	7,025	37	-	65	7,127	1,974
Disposals	-	-	-	-	-	-	(2)
At 31 December	**23,657**	**9,787**	**1,894**	**641**	**1,503**	**37,482**	30,355
Impairment							
At 1 January	9,334	-	-	-	-	9,334	13,794
Reversal (note 22)	-	-	-	-	-	-	(4,460)
At 31 December	**9,334**	**-**	**-**	**-**	**-**	**9,334**	9,334
Depreciation							
At 1 January	-	-	1,750	417	997	3,164	2,747
Charge for the year	-	-	82	83	228	393	418
Disposal	-	-	-	-	-	-	(1)
At 31 December	**-**	**-**	**1,832**	**500**	**1,225**	**3,557**	3,164
Net book value							
At 31 December	**14,323**	**9,787**	**62**	**141**	**278**	**24,591**	17,857
Net book value							
At 31 December 2018	14,323	2,762	107	224	441		17,857

* The land and the asset under construction are pledged against financing obtained by FEB Aqar to construct/develop the project, refer note 15.

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13 ASSETS HELD FOR SALE

This represents two oil rigs. As part of a capital reduction plan approved by the Bank's shareholders in an extraordinary meeting on 6 December 2018, the shareholders approved the distribution of the two oil rigs with carrying value of USD 119.645 million to a company owned by Trust for the beneficial ownership of the Bank's shareholders (refer note 17).

A. Results of discontinued operation

	2019	2018
Expenses	-	2,612
Loss from discontinued operations	**-**	2,612

In 2018, the loss from the discontinued operation of USD 2,612 thousand is attributable entirely to the owners of the Bank. Of the profit from continuing operations of USD 14,911 thousand, an amount of USD 12,256 thousand is attributable to the owners of the Company.

B. Cash flows from (used in) discontinued operation

	2019	2018
Net cash used in operating activities	-	(796)
Net cash flows for the year	-	(796)

C. Effect of disposal on the financial position of the Group

	2019	2018
Ijarah assets	-	119,645
Net assets and liabilities	-	119,645

14 PLACEMENTS FROM FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Commodity murabaha *	36,949	35,841
Wakala contracts	-	57,043
	36,949	92,884

* This is from an entity, which is currently subject to regulatory sanctions. Accordingly, the funds have been frozen until such sanctions are formally lifted.

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15 BANK FINANCING

	31 December 2019	31 December 2018
Term financing *	46,823	41,338
General financing **	144,527	81,290
	191,350	122,628

* Term financing includes financing obtained by FEB-Novus Fin One Ltd Bahamas, a 100% subsidiary of FEB-Novus Aircraft Holding Company, Bahamas which is a 98.5% subsidiary of the Bank secured by a mortgage over an aircraft (refer note 8). Term financing is at a floating rate of 1 month Libor plus 3.20% (2018: 1 month Libor plus 3.20%) maturing on 23 January 2024.

This also includes financing obtained by FEB Aqar S.P.C., a 100% subsidiary of the Bank, for a development project in Bahrain Financial Harbour. The financing is collateralized with the project land and the right of receipts from sale/rental of office space and residential units have been assigned to the lender (refer note 12).

** This represent financing for general purpose secured by sukuk of USD 208 million (refer note 9 (iii)).

16 OTHER LIABILITIES

	31 December 2019	31 December 2018
Customer current account	12,419	93
Unclaimed dividends	9,588	11,288
Employee-related accruals	8,914	6,458
Deferred income	5,060	2,256
Accrued expenses	959	651
Zakat and charity payable	44	38
Others	134	2,650
	37,118	23,434

17 SHARE CAPITAL

	31 December 2019	31 December 2018
Share capital		
Authorised:		
2,000,000,000 ordinary shares of USD 1 each	**2,000,000**	2,000,000
Issued, subscribed and paid-up:		
600,000,000 ordinary shares (2018: 600,000,000) of USD 1 each	**600,000**	600,000

In an extra-ordinary general meeting held on 6 December 2018, the shareholders approved a reduction in the Bank's paid up capital from USD 1 billion divided into one billion ordinary shares of a nominal value of USD 1 each to USD 600 million divided into six hundred million ordinary shares of a nominal value of USD 1 each. The reduction was affected by distribution of assets with carrying value of USD 119.645 million (note 13) and write off of accumulated losses of USD 280.355 million.

17 SHARE CAPITAL (continued)

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

(ii) Names and nationalities of the major shareholders and the percentage of equity shares held in which they have an interest of 5% or more of outstanding shares are as follows:

		2019		2018	
	Country of incorporation	**% of Holding**	**Share capital**	% of holding	Share Capital
Tasameem Real Estate Co. LLC	UAE	21.85	131,102	21.85	131,102
Libyan Investment Authority *	Libya	16.25	97,500	16.25	97,500
Abu Dhabi Power Corporation	UAE	15.00	90,000	15.00	90,000
Emirates Islamic Bank PJSC	UAE	10.00	60,000	10.00	60,000
Mohammed Bin Hussain Bin Ali AlAmoudi	KSA	5.00	30,000	5.00	30,000
AlJabr Holding Co.	KSA	5.00	30,000	5.00	30,000

* This entity is subject to regulatory sanctions.

(iii) The distribution schedule of equity shares, setting out the number of holders and percentage of holding is as follows:

At 31 December 2019 **Categories**	**Number of shares ('000)**	**Number of shareholders**	**% of total outstanding shares**
Less than 5% **	**161,398**	**17**	**26.90%**
5% up to less than 10%	**60,000**	**2**	**10.00%**
10% up to less than 25%	**378,602**	**4**	**63.10%**
	600,000	**23**	**100%**

At 31 December 2018 Categories	Number of shares ('000)	Number of shareholders	% of total outstanding shares
Less than 5% **	161,398	17	26.90%
5% up to less than 10%	60,000	2	10.00%
10% up to less than 25%	378,602	4	63.10%
	600,000	23	100%

** Includes 6,000 thousand treasury shares.

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18 INCOME FROM INVESTMENT SECURITIES

	2019	2018
Profit on sukuk	10,496	12,014
Fair value gain on investment in structured products (note 9)	3,905	-
Dividend income	948	5,495
(Loss) / gain on disposal of sukuk	(354)	942
Gain on disposal of quoted equity securities	-	5,454
	14,995	23,905

19 NET INCOME FROM IJARAH ASSETS

	2019	2018
Rental income	9,237	9,169
Finance cost	(2,162)	(2,290)
Depreciation on Ijarah assets	(3,600)	(3,600)
Other operating expenses	(588)	(587)
	2,887	2,692

20 STAFF COST

	2019	2018
Salaries and benefits	12,205	11,982
Other staff expenses	646	697
	12,851	12,679

21 OTHER OPERATING EXPENSES

	2019	2018
Professional and consultancy fee	1,762	5,361
Board and shari'a committee expenses	1,351	1,093
Rent and utilities	752	769
IT related expenses	739	748
Travelling and related expenses	766	1,246
Subscription and membership fees	453	428
Foreign exchange loss	110	13
Telecommunication and postages	97	119
Cleaning, repairs and maintenance	79	97
Advertising and marketing expenses	49	96
Others	790	1,061
	6,948	11,031

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22 NET IMPAIRMENT LOSSES / (REVERSAL)

	2019	2018
Quoted equity securities at FVTE (note 9)	763	-
Unquoted equity securities (note 9)	754	-
Investment in Sukuk (note 27 (b))	(772)	786
Placements with financial institutions (note 27 (b))	(38)	35
Financing assets (note 27 (b))	844	902
Other assets (note 27 (b))	164	(184)
Reversal of impairment on Land (note 12)	-	(4,460)
	1,715	(2,921)

23 RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances included in these consolidated financial statements are as follows:

31 December 2019	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	**Total**
Assets				
Cash and bank balances	-	-	8,255	**8,255**
Placements with financial institutions	-	-	28,463	**28,463**
Financing assets	-	-	49,821	**49,821**
Investment securities	-	-	36,893	**36,893**
Equity accounted investees	71,149	-	-	**71,149**
Other assets	20	-	2,498	**2,518**
Liabilities				
Placements from financial institutions	-	-	36,949	**36,949**
Other liabilities	-	1,740	22,054	**23,794**

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23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

31 December 2018	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Assets				
Cash and bank balances	-	-	9,661	9,661
Placements with financial institutions	-	-	33,504	33,504
Financing assets	-	-	57,143	57,143
Investment securities	-	-	43,182	43,182
Equity accounted investees	29,341	-	-	29,341
Other assets	10	-	4,371	4,381
Liabilities				
Placements from financial institutions	-	-	35,841	35,841
Other liabilities	-	1,123	11,382	12,505

31 December 2019	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	Total
Income				
Income from investment securities	(300)	-	1,248	**948**
Income from financing and placements with financial institutions	-	-	3,579	**3,579**
Share of results of equity accounted investees	2,902	-	-	**2,902**
Fees and commission income	-	-	643	**643**
Expenses				
Staff cost	-	3,959	-	**3,959**
Finance cost on placements from financial institutions	-	-	1,109	**1,109**
Other operating expenses	-	1,507	-	**1,507**
Net impairment losses	-	-	755	**755**

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23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

31 December 2018	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Income				
Income from investment securities	-	-	7,949	7,949
Income from financing and placements with financial institutions	709	-	4,197	4,906
Share of results of equity accounted investees	(773)	-	-	(773)
Fees and commission income	-	-	7,868	7,868
Other income	-	-	80	80
Expenses				
Staff cost	-	3,454	-	3,454
Finance cost on placements from financial institutions	-	-	983	983
Other operating expenses	-	1,242	-	1,242
Loss on dilution of investment in associate	6,102	-	-	6,102
Net impairment losses	113	-	99	212

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 Bank. The key management personnel compensation is as follows:

	2019	2018
Board member fees	1,263	1,000
Salary and other benefits	3,608	2,958
Post employment benefits	351	496
	5,222	4,454

24 ZAKAH

Zakah payable by the shareholders in respect of each share for the year ended 31 December 2019 is USD 0.0216 (2018: USD 0.0214) for every share held. USD Nil (2018: USD Nil) is payable by the Bank in their capacity as the agents of the shareholders and USD 0.0216 (2018: USD 0.0214) is the responsibility of the individual shareholders.

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25 SEGMENT INFORMATION

a) Industry sector

The industrial distribution of the Group's assets and liabilities is as follows:

2019	**Banks and financial institutions**	**Energy, power and infrastructure**	**Others**	**Total**
Assets				
Cash and bank balances	20,976	-	-	20,976
Placements with financial institutions	40,168	-	-	40,168
Financing assets	-	-	163,109	163,109
Ijarah assets	-	-	71,500	71,500
Investment securities	142,934	89,623	183,193	415,750
Equity accounted investees	29,044	-	42,105	71,149
Other assets	14	11,335	44,000	55,349
Property and equipment	-	-	24,591	24,591
Total assets	**233,136**	**100,958**	**528,498**	**862,592**
Liabilities				
Placements from financial institutions	36,949	-	-	36,949
Bank financing	191,350	-	-	191,350
Other liabilities	-	13	37,105	37,118
Total liabilities	**228,299**	**13**	**37,105**	**265,417**

2018	Banks and financial institutions	Energy, power and infrastructure	Others	Total
Assets				
Cash and bank balances	15,407	-	-	15,407
Placements with financial institutions	89,818	-	-	89,818
Financing assets	-	2,741	114,685	117,426
Ijarah assets	-	-	75,100	75,100
Investment securities	142,535	99,541	186,661	428,737
Equity accounted investees	29,341	-	-	29,341
Other assets	10	13,091	38,979	52,080
Property and equipment	-	-	17,857	17,857
Total assets	277,111	115,373	433,282	825,766
Liabilities				
Placements from financial institutions	92,884	-	-	92,884
Bank financing	122,628	-	-	122,628
Other liabilities	-	51	23,383	23,434
Total liabilities	215,512	51	23,383	238,946

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25 SEGMENT INFORMATION (continued)

b) Geographic sector

The geographical distribution of the Group's assets and liabilities is as follows:

2019	**MENA**	**Europe**	**America**	**Asia**	**Total**
Assets					
Cash and bank balances	20,021	955	-	-	20,976
Placements with financial institutions	40,168	-	-	-	40,168
Financing assets	163,109	-	-	-	163,109
Ijarah assets	-	-	-	71,500	71,500
Investment securities	355,831	44,610	-	15,309	415,750
Equity accounted investees	29,044	42,105	-	-	71,149
Other assets	54,531	-	-	818	55,349
Property and equipment	24,591	-	-	-	24,591
Total assets	**687,295**	**87,670**	**-**	**87,627**	**862,592**
Liabilities					
Placements from financial institutions	36,949	-	-	-	36,949
Bank financing	51,580	139,770	-	-	191,350
Other liabilities	36,560	-	-	558	37,118
Total liabilities	**125,089**	**139,770**	**-**	**558**	**265,417**

2018	MENA	Europe	America	Asia	Total
Assets					
Cash and bank balances	12,902	2,505	-	-	15,407
Placements with financial institutions	89,818	-	-	-	89,818
Financing assets	114,685	-	2,741	-	117,426
Ijarah assets	-	-	-	75,100	75,100
Investment securities	322,655	75,920	-	30,162	428,737
Equity accounted investees	29,341	-	-	-	29,341
Other assets	48,042	3,000	-	1,038	52,080
Property and equipment	17,857	-	-	-	17,857
Total assets	635,300	81,425	2,741	106,300	825,766
Liabilities					
Placements from financial institutions	92,884	-	-	-	92,884
Bank financing	-	122,628	-	-	122,628
Other liabilities	22,824	-	33	577	23,434
Total liabilities	115,708	122,628	33	577	238,946

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

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26 COMMITMENTS

	31 December 2019	31 December 2018
Financing commitments	10,884	15,916
Forward treasury commitments	5,305	-
Operating lease commitments	637	1,289
	16,826	17,205

27 RISK MANAGEMENT

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

- liquidity risk;
- credit risk;
- market risks; and
- operational risk

The Bank has a risk management framework in place for managing these risks which are constantly evolving as the business activities change in response to credit, market, product and other developments.

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The Management Risk Committee is responsible for recommending policy and framework to the Board Audit and Risk Committee, which in turn is responsible for reviewing and recommending to the Board for approval. The Risk Management Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The principal risks associated with the Group's business and the related risk management processes are as follows:

(a) Liquidity risk

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

The Board of Directors approves all significant policies and strategies related to the management of liquidity. Management Committees including the Asset Liability Committee and the Management Risk Committee review the liquidity profile of the Group on a regular basis and any material change in the current or prospective liquidity position is notified to the Board through the Board Audit and Risk Committee.

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27 RISK MANAGEMENT (continued)

The Risk Management Department monitors the liquidity profile of the Bank on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

Details of the Group's liquid assets to total assets at the reporting date and during the reporting period were as follows:

	2019	2018
At 31 December	**0.44**	0.48
Average for the year	**0.46**	0.46

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

At 31 December 2019	**Gross undiscounted cash flows**					
	Less than 3 months	**3 to 12 months**	**1 year to 3 years**	**Over 3 years**	**Total**	**Carrying value**
Placements from financial institutions	37,089	-	-	-	37,089	36,949
Bank financing	43,296	48,726	79,600	32,056	203,678	191,350
Other liabilities	26,684	1,025	2,167	7,242	37,118	37,118
Total liabilities	**107,069**	**49,751**	**81,767**	**39,298**	**277,885**	**265,417**

At 31 December 2018	Gross undiscounted cash flows					
	Less than 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Total	Carrying value
Placements from financial institutions	93,158	-	-	-	93,158	92,884
Bank financing	42,935	5,275	56,951	28,917	134,078	122,628
Other liabilities	16,467	646	1,125	5,196	23,434	23,434
Total liabilities	152,560	5,921	58,076	34,113	250,670	238,946

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27 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities based on expected periods to cash conversion from the consolidated statement of financial position date:

2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 Years	No fixed Maturity	Total
Assets									
Cash and bank balances	20,976	-	-	-	-	-	-	-	20,976
Placements with financial institutions	40,168	-	-	-	-	-	-	-	40,168
Financing assets	5,113	16,253	56,353	44,005	36,354	5,031	-	-	163,109
Ijarah assets	-	-	-	-	-	-	-	71,500	71,500
Investment securities	12,882	50,529	20,429	124,888	91,230	19,385	-	96,407	415,750
Equity accounted investees	-	-	-	-	-	-	-	71,149	71,149
Other assets	2,556	713	14,096	34,307	2,250	-	-	1,427	55,349
Property and equipment	-	-	-	-	-	-	-	24,591	24,591
Total assets	**81,695**	**67,495**	**90,878**	**203,200**	**129,834**	**24,416**	**-**	**265,074**	**862,592**
Liabilities									
Placements from financial institutions	36,949	-	-	-	-	-	-	-	36,949
Bank financing	42,579	1,236	44,221	73,325	26,791	3,198	-	-	191,350
Other liabilities	26,684	340	685	2,167	7,242	-	-	-	37,118
Total liabilities	**106,212**	**1,576**	**44,906**	**75,492**	**34,033**	**3,198**	**-**	**-**	**265,417**
Net gap	**(24,517)**	**65,919**	**45,972**	**127,708**	**95,801**	**21,218**	**-**	**265,074**	**597,175**
Cumulative net gap	**(24,517)**	**41,402**	**87,374**	**215,082**	**310,883**	**332,101**	**332,101**	**597,175**	**-**
Commitments	**6,933**	**809**	**4,366**	**4,718**	**-**	**-**	**-**	**-**	**16,826**

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27 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	No fixed Maturity	Total
Assets									
Cash and bank balances	15,407	-	-	-	-	-	-	-	15,407
Placements with financial institutions	89,818	-	-	-	-	-	-	-	89,818
Financing assets	1,471	9,415	2,954	79,418	24,168	-	-	-	117,426
Ijarah assets	-	-	-	-	-	-	-	75,100	75,100
Investment securities	-	5,052	12,069	265,248	46,968	91,863	-	7,537	428,737
Equity accounted investees	-	-	-	-	-	-	-	29,341	29,341
Other assets	4,894	470	18,858	3,459	23,760	-	-	639	52,080
Property and equipment	-	-	-	-	-	-	-	17,857	17,857
Total assets	111,590	14,937	33,881	348,125	94,896	91,863	-	130,474	825,766
Liabilities									
Placements from financial institutions	92,884	-	-	-	-	-	-	-	92,884
Bank financing	42,380	1,191	2,407	50,264	10,915	15,471	-	-	122,628
Other liabilities	16,467	141	505	1,125	5,196	-	-	-	23,434
Total liabilities	151,731	1,332	2,912	51,389	16,111	15,471	-	-	238,946
Net gap	(40,141)	13,605	30,969	296,736	78,785	76,392	-	130,474	586,820
Cumulative net gap	(40,141)	(26,536)	4,433	301,169	379,954	456,346	456,346	586,820	-
Commitments	1,147	163	5,631	10,263	1	-	-	-	17,205

for the year ended 31 December 2019 USD 000's

27 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally from placements with financial institutions, financing assets (commodity murabaha), investments in quoted sukuk and other receivables.

The Bank attempts to reduce credit risk by assigning limits for each counterparty, monitoring credit exposure, and continuously assessing the creditworthiness of counterparties.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk).

i) Credit Risk Measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) as required under FAS 30.

ii) Credit risk grades

The Group uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

iii)Credit quality assessments

Pursuant to the adoption of FAS 30, the Bank has mapped its internal credit rating scale to Moody's (or any other external rating) rating scale. The table below provides an analysis of counterparties by rating grades and credit quality of the Bank's credit risk, based on Moody's ratings (or their equivalent) as at 31 December 2019.

Rating grade	**Financing Assets**	**Investment in Sukuk**	**Placements with financial institutions**	**Other assets / receivables**	**Total**
AAA to AA-	-	-	-	-	-
A+ to A-	-	109,121	3,302	-	112,423
BBB to BBB-	-	22,403	-	-	22,403
BB+ to B-	39,405	97,693	13,499	2,498	153,095
Unrated	123,704	32,804	23,367	47,669	227,544
Total	**163,109**	**262,021**	**40,168**	**50,167**	**515,465**

31 December 2018

Rating grade	Financing Assets	Investment in Sukuk	Placements with financial institutions	Other assets / receivables	Total
AAA to AA-	41,889	42,078	-	24,612	108,579
A+ to A-	-	45,239	16,306	-	61,545
BBB to BBB-	-	30,162	-	-	30,162
BB+ to B-	75,537	136,333	73,512	19,328	304,710
Unrated	-	-	-	-	-
Total	117,426	253,812	89,818	43,940	504,996

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27 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Management of credit risk
Credit risk is assessed and approved on an individual basis for each counterparty at least once a year as a part of the internal risk review process. As at 31 December 2019, all credit exposures were appropriately approved by the relevant authority level. The credit risk assessment conducted as a part of the internal risk review process included rating each exposure using industry specific rating models which consider key risk factors to assign the internal credit rating. The Bank assigns rating-based credit limits for all counterparty banks and financial institutions with whom it places short-term funds. All placements during the year were with financial institutions having internal and / or external credit ratings mapped to the "Standard" credit category of the Bank. The Bank also conducts detailed assessments of the debt investment opportunities to evaluate the commercial viability of the investments. Sukuk investments during the year were with obligors who were either banks, sovereigns or sovereign owned companies, subsidiaries, and were rated externally and/or internally. The Bank monitors the creditworthiness of the counterparties and the performance of the exposures with regard to timeliness of payments and other credit conditions on an ongoing basis. Annual and interim credit reviews are conducted to check the credit quality and impairment assessment requirement, if any.

In addition to external ratings, the Bank assigns an internal rating which is mapped to the lowest external rating, in cases where the entity is rated by more than one credit rating agency. The external ratings used for this purpose are those issued by S&P, Moody's, Fitch and Capital Intelligence. In case the entity is not rated externally the Bank assigns an internal rating based on an in house credit assessment.

Maximum exposure to credit risk
The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigates.

	2019	2018
Balances with banks	20,963	15,394
Placements with financial institutions	40,168	89,818
Financing assets	163,109	117,426
Investment in Sukuk	262,021	253,812
Other assets / receivables	52,186	46,156
	538,447	522,606

Credit quality per class of financial assets
The table below analyses the Group's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's, Fitch and Capital Intelligence) of the counterparties where relevant:

2019	**Bank balances**	**Placements with financial institutions**	**Financing assets**	**Investment securities**	**Other assets**	**Total**
Prime to High grade: AAA - AA	52	-	-	-	-	52
Medium grade: A - BBB	1,390	3,302	-	131,525	-	136,217
Non-investment / speculative: BB - B	15,482	13,499	39,405	97,692	2,498	168,576
Unrated	4,039	23,367	123,704	32,804	49,688	233,602
	20,963	**40,168**	**163,109**	**262,021**	**52,186**	**538,447**

for the year ended 31 December 2019 USD 000's

27 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2018	Bank balances	Placements with financial institutions	Financing assets	Investment securities	Other assets	Total
Prime to High grade: AAA - AA	2,523	-	41,889	61,233	24,612	130,257
Medium grade: A - BBB	2,506	16,306	-	106,295	-	125,107
Non-investment / speculative: BB - B	10,365	73,512	75,537	86,284	19,328	265,026
Unrated	-	-	-	-	2,216	2,216
	15,394	89,818	117,426	253,812	46,156	522,606

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration, including geographic concentration.

The Bank has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration, the Bank has defined limits for each country / geography which is based on the lowest among the available ratings by S&P, Moody's, Fitch and Capital Intelligence. The Bank also closely monitors political risk arising from events in each country of exposure.

27 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Movement in ECL

The following table shows reconciliation from the opening to the closing balances of the carrying amounts of financial assets at amortized cost and the loss allowance:

	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Total USD'000
Gross exposure subject to ECL at 31 December 2019				
- Financing assets	69,282	96,990	28,055	194,327
- Investment in Sukuk	158,642	104,216	-	262,858
- Placements with financial institutions	40,178	-	-	40,178
- Other assets	47,833	2,557	-	50,390
	315,935	**203,763**	**28,055**	**547,753**
Opening Balance ECL - as at 1 January 2019				
- Financing assets	1,710	609	28,615	30,934
- Investment in Sukuk	480	1,129	-	1,609
- Placements with financial institutions	48	-	-	48
- Other assets	-	59	-	59
	2,238	**1,797**	**28,615**	**32,650**
Net transfer between stages				
- Financing assets	(1,710)	1,710	(560)	(560)
- Investment in Sukuk	(12)	12	-	-
- Placements with financial institutions	-	-	-	-
- Other assets	-	-	-	-
	(1,722)	**1,722**	**(560)**	**(560)**
Charge for the year (net)				
- Financing assets	-	844	-	844
- Investment in Sukuk	(426)	(346)	-	(772)
- Placements with financial institutions	(38)	-	-	(38)
- Other assets	164	-	-	164
	(300)	**498**	**-**	**198**
Closing Balance ECL - as at 31 December 2019				
- Financing assets	-	3,163	28,055	31,218
- Investment in Sukuk	42	795	-	837
- Placements with financial institutions	10	-	-	10
- Other assets	164	59	-	223
	216	**4,017**	**28,055**	**32,288**
Net exposure at 31 December 2019				
- Financing assets	69,282	93,827	-	163,109
- Investment in Sukuk	158,600	103,421	-	262,021
- Placements with financial institutions	40,168	-	-	40,168
- Other assets	47,669	2,498	-	50,167
	315,719	**199,746**	**-**	**515,465**

Cash and bank balances did not have a significant ECL impact.

27 RISK MANAGEMENT (continued)

(d) Market risk

Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Bank monitors this exposure on an ongoing basis.

The Group had the following net exposures denominated in foreign currencies (other than GCC currencies) as of 31 December:

	2019	2018
Turkish Lira	**42,105**	35,201

The table below indicates the impact of reasonably possible changes in exchange rates on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the consolidated statement of financial position date and calculating the impact of the changes in exchange rates:

	Change in exchange rates (+/-) %	**Net income and equity (+/-)** USD 000's
Turkish Lira	10	**4,211**

Equity price risk
The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

As at 31 December 2019, the Group had investments in quoted equities on the Bahrain Bourse. The table below reflects the sensitivity of the investment by considering the impact of reasonably expected changes in the capitalisation rate.

	Change in exchange rates (+/-) %	**2019 Effect on net equity (+/-)** USD 000's	2018 Effect on net equity (+/-) USD 000's
Stock Exchange	10	**3,689**	3,565

27 RISK MANAGEMENT (continued)

(d) Market risk (continued)

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

Profit rate risk in the banking book

Profit rate risk in the banking book is the exposure of the Group's financial condition to adverse movements in profit rates. Changes in profit rates affect the Group's earnings by changing its net profit income and the level of other profit rate sensitive income and expenses. Changes in profit rates also affect the underlying value of the Group's assets and liabilities because of the absolute or economic value changes of future cash flows due to the change in profit rates. Profit rate risk primarily arises on account of reprising risk, yield curve risk, basis risk and optionality risk.

The Group's profit rate sensitive assets are mainly commodity murabaha and wakala placed with financial institutions and investments in Sukuk. The Group has exposures to fixed rate Sukuk. Fixed rate sukuk represent 100% of the total Sukuk portfolio as at 31 December 2019 (2018: 100%). The rate sensitive liabilities comprise of due to financial institutions, murabaha financing, term financing and general financing.

The Group has minimal exposure to reprising and yield curve risks. Reprising risk arises on account of mismatch in profit rate fixation periods between assets and liabilities. Yield curve risk arises due to shift in the yield curve resulting in changes in the economic value of cashflows. Exposure to basis risk is not material and although the basis risk exposure is monitored, the Bank does not consider this item of profit rate risk in the internal risk calculations. The rate sensitive assets mainly comprise commodity murabaha and wakala contracts and Sukuk. Part of these assets are funded by rate sensitive liabilities in the form of murabaha and wakala payable. The short-term nature of these items and high degree of correlation between profits earned and paid on them minimises the basis risk. The remaining rate sensitive assets (Sukuks and residual inter-bank placements) are funded by equity. The Group is not exposed to optionality risk arising due to embedded options in rate sensitive assets or liabilities.

The Bank monitors the timing difference in the re-pricing of the Bank's rate-sensitive assets and liabilities and resulting impact of any parallel shift in the yield curve on the expected net profit income for up to one year, and the value of equity and overall economic value of equity considering the changes in net profit income and the value of equity. The profit rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. A standard 200 basis point (bp) profit rate shock by way of parallel shift in all yield curves is considered on a monthly basis to ensure that the resulting impact on the economic value of equity is within the limit prescribed by the Basel Committee on Banking Supervision.

Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. A summary of the Group's profit rate gap position is as follows:

for the year ended 31 December 2019 USD 000's

27 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

2019	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	40,168	-	-	-	-	40,168
Financing assets	5,113	16,253	56,353	44,005	41,385	163,109
Investment securities	12,882	50,529	-	87,995	110,615	262,021
Other assets	862	-	-	30,595	-	31,457
Total assets	**59,025**	**66,782**	**56,353**	**162,595**	**152,000**	**496,755**
Liabilities						
Placements from financial institutions	36,949	-	-	-	-	36,949
Bank financing	42,579	1,236	44,221	73,325	29,989	191,350
Total liabilities	**79,528**	**1,236**	**44,221**	**73,325**	**29,989**	**228,299**
Profit rate sensitivity gap	**(20,503)**	**65,546**	**12,132**	**89,270**	**122,011**	**268,456**

2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	89,818	-	-	-	-	89,818
Financing assets	1,471	9,415	2,954	79,418	24,168	117,426
Investment securities	-	5,052	12,069	97,860	138,831	253,812
Other assets	863	-	-	-	23,749	24,612
Total assets	92,152	14,467	15,023	177,278	186,748	485,668
Liabilities						
Placements from financial institutions	92,884	-	-	-	-	92,884
Bank financing	42,380	1,191	2,407	50,264	26,386	122,628
Total liabilities	135,264	1,191	2,407	50,264	26,386	215,512
Profit rate sensitivity gap	(43,112)	13,276	12,616	127,014	160,362	270,156

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position), would be an increase of profit by USD 5,369 thousand (2018: USD 5,403 thousand).

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

for the year ended 31 December 2019 USD 000's

27 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

The average effective profit rates on the financial assets and liabilities as at 31 December were as follows:

	2019	2018
Placements with financial institutions	2.24%	1.97%
Financing assets	8.30%	7.78%
Investment securities	4.04%	4.98%
Placements from financial institutions	2.44%	2.10%
Bank financing	4.21%	4.08%

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or loss resulting from external events. Operational risk also includes Shari'a non-compliance risk but excludes strategic and reputational risks.

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances. In addition the Bank is committed to the training of its staff. The Bank has conducted Risk and Control Self Assessment of Operational Risk in all departments to identify the Key Risk Indicators as a part of the overall Operational Risk Management framework. The Bank monitors the key risks and operational risk losses on an ongoing basis and regularly reports the position to the senior management and the Board. The Bank has also implemented an IT enabled operational risk system to automate the operational risk processes namely risk and controls assessment, loss data collection and key risk indicator calculation

Capital management

The Central Bank of Bahrain (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 of the IFSB guidelines.

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.

27 RISK MANAGEMENT (continued)

Capital management (continued)

The Capital components are subject to various limits as per the CA modules. 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 securitization 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.

The regulatory adjustments are subject to limits prescribed by the CA module. 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.

As at 31 December the Bank has made regulatory adjustments of USD Nil (2018: USD Nil). In line with the requirements of CA module.

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 policy is to maintain a strong capital base and meet the minimum capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the returns and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to optimize returns within the internally defined risk tolerances while satisfying all the regulatory requirements.

The Bank ensures that the regulatory capital adequacy requirements are met and complied with at all times. In addition, the Bank has developed a comprehensive ICAAP.

The Bank's regulator (CBB) sets and monitors capital requirements for the Bank. CBB requires the Bank to maintain the ratio of eligible capital base to the total risk-weighted assets at a minimum of 12.5%.

for the year ended 31 December 2019 USD 000's

27 RISK MANAGEMENT (continued)

Capital management (continued)

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

	31 December 2019	31 December 2018
Total risk weighted assets	926,483	835,474
Tier 1 capital:		
- CET1 prior to regulatory adjustments	553,247	539,623
- Less: regulatory adjustments	-	-
CET1 after regulatory adjustments	553,247	539,623
AT1		-
Tier 2 capital	4,233	4,035
Total regulatory capital	557,480	543,658
Total regulatory capital expressed as a percentage of total risk weighted assets	60%	65%
Liquidity coverage ratio	224%	382%
Net stable funding ratio	111%	116%
Leverage ratio	70%	71%

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

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair 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).

for the year ended 31 December 2019 USD 000's

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through equity				
Quoted equity securities	**36,893**	**-**	**-**	**36,893**
Fair value through profit or loss				
Investment in structured products	**-**	**20,429**	**-**	**20,429**

2018	Level 1	Level 2	Level 3	Total
Fair value through equity				
Quoted equity securities	35,645	-	-	35,645
Fair value through profit or loss				
Investment in structured products	-	-	-	-

a) Fair value of financial instruments

The fair value of the Group's investments in sukuk held at amortised cost of USD 262,021 thousand as of 31 December 2019 (2018: USD 253,812 thousand) was USD 261,849 thousand (2018: USD 238,585 thousand).

For murabaha financing, the profit rate is in line with the current market rates for similar facilities, hence, after considering the prepayment risk it is expected that the current value would not be materially different to its fair value. Other than equity investments carried at cost less impairment of USD 96,407 thousand (2018: USD 139,280 thousand), the Group's other financial instruments are not significantly different from the carrying values.

29 SOCIAL RESPONSIBILITY

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

30 COMPARATIVES

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