ALUBAF Arab International Bank B.S.C. (c)

REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

Board of Directors' Report

On behalf of the Board of Directors', I am delighted to present audited financial statements for the year ended 31 December 2019.

Amid challenging and uncertain macro -economic factors and increasing regulatory requirements, the Bank emerged resilient and achieved a Net profit of US$ 28.7 million for the year ended 31 December 2019, as compared to a net profit of US$ 15 million last year 2018, which is an increase of 92%, year on year.

Net profit for the quarter ended 31 December 2019 was US$ 18 million, as compared to US$ 2.9 million for the same period, last year 2018. This spurt in net results of fourth quarter 2019, was mainly due to write back of provisions, despite maintaining adequate provision for expected credit losses under IFRS.

Interest income was US$ 44.2 million for the year ended 31 December 2019, with a marginal growth of 3.2% over US$ 42.9 million in 2018. However, interest expenses for 2019 increased to US$ 17.4 million from US$ 14 million in 2018, thus witnessed an increase in cost of funding by 23.6%, which reduced the net interest income for the year ended 31 December 2019 to US$ 26.8 million compared to US$ 28.8 million in previous year, resulting in a reduction of 6.8%.

Fee and commission income for the year ended 2019 was US$ 3.6 million, as compared to US$ 4.9 million in 2018, due to contraction in volume of trade finance business.

As for Other operating income, the Bank made significant gains on sale of investment securities and foreign exchange in current year.

Therefore, operating income achieved for 2019 was US$ 33 million, compared to US$ 34.3 million in 2018, resulting in an overall reduction of 4.1% in current year.

However, the Bank performed phenomenally well, in collection of past dues, which enabled to reversal of provision of credit losses, after maintaining 100% provision coverage for other non-performing facilities and creating adequate levels of provision for expected credit loss under IFRS.

Operating expenses for 2019, resulted in a reasonable savings of 6.3% compared to previous year 2018, which reduced the Cost to income ratio marginally to 38.5% in 2019, compared to 39% in 2018.

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Email:info@alubafbank.com, www.alubafbank.com
Authorised capital: US$ 500 million, Paid up capital: US$ 250 Million
Licensed as a Conventional Wholesale Bank by the CBB

برج اليوباف، ضاحية السيف
ص.ب: ١١٥٢٩، مملكة البحرين
Swift: ALUBBHBM، س.ت: ١٢٨١٩
تليفون: ٥١٧٧٢٢ ١٧ ٩٧٣+
فاكس: ٥٤٠٠٩٤ ١٧ ٩٧٣+

Total assets grew by 4% in 2019, over 2018 figures, although Loans portfolio contracted in 2019 to 8% of total assets, investment securities increased in 2019 and stood at 20.4% of total assets, as against 18.6% in 2018.

The Bank achieved a Return on average equity of 9.1% for the year ended 2019, as compared to 4.9% for last year 2018. Bank's Capital adequacy and liquidity, liquid assets to total assets ratios grew stronger to 51% and 70% respectively.

In recognition of the importance and support of its valued shareholders, the Board of directors are pleased to propose a dividend of US$ 3 per share, amounting to US$ 15 million, representing 6% of paid up share capital for the year 2019, after due appropriation of US$ 2.9 million from Net profit for the year 2019, towards transfer to Statutory reserve. This Proposed dividend for the year 2019, is subject to regulatory and shareholders' approval in Annual general meeting.

Outlook for 2020, is positive and encouraging, given our strong capital and the concerted effort of management to dynamically address to the changes in regulatory requirements and other market challenges, to better position and sustain a year on year growth to our shareholders.

Finally, I would like to thank all the members of the Board, the Shareholders, the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain, Central Bank of Bahrain and all Correspondent Banks and our Customers for their continued support, cooperation and guidance.

I also extend my appreciation and thanks to all the employees for their professionalism and commitment for the Bank's continued growth and progress.

Chairman
Moraja G. Solaiman

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank"), which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the (Consolidated) Financial Statements section of our report. We are independent of the Company/ (Group) in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information
Other information consists of the Board of Directors' report, set out on pages 1 to 2 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Financial Statements (continued)

Responsibilities of the Board of Directors for the financial statements (continued)
In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and (Volume 1) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

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

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might 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.

Ernst + Young

Auditor's Registration No. 244
10 February 2020
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 US$ '000	2018 US$ '000
ASSETS			
Cash and balances with central bank and other banks	4	428,235	364,769
Deposits with banks and other financial institutions	5	378,891	339,105
Investments classified as fair value through profit and loss	6	3,028	14,517
Investment securities	7	234,930	205,597
Loans and advances	8	92,740	163,338
Property, equipment and software	9	8,987	9,758
Interest receivable		6,237	6,628
Other assets		949	1,176
TOTAL ASSETS		1,153,997	1,104,888
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10	646,770	644,570
Due to banks and other financial institutions	10	89,196	87,783
Due to customers	11	75,504	65,642
Interest payable		2,188	1,634
Other liabilities	12	9,315	7,192
Total liabilities		822,973	806,821
Equity			
Share capital	13	250,000	250,000
Statutory reserve	13	25,631	22,757
Retained earnings		37,219	26,352
Fair value reserve		3,174	(6,042)
Proposed dividend	14	15,000	5,000
Total equity		331,024	298,067
TOTAL LIABILITIES AND EQUITY		1,153,997	1,104,888

Anthony C. Mallis
Deputy Chairman

Moraja G. Solaiman
Chairman

The attached notes 1 to 26 form part of these financial statements.

ALUBAF Arab International Bank B.S.C. (c)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 US$ '000	2018 US$ '000
Interest and similar income	15	44,226	42,861
Interest expense	16	(17,386)	(14,068)
Net interest and similar income		26,840	28,793
Fee and commission income	17	3,569	4,856
Gain (loss) on investments classified as FVTPL	18	535	(383)
Gain on investment securities - net		481	270
Foreign exchange gain - net		1,421	752
Other income		119	99
OPERATING INCOME		32,965	34,387
Reversal (charge) of provision for expected credit losses	19	8,469	(5,838)
NET OPERATING INCOME		41,434	28,549
Staff costs		8,736	7,798
Depreciation	9	881	1,004
Other operating expenses	20	3,076	4,747
OPERATING EXPENSES		12,693	13,549
NET PROFIT FOR THE YEAR		28,741	15,000

Anthony C. Mallis
Deputy Chairman

Moraja G. Solaiman
Chairman

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	*2018*
	US$ '000	*US$ '000*
NET PROFIT FOR THE YEAR	**28,741**	15,000
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change in cash flow hedge	**(442)**	-
Unrealised fair value gain (loss) on investments classified as fair value through other comprehensive income (FVOCI)	**8,455**	(4,321)
Charge (reversal) for expected credit loss on FVOCI for the year	**1,203**	(1,847)
Other comprehensive income (loss) for the year	**9,216**	(6,168)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**37,957**	8,832

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	*2019* *US$ '000*	*2018* *US$ '000*
OPERATING ACTIVITIES			
Net profit for the year		**28,741**	15,000
Adjustments for:			
(Reversal) charge of provision for expected credit losses	19	**(8,469)**	5,838
Depreciation	9	**881**	1,004
Amortisation of investments carried at amortised cost		**326**	536
Gain on investment securities - net		**(481)**	(270)
Unrealised (gain) loss on investments classified as FVTPL		**(488)**	325
Gain on disposal of property, equipment and software		**-**	(7)
Amortisation of assets classified as loans and advances		**(924)**	(848)
Operating profit before changes in operating assets and liabilities		**19,586**	21,578
Changes in operating assets and liabilities:			
Balances with central bank		**(127,002)**	-
Deposits with banks and other financial institutions		**(126,884)**	15,400
Investments classified as fair value through profit and loss		**11,977**	4,558
Investment securities		**(220)**	(2,769)
Loans and advances		**82,234**	(35,895)
Interest receivable		**391**	116
Other assets		**227**	415
Deposits from banks and other financial institutions		**2,200**	75,013
Due to banks and other financial institutions		**1,413**	(45,634)
Due to customers		**9,862**	(28,163)
Interest payable		**554**	548
Other liabilities		**2,174**	258
Net cash flows (used in) from operating activities		**(123,488)**	5,425
INVESTING ACTIVITIES			
Purchase of investment securities		**(54,190)**	(4,644)
Proceeds from disposal/redemption of investment securities		**32,190**	16,123
Purchase of property, equipment and software	9	**(110)**	(391)
Proceeds from sale of property and equipment		**-**	7
Net cash flows (used in) from investing activities		**(22,110)**	11,095
FINANCING ACTIVITY			
Dividends paid		**(5,000)**	(5,000)
Cash flows used in financing activity		**(5,000)**	(5,000)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(150,598)**	11,520
Cash and cash equivalents at 1 January		**689,354**	677,834
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**538,756**	689,354

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Note	*Share capital US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Proposed dividend US$'000*	*Total US$ '000*
Balance as of 1 January 2019		**250,000**	**22,757**	**26,352**	**(6,042)**	**5,000**	**298,067**
Net profit for the year		-	-	28,741	-	-	28,741
Other comprehensive income		-	-	-	9,216	-	9,216
Dividends paid		-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2019	14	-	-	(15,000)	-	15,000	-
Transfer to Statutory reserve		-	2,874	(2,874)	-	-	-
Balance as of 31 December 2019		**250,000**	**25,631**	**37,219**	**3,174**	**15,000**	**331,024**
Balance as at 1 January 2018		250,000	21,257	17,852	126	5,000	294,235
Net profit for the year		-	-	15,000	-	-	15,000
Other comprehensive loss		-	-	-	(6,168)	-	(6,168)
Dividends paid		-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2018		-	-	(5,000)	-	5,000	-
Transfer to Statutory reserve		-	1,500	(1,500)	-	-	-
Balance as of 31 December 2018		250,000	22,757	26,352	(6,042)	5,000	298,067

The attached notes 1 to 26 form part of these financial statements.

1 ACTIVITIES

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer to note 13 for more details).

The financial statements of the Bank for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 10 February 2020.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in conformity with the Bahrain Commercial Companies Law ("BCCL"), the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives.

Basis of measurement
The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investments classified as at fair value through profit or loss ("FVTPL") and investment classified as at fair value through other comprehensive income ("FVOCI") that have been remeasured at fair value.

Functional and presentation currency
The financial statements are presented in United States Dollars (US$), being the Bank's functional currency. All values are rounded to the nearest thousand (US$ '000), except when otherwise indicated.

2.2 Significant accounting policies

Financial instruments

Date of recognition
Financial assets and liabilities, with the exception of loans and advances are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances are recognised when funds are transferred to the customers' accounts.

Initial measurement
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 2.2 and 2.3.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit losses ("ECL") is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial instruments (continued)

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

Financial assets

2.2.1 Debt type instruments - Classification and subsequent measurement
The Bank classifies its financial assets - debt type instruments in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and

(ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt type instruments - Classification and subsequent measurement (continued)

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Bank may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that are measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss within operating income as 'Gain (loss) on investments classified as FVTPL' in the period in which it arises, unless it arises from debt instruments that were neither designated at fair value nor which are not held for trading, in which case they are presented separately within 'operating income' as a 'Gain on investment securities - net'. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

Business model
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of a 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel;
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

SPPI test
The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt type instruments - Classification and subsequent measurement (continued)

SPPI test (continued)
In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period other than the reclassifications made on the initial adoption of IFRS 9 at the date of transition.

2.2.2 Equity type instruments - classification and subsequent measurement
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Upon initial recognition, the Bank elects to irrevocably designate certain equity investments at FVOCI which are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Bank has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Gains and losses on equity investments at FVTPL are included within operating income as 'Gain (loss) on investments classified as FVTPL' in the statement of profit or loss.

Dividends are recognised in the statement of profit or loss within operating income when the Bank's right to receive payments is established.

Modified or forbearance of loans
The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.2 Equity type instruments - classification and subsequent measurement (continued)

Modified or forbearance of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk ("SICR") has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

Derecognition other than on a modification
Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial liabilities

Classification and subsequent measurement
All financial liabilities of the Bank are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in issuer's credit risk, which is determined as the amount that is not attributable to changes in the market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the issuer's credit risk are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment
The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments financial assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial guarantee contracts and loan commitments
The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

The premium received is recognised in the statement of profit or loss within operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Derivative financial instruments
The Bank makes use of derivative instruments, such as forward foreign exchange contracts.

Derivatives are initially recognised, and subsequently measured, at fair value with transaction costs taken directly to the statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, treasury bills and deposits with banks and other financial institutions with original maturities of 3 months or less.

Property, equipment and software
Property, equipment and software are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Expenditure incurred to replace a component of an item of property, equipment and software that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. When significant parts of property, equipment and software are required to be replaced at intervals, the Bank depreciates them separately based on their specific useful lives. Land and capital work in progress are not depreciated. Repairs and maintenance costs are recognised in the statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Assets	*Estimated useful life in years*
Building	15
Furniture, equipment and vehicles	3 to 5
Software	3 to 5

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Property, equipment and software (continued)
An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, equipment and software are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the difference being recognised as an impairment in the statement of profit or loss.

Renegotiated loans
In the ordinary course of its business, the Bank seeks to restructure loans. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised in the statement of profit or loss.

Employees' end of service benefits
The Bank provides end of service benefits to its non - Bahraini employees. The entitlement to these benefits is based upon the employee's final salary and length of service. The expected costs of these benefits are accrued over the period of employment. The Bank also makes contributions to the Social Insurance Organisation (SIO) Scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Contingent liabilities
Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Share capital, statutory reserve and dividend

Share capital
Ordinary shares issued by the Bank are classified as equity. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Share capital, statutory reserve and dividend (continued)

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

Dividend
The Bank recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. As per the Bahrain Commercial Companies Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Fair value measurement
The Bank measures financial instruments, such as investments and derivatives at fair value at the reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are detailed in note 22.5.

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

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

The principal or the most advantageous market must be accessible by the Bank.

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained earlier.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as fair value through other comprehensive income, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The recognition of interest income is suspended when the loans become impaired, such as when overdue by more than 90 days.

Fee and commission income

Fee and commission income are recognised when earned.

Foreign exchange gain

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the Bank's functional currency at the rates of exchange ruling at the reporting date. Any gains or losses are taken to the statement of profit or loss.

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established, which is generally when shareholders approve the dividend.

Share based payments

Cash-settled share based payments

The cost of cash-settled share based payment transactions is measured initially at fair value at the grant date using an appropriate valuation model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

Foreign currencies

The Bank's financial statements are presented in United States Dollars (US$), which is the Bank's functional currency.

Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) or profit or loss are recognised in OCI or profit or loss, respectively).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2019
The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2019. The adoption of these standards and interpretations did not have any effect on the Bank's financial position, financial performance or disclosures.

IFRS 16 Leases (IFRS 16)
IFRS 16 supersedes IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4), SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Prior to the adoption of IFRS 16, the Bank accounted for and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Bank recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Bank adopted IFRS 16 using a modified retrospective method of adoption with the date of initial application of 1 January 2019, and accordingly, the comparative information is not restated. Under this method, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Bank has assessed the impact of the new lease standard to be immaterial as the lease period is less than 12 months for the majority of the lease contracts.

Amendments to IFRS 9 Prepayment features with negative compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Bank.

Annual improvements 2015-2017 cycle
These improvements include:

IFRS 3 Business combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Bank as there was no transaction where joint control was obtained.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

i) New and amended standards and interpretations effective as of 1 January 2019 (continued)

Annual improvements 2015-2017 cycle (continued)

IAS 12 Income taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

IAS 23 Borrowing costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

ii) Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 3: Definition of a Business effective for annual periods beginning on or after 1 January 2020
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material effective for annual periods beginning on or after 1 January 2020
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments to the definition of material is not expected to have an impact on the Bank's financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements or estimates involved.

Business Model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- Management's evaluation of the performance of the portfolio;
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

Impairment losses on financial assets
The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2019 *US$ '000*	*2018* *US$ '000*
Cash	**9**	3
Money at call and short notice with other banks	**76,584**	63,255
Treasury bills - balances with Central Bank	**351,647**	301,521
Provision for expected credit losses (note 4.1)	**(5)**	(10)
Cash and balances with central bank and other banks	**428,235**	364,769
Treasury bills - balances with Central Bank with original maturities of more than 3 months	**(127,002)**	-
Deposits with banks and other financial institutions with original maturities of 3 months or less (note 5)	**237,523**	324,585
Cash and cash equivalents	**538,756**	689,354

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS (continued)

Note 4.1
Movement in provision for expected credit losses were as follows:

	2019			*2018*
	Stage 1 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Total US$ '000*	*Stage 1 12-month ECL US$ '000*
Balance at 1 January	**10**	**-**	**10**	11
Transfer to stage 2	**(1)**	**1**	**-**	(1)
Provided during the year	**-**	**1**	**1**	-
Write-backs	**(6)**	**-**	**(6)**	-
At 31 December	**3**	**2**	**5**	10

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits with banks and other financial institutions represent interest bearing money market deposits held with banks and other financial institutions as at the reporting date as follows:

	2019 US$ '000	*2018 US$ '000*
Deposits with original maturities of 3 months or less (note 4)	**237,523**	324,585
Deposits with original maturities of over 3 months	**141,603**	14,714
	379,126	339,299
Provision for expected credit losses (note 5.1)	**(235)**	(194)
	378,891	339,105

Note 5.1
Movement in provision for expected credit losses were as follows:

	2019 Stage 1 12-month ECL US$ '000	*2018 Stage 1 12-month ECL US$ '000*
Balance at 1 January	**194**	80
Provided during the year	**41**	114
At 31 December	**235**	194

6 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	2019 US$ '000	*2018 US$ '000*
Quoted Debt securities	**3,028**	14,517

7 INVESTMENT SECURITIES

	31 December 2019 (Audited)			31 December 2018 (Audited)		
	FVOCI US$'000	Amortised cost US$'000	Total US$'000	FVOCI US$'000	Amortised cost US$'000	Total US$'000
Quoted investments						
- Sovereign debt securities	112,885	51,028	163,913	96,722	49,374	146,096
- Banks and Corporate debt securities	45,511	28,328	73,839	16,281	44,545	60,826
Total quoted investments	158,396	79,356	237,752	113,003	93,919	206,922
Provision for expected credit losses (note 7.1)	(1,829)	(2,822)	(4,651)	(626)	(1,325)	(1,951)
Reclassifying provision relating to FVOCI to OCI	1,829	-	1,829	626	-	626
Total investment securities	158,396	76,534	234,930	113,003	92,594	205,597

As at 31 December 2019, investments classified in stage 2 amounted to US$ 48,448 thousand (2018: US$ 54,186 thousand) for FVOCI and US$ 45,573 thousand (2018: US$ 37,434 thousand) for amortised cost respectively.

Note 7.1

Movements in provision for expected credit losses of 'FVOCI' investments were as follows:

	31 December 2019 (FVOCI)			31 December 2018 (FVOCI)		
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Total ECL US$ '000	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	US$ '000
Balance at 1 January	318	308	626	332	2,141	2,473
Transfer to stage 2	(54)	54	-	(10)	10	-
Provided during the year	232	1,447	1,679	-	-	-
Write-backs	(205)	(271)	(476)	(4)	(1,843)	(1,847)
At 31 December	291	1,538	1,829	318	308	626

Movements in provision for expected credit losses of 'amortised cost' investments were as follows:

	31 December 2019 (Amortised cost)			31 December 2018 (Amortised cost)		
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Total ECL US$ '000	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Total ECL US$ '000
Balance at 1 January	145	1,180	1,325	272	1,658	1,930
Transfer to stage 1 from stage 2	-	-	-	1,331	(1,331)	-
Transfer to stage 2 from stage 1	-	-	-	(81)	81	-
Provided during the year	1	1,794	1,795	-	772	772
Write-backs	(118)	(180)	(298)	(1,377)	-	(1,377)
At 31 December	28	2,794	2,822	145	1,180	1,325

8 LOANS AND ADVANCES

Loans and advances are stated net of provision for expected credit losses. The table below discloses the gross loans and provision for expected credit losses excluding interest in suspense amounting to US$ 30,361 thousand as of 31 December 2019 (2018: US$ 21,299 thousand).

	31 December 2019				
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*	*31 December 2018*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Letters of credit - financing and discounting	5,839	-	63,459	69,298	94,028
Sovereign loans	47,166	-	2,804	49,970	78,556
Commercial loans	41,670	-	6,326	47,996	76,328
Factoring	-	-	20,418	20,418	20,184
	94,675	-	93,007	187,682	269,096
Provision for expected credit losses (note 8.1)	(1,935)	-	(93,007)	(94,942)	(105,758)
	92,740	-	-	92,740	163,338

Note 8.1
Movements in provision for expected credit losses were as follows:

	31 December 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2019	3,651	2,636	99,471	105,758
Transfer to stage 1 from stage 2	1	(1)	-	-
Transfer to stage 3 from stage 2	-	(2,635)	2,635	-
Provided during the year	303	-	18,133	18,436
Recoveries and write-backs	(2,020)	-	(27,128)	(29,148)
Exchange differences	-	-	(104)	(104)
At 31 December 2019	1,935	-	93,007	94,942

	31 December 2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2018	2,856	18,610	76,984	98,450
Transfer to stage 2 from stage 1	(42)	42	-	-
Transfer to stage 3 from stage 2	-	(18,610)	18,610	-
Provided during the year	837	2,594	4,149	7,580
Exchange differences	-	-	(272)	(272)
At 31 December 2018	3,651	2,636	99,471	105,758

The total value of collateral held by the Bank against its loans and advances exposure amounts to US$ 1,343 thousand as at 31 December 2019 (31 December 2018: US$ 1,500 thousand) with no cash collateral.

Facilities renegotiated during the year
During the year, no facilities were renegotiated by the Bank (2018: same).

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land	*Building*	*Furniture, equipment and motor vehicles*	*Software*	*Capital work in progress*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2019	4,233	7,652	3,675	1,454	30	17,044
Additions	-	-	100	30	-	130
Disposal	-	-	-	-	(30)	(30)
Exchange difference	10	-	-	-	-	10
At 31 December 2019	**4,243**	**7,652**	**3,775**	**1,484**	-	**17,154**
Depreciation:						
At 1 January 2019	-	3,037	3,240	1,009	-	7,286
Charge for the year	-	508	201	172	-	881
At 31 December 2019	-	**3,545**	**3,441**	**1,181**	-	**8,167**
Net book value:						
At 31 December 2019	**4,243**	**4,107**	**334**	**303**	-	**8,987**

	Land	*Building*	*Furniture, equipment and motor vehicles*	*Software*	*Capital work in progress*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2018	4,233	7,652	3,862	1,214	18	16,979
Disposal	-	-	139	240	12	391
Exchange difference	-	-	(326)	-	-	(326)
At 31 December 2018	4,233	7,652	3,675	1,454	30	17,044
Depreciation:						
At 1 January 2018	-	2,528	3,183	897	-	6,608
Charge for the year	-	509	383	112	-	1,004
Relating to disposal	-	-	(326)	-	-	(326)
At 31 December 2018	-	3,037	3,240	1,009	-	7,286
Net book value:						
At 31 December 2018	4,233	4,615	435	445	30	9,758

The land relates to the building on which the Banks' premises is constructed.

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

10.1 Deposits from banks and other financial institutions

Deposits from banks and other financial institutions represent interest bearing money market deposits held with the Bank as at the reporting date.

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

10.2 Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following current account balances and cash collateral held with the Bank in relation to the facilities of letters of credit and letters of guarantee as at the reporting date:

	2019	*2018*
	US$ '000	*US$ '000*
Current account balances	**56,186**	56,598
Cash collateral held	**33,010**	31,185
	89,196	87,783

11 DUE TO CUSTOMERS

Due to customers represent current account balances, interest bearing money market deposits and cash collateral of corporate customers held with the Bank in relation to the facilities of letters of credit and letters of guarantee as at the reporting date.

	2019	*2018*
	US$ '000	*US$ '000*
Current account balances and deposits	**75,504**	61,531
Cash collateral held	**-**	4,111
	75,504	65,642

12 OTHER LIABILITIES

	2019	*2018*
	US$ '000	*US$ '000*
Accrued expenses and payables	**8,803**	5,752
Due to directors and employees	**335**	370
Provision expected credit losses against off balance sheet exposures (note 12.1)	**111**	604
Unearned fee income	**24**	57
Agency fee payable	**3**	104
Others	**39**	305
	9,315	7,192

Note 12.1

Movement in provision for expected credit losses against off balance sheet exposures were as follows:

	2019 Stage 1 12-month ECL US$ '000	*2018 Stage 1 12-month ECL US$ '000*
Balance at 1 January	**604**	7
Provided during the year	**107**	597
Write-backs	**(600)**	-
At 31 December	**111**	604

Accrued expenses include US$ 692 thousand (2018: US$ 446 thousand) of liability relating to cash settled share based payments.

12 OTHER LIABILITIES (continued)

The Bank has established an Employee Phantom Share Scheme (EPSS) in compliance with the sound remuneration rules issued by the Central Bank of Bahrain. Under the scheme, certain eligible employees of the Bank become entitled to share based compensation. Under the EPSS, each eligible employee is issued with a phantom share award which entitles the holder to receive one phantom share at the delivery date. The share awards will vest over 3 years with one third award vesting at the end of the subsequent 3 years. The eligible employee has to retain the shares for a period of 6 months post the award date prior to encashing the vested awards. Phantom units are ultimately cash settled based on the audited net book value of the Bank at the vesting dates.

The cost of the phantom units are initially measured at net-book-value per share of the Bank at the grant date and expensed in the statement of profit or loss with a corresponding liability being recognised. The liability is remeasured to its net-book-value per share of the Bank at each reporting date up to the date of settlement with changes in fair value recognised in the statement of profit or loss.

13 SHARE CAPITAL

	2019	*2018*
	US$ '000	*US$ '000*
Authorised:		
10,000,000 (2018: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2019	*2018*
	US$ '000	*US$ '000*
Issued and fully paid up :		
5,000,000 (2018: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2019		*2018*	
	Percentage holding (%)	*US$ '000*	*Percentage holding (%)*	*US$ '000*
Libyan Foreign Bank	**99.50**	**248,750**	99.50	248,750
National Bank of Yemen	**0.28**	**689**	0.28	689
Yemen Bank for Reconstruction and Development	**0.22**	**561**	0.22	561
	100.00	**250,000**	100.00	250,000

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, a statutory reserve has been created by transfer of 10% of its annual profit. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following approval of the Central Bank of Bahrain. The Bank has transferred US$ 2,874 thousand (2018: US$ 1,500 thousand) to statutory reserve in the current year.

14 PROPOSED DIVIDEND

The dividend for the year ended 31 December 2019 amounting to US$ 15 million i.e. US$ 3 per share (31 December 2018: US$ 5 million i.e. US$ 1 per share), is proposed subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting.

15 INTEREST AND SIMILAR INCOME

	2019 *US$ '000*	*2018* *US$ '000*
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	**20,713**	17,666
- Loans and advances	**11,802**	13,373
- Investments classified as fair value through profit and loss	**389**	786
- Investment securities	**11,322**	11,036
	44,226	42,861

16 INTEREST EXPENSE

	2019 *US$ '000*	*2018* *US$ '000*
Interest on:		
- Deposits from and due to banks and other financial institutions	**16,866**	13,743
- Due to customers	**520**	325
	17,386	14,068

17 FEE AND COMMISSION INCOME

	2019 *US$ '000*	*2018* *US$ '000*
Commission income on letters of credit	**2,680**	3,565
Agency and factoring income	**845**	1,241
Commission income on letters of guarantee	**7**	35
Bank charges and other income	**37**	15
	3,569	4,856

18 GAIN (LOSS) ON INVESTMENTS CLASSIFIED AS FVTPL

	2019 *US$ '000*	*2018* *US$ '000*
Changes in fair value of investments classified as FVTPL	**488**	(325)
Realised gain (loss) during the year - net	**47**	(58)
	535	(383)

19 REVERSAL (CHARGE) OF PROVISION FOR EXPECTED CREDIT LOSSES FOR THE YEAR

	2019 *US$'000*	*2018* *US$'000*
Reversal of provision against nostros (note 4.1)	**(5)**	(1)
Charge of provision against money market (note 5.1)	**41**	114
Charge / (reversal) of provision against investment securities (note 7.1)	**2,700**	(2,452)
(Reversal) / charge of provision against loans and advances (note 8.1)	**(10,712)**	7,580
(Reversal) / charge of provision against off balance sheet (note 12.1)	**(493)**	597
	(8,469)	5,838

20 OTHER OPERATING EXPENSES

	2019 US$ '000	2018 US$ '000
Professional services	**384**	2,314
Administration and marketing expenses	**1,592**	1,515
Board of Directors' remuneration and expenses (note 24)	**836**	854
Fees and other charges	**264**	64
	3,076	4,747

21 COMMITMENTS AND CONTINGENT LIABILITIES

	2019 US$ '000	2018 US$ '000
Credit related contingencies		
Letters of credit	**78,694**	121,029
Letters of guarantee	**177**	2,098
Provision for expected credit losses (note 12)	**(111)**	(604)
	78,760	122,523
Other (note 23)		
Interest rate swap (cash flow hedge)	**125,000**	-
Forward foreign exchange contracts	**362**	4
	204,122	122,527

22 RISK MANAGEMENT

22.1 Introduction

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

a) Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee (ARCC) of the Board is responsible for assessing the quality and integrity of financial reporting, effectiveness of systems monitoring financial and disclosure compliance with legal and regulatory requirements, supervision of compliance function and soundness of internal controls. The ARCC also obtains regular updates from management and the Bank's compliance officer regarding compliance matters, which may have a material impact on the Bank's financial statements and reviews the findings of any examinations by regulatory agencies.

Management Risk Committee

The Management Risk Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Asset Liability Management Committee

The Asset Liability Management Committee's (ALCO) objective is to prudently direct and manage asset and liability allocation to achieve the Bank's strategic goals. The ALCO monitors the Bank's liquidity risks by ensuring that the Bank's activities are in line with the risk/reward guidelines approved by the Board.

22 RISK MANAGEMENT (continued)

22.1 Introduction (continued)

Internal Audit
Internal control processes throughout the Bank are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the ARCC. Internal audit staff examine both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the ARCC.

b) Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

In order to manage credit concentration risk, the Bank's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

22.2 Credit risk
Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, and procedures. The Bank manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits. The Bank limits its risk on off balance sheet items with adequate collateral.

a. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. The net exposure represents gross exposure net of cash collateral against letters of credit.

	Gross maximum exposure 2019 US$ '000	***Net maximum exposure 2019 US$ '000***	*Gross maximum exposure 2018 US$ '000*	*Net maximum exposure 2018 US$ '000*
Balances with banks	**428,226**	**428,226**	364,766	364,766
Deposits with banks and other financial institutions	**378,891**	**378,891**	339,105	339,105
Investments classified as fair value through profit and loss	**3,028**	**3,028**	14,517	14,517
Investment securities	**234,930**	**234,930**	205,597	205,597
Loans and advances	**92,740**	**92,740**	163,338	163,338
Interest receivable	**6,237**	**6,237**	6,628	6,628
Other assets	**499**	**499**	738	738
Total funded credit risk exposure	**1,144,551**	**1,144,551**	1,094,689	1,094,689
Unfunded exposure on credit related contingencies	**78,760**	**54,748**	122,523	95,087
Total funded and unfunded credit risk exposures	**1,223,311**	**1,199,299**	1,217,212	1,189,776

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include cash collateral, residential and commercial real estate and securities.

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2019 and 31 December 2018. The credit quality is graded based on external credit rating agencies - Standard & Poor, Fitch and Moody's and internal ratings are categorised as follows:

(i) High standard - Where external credit rating agency ratings are A and above
(ii) Standard - Where external credit rating agency ratings are below A and unrated.
(iii) Watch list - Where the facility is not past due but recoverability is being monitored.
(iv) Past due not impaired - Where interest or principal sum is overdue for less than 90 days.
(v) Past due and impaired - Where interest or principal sum is overdue for more than 90 days.

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
At 31 December 2019						
Balances with banks	67,453	360,778	-	-	(5)	428,226
Deposits with banks and other financial institutions	86,812	292,314	-	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	-	3,028
Investment securities *	11,007	226,745	-	-	(2,822)	234,930
Loans and advances	-	94,675	-	93,007	(94,942)	92,740
Interest receivable	205	6,032	-	-	-	6,237
Other assets	-	499	-	-	-	499
Funded exposures	**165,477**	**984,071**	**-**	**93,007**	**(98,004)**	**1,144,551**
Credit related contingencies	2,552	76,319	-	-	(111)	78,760
Unfunded exposures	**2,552**	**76,319**	**-**	**-**	**(111)**	**78,760**
Funded and unfunded exposures	**168,029**	**1,060,390**	**-**	**93,007**	**(98,115)**	**1,223,311**

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

b. Credit quality per class of financial assets (continued)

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2018						
Balances with banks	54,993	309,783	-	-	(10)	364,766
Deposits with banks and other financial institutions	35,000	304,299	-	-	(194)	339,105
Investments classified as fair value through profit and loss	5,012	9,505	-	-	-	14,517
Investment securities*	16,578	190,344	-	-	(1,325)	205,597
Loans and advances	-	147,014	20,184	101,898	(105,758)	163,338
Interest receivable	279	6,114	235	-	-	6,628
Other assets	-	738	-	-	-	738
Funded exposure	111,862	967,797	20,419	101,898	(107,287)	1,094,689
Credit related contingencies	285	122,842	-	-	(604)	122,523
Unfunded exposures	285	122,842	-	-	(604)	122,523
Funded and unfunded exposures	112,147	1,090,639	20,419	101,898	(107,891)	1,217,212

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

Aging analysis of past due but not impaired financial assets

	Less than 30 days 2019 US$ '000	***31 to 60 days 2019 US$ '000***	***61 to 90 days 2019 US$ '000***	***More than 90 days 2019 US$ '000***	***Total 2019 US$ '000***
Loans and advances	-	-	-	-	-

	Less than 30 days 2018 US$ '000	*31 to 60 days 2018 US$ '000*	*61 to 90 days 2018 US$ '000*	*More than 90 days 2018 US$ '000*	*Total 2018 US$ '000*
Loans and advances	12,581	7,603	-	-	20,184

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures (net of provision for impairment) is presented below:

At 31 December 2019

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total US$ '000
Balances with banks	351,924	8,809	749	14,404	52,345	(5)	428,226
Deposits with banks and other financial institutions	133,806	136,074	27,000	82,246	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	-	-	3,028
Investment securities *	104,611	80,032	20,272	32,837	-	(2,822)	234,930
Loans and advances	-	4,774	128,355	50,888	3,665	(94,942)	92,740
Interest receivable	2,649	1,112	1,890	565	21	-	6,237
Other assets	499	-	-	-	-	-	499
Gross funded exposures	**593,489**	**233,829**	**178,266**	**180,940**	**56,031**	**(98,004)**	**1,144,551**
Credit related contingencies	-	2,434	54,811	20,910	716	(111)	78,760
Gross unfunded exposures	**-**	**2,434**	**54,811**	**20,910**	**716**	**(111)**	**78,760**
Gross funded and unfunded exposures	**593,489**	**236,263**	**233,077**	**201,850**	**56,747**	**(98,115)**	**1,223,311**

At 31 December 2018

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total US$ '000
Balances with banks	301,754	9,450	2,214	11,118	40,240	(10)	364,766
Deposits with banks and other financial institutions	144,082	70,000	-	105,217	20,000	(194)	339,105
Investments classified as fair value through profit and loss	4,873	5,012	-	4,632	-	-	14,517
Investment securities *	98,474	46,712	19,995	36,713	5,028	(1,325)	205,597
Loans and advances	-	3,123	195,761	65,884	4,328	(105,758)	163,338
Interest receivable	2,433	575	2,156	1,381	83	-	6,628
Other assets	564	-	174	-	-	-	738
Gross funded exposures	552,180	134,872	220,300	224,945	69,679	(107,287)	1,094,689
Credit related contingencies	-	20,911	101,922	10	284	(604)	122,523
Gross unfunded exposures	-	20,911	101,922	10	284	(604)	122,523
Gross funded and unfunded exposures	552,180	155,783	322,222	224,955	69,963	(107,891)	1,217,212

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk (continued)

Sectoral classification of gross credit exposures is presented below:

At 31 December 2019	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision expected credit losses US$ '000*	*Total US$ '000*
Balances with banks	351,647	76,584	-	(5)	428,226
Deposits with banks and other financial institutions	-	379,126	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	3,028
Investment securities *	163,913	43,046	30,793	(2,822)	234,930
Loans and advances	49,970	55,708	82,004	(94,942)	92,740
Interest receivable	4,322	1,445	470	-	6,237
Other assets	-	-	499	-	499
Gross funded exposures	569,852	558,937	113,766	(98,004)	1,144,551
Credit related contingencies	-	78,871	-	(111)	78,760
Gross unfunded exposures	-	78,871	-	(111)	78,760
Gross funded and unfunded exposures	569,852	637,808	113,766	(98,115)	1,223,311

At 31 December 2018	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Balances with banks	301,521	63,255	-	(10)	364,766
Deposits with banks and other financial institutions	-	339,299	-	(194)	339,105
Investments classified as fair value through profit and loss	-	9,885	4,632	-	14,517
Investment securities *	143,596	32,862	30,464	(1,325)	205,597
Loans and advances	78,557	118,221	72,318	(105,758)	163,338
Interest receivable	4,076	1,462	1,090	-	6,628
Other assets	-	213	525	-	738
Gross funded exposures	527,750	565,197	109,029	(107,287)	1,094,689
Credit related contingencies	-	102,216	20,911	(604)	122,523
Gross unfunded exposures	-	102,216	20,911	(604)	122,523
Gross of funded and unfunded exposures	527,750	667,413	129,940	(107,891)	1,217,212

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22.3 Market risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates.

22 RISK MANAGEMENT (continued)

22.3 Market risk (continued)

22.3.1 Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through a number of means. The Bank's interest rate sensitivity position as of 31 December, is as follows:

Sensitivity analysis - interest rate risk

	Impact on statement profit or loss	
	2019	*2018*
	US$ '000	*US$ '000*
25 bps increase/decrease		
US Dollar	± 403	± 222
AED	± 83	± 105
SAR	± 5	± 55
Euro	± 1	± 12
GBP	± 1	± 1

* An equal decrease in interest rate of the above mentioned amount would have an equal and opposite impact on the statement of profit or loss for the year.

22.3.2 Currency risk
Currency risk arises from the movement of the rate of exchange over a period of time. The Bank's currency risk is mainly towards assets and liabilities denominated in GBP and Euro. The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, on the Bank's statement of profit or loss:

	Change in rate	*Effect on statement of profit or loss for the year*	
		2019	*2018*
		US$ '000	*US$ '000*
Euro	± 5%	**66**	8
GBP	± 5%	**1**	1

* An equal decrease in exchange rate of the above mentioned amount would have an equal and opposite impact on the statement of profit or loss for the year.

As other currency exposures are insignificant and GCC currencies to which the Bank is exposed are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

22.3.3 Equity price risk
Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. For the year ended 31 December 2019, there is no effect on the Bank's profit and equity as the investment portfolio does not contain any equity investments (2018: same).

22.4 Liquidity risk
Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. This incorporates an assessment of expected cash flow and the availability of high grade collateral which would be used to secure additional funding if required.

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at reporting date given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the date of the statement of financial position.

At 31 December 2019	*Up to 1 year*						*Provision for*	
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*expected credit losses US$ '000*	*Total US$ '000*
ASSETS								
Cash, balances with banks and Central Bank	150,642	194,383	83,215	428,240	-	-	(5)	428,235
Deposits with banks and other financial institutions	257,513	86,613	35,000	379,126	-	-	(235)	378,891
Investments classified as fair value through profit and loss	3,028	-	-	3,028	-	-	-	3,028
Investment securities	5,008	-	28,364	33,372	204,380	-	(2,822)	234,930
Loans and advances	270	5,150	14,981	20,401	167,281	-	(94,942)	92,740
Property, equipment and software	-	-	-	-	-	8,987	-	8,987
Interest receivable	4,047	1,667	523	6,237	-	-	-	6,237
Other assets	46	501	10	557	392	-	-	949
Total assets	420,554	288,314	162,093	870,961	372,053	8,987	(98,004)	1,153,997
LIABILITIES								
Deposits from banks and other financial institutions	196,246	93,672	356,852	646,770	-	-	-	646,770
Due to banks and other financial institutions	89,196	-	-	89,196	-	-	-	89,196
Due to customers	75,504	-	-	75,504	-	-	-	75,504
Interest payable	1,077	247	864	2,188	-	-	-	2,188
Other liabilities	336	7,081	8	7,425	1,779	-	111	9,315
Total liabilities	362,359	101,000	357,724	821,083	1,779	-	111	822,973
Net liquidity gap	58,195	187,314	(195,631)	49,878	370,274	8,987	(98,115)	331,024
Cumulative liquidity gap	58,195	245,509	49,878	-	420,152	429,139	331,024	-

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2018	*Up to 1 month US$ '000*	*Up to 1 year: 1 to 3 months US$ '000*	*Up to 1 year: 3 to 12 months US$ '000*	*Up to 1 year: Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
ASSETS								
Cash, balances with banks and Central Bank	182,366	182,413	-	364,779	-	-	(10)	364,769
Deposits with banks and other financial institutions	324,299	15,000	-	339,299	-	-	(194)	339,105
Investments classified as fair value through profit and loss	14,517	-	-	14,517	-	-	-	14,517
Investment securities	-	2,500	11,801	14,301	192,621	-	(1,325)	205,597
Loans and advances	4,777	8,612	72,212	85,601	183,495	-	(105,758)	163,338
Property, equipment and software	-	-	-	-	-	9,758	-	9,758
Interest receivable	4,234	1,338	1,056	6,628	-	-	-	6,628
Other assets	34	655	13	702	474	-	-	1,176
Total assets	530,227	210,518	85,082	825,827	376,590	9,758	(107,287)	1,104,888
LIABILITIES								
Deposits from banks and other financial institutions	251,925	178,645	214,000	644,570	-	-	-	644,570
Due to banks and other financial institutions	87,783	-	-	87,783	-	-	-	87,783
Due to customers	65,642	-	-	65,642	-	-	-	65,642
Interest payable	240	322	1,072	1,634	-	-	-	1,634
Other liabilities	767	4,444	-	5,211	1,377	-	604	7,192
Total liabilities	406,357	183,411	215,072	804,840	1,377	-	604	806,821
Net liquidity gap	123,870	27,107	(129,990)	20,987	375,213	9,758	(107,891)	298,067
Cumulative liquidity gap	123,870	150,977	20,987	-	396,200	405,958	298,067	-

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at reporting date based on contractual undiscounted repayment amounts is as follows:

At 31 December 2019	*Up to 1 year*						*Provision for*	
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*expected credit losses US$ '000*	*Total US$ '000*
Liabilities								
Deposits from banks and financial institutions	196,396	93,952	362,937	653,285	-	-	-	653,285
Due to banks and other financial institutions	89,200	-	-	89,200	-	-	-	89,200
Due to customers	75,524	-	-	75,524	-	-	-	75,524
Total undiscounted liabilities	361,120	93,952	362,937	818,009	-	-	-	818,009
Derivatives:								
Interest rate swap (cash flow hedge)	2	-	-	2	-	-	-	2
Forward foreign exchange contracts	362	-	-	362	-	-	-	362
	364	-	-	364	-	-	-	364
Commitments and contingent liabilities								
Letters of credit	468	20,721	57,505	78,694	-	-	(110)	78,584
Letters of guarantee	117	-	60	177	-	-	(1)	176
	585	20,721	57,565	78,871	-	-	(111)	78,760

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2018	*Up to 1 year*							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Liabilities								
Deposits from banks and financial institutions	252,029	179,366	222,537	653,932	-	-	-	653,932
Due to banks and other financial institutions	87,787	-	-	87,787	-	-	-	87,787
Due to customers	65,662	-	-	65,662	-	-	-	65,662
Total undiscounted liabilities	405,478	179,366	222,537	807,381	-	-	-	807,381
Derivatives:								
Forward foreign exchange contracts	4	-	-	4	-	-	-	4
Commitments and contingent liabilities								
Letters of credit	19,954	52,296	26,106	98,356	22,673	-	(603)	120,426
Letters of guarantee	2,027	11	50	2,088	10	-	(1)	2,097
	21,981	52,307	26,156	100,444	22,683	-	(604)	122,523

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments

Fair value hierarchy - financial instruments measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments measured at fair value:

At 31 December 2019

	Level 1 US$ '000	***Level 2 US$ '000***	***Total US$ '000***
Investments classified as fair value through profit and loss	**3,028**	**-**	**3,028**
Investments classified as fair value through other comprehensive income	**158,396**	**-**	**158,396**
Derivative financial instruments	**-**	**(442)**	**(442)**
	161,424	**(442)**	**160,982**

At 31 December 2018

	Level 1 US$ '000	*Level 2 US$ '000*	*Total US$ '000*
Investments classified as fair value through profit and loss	14,517	-	14,517
Investments classified as fair value through other comprehensive income	113,003	-	113,003
Derivative financial instruments	-	4	4
	127,520	4	127,524

The Bank had no investments measured at fair value qualifying for level 3 of the fair value hierarchy as at 31 December 2019 and as at 31 December 2018.

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2019, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurement (2018: nil).

Fair value hierarchy - financial instruments not measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments not measured at fair value:

At 31 December 2019

	Fair value US$ '000	***Carrying value US$ '000***
Amortised cost investments	**81,772**	**76,534**
Loans and advances	**53,991**	**47,166**
	135,763	**123,700**

At 31 December 2018

	Fair value US$ '000	*Carrying value US$ '000*
Amortised cost investments	91,263	92,594
Loans and advances	49,571	46,242
	140,834	138,836

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments (continued)

Balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2019 and 31 December 2018.

23 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include forward exchange contracts which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favorable or unfavorable.

The table below shows the net fair values of derivative financial instruments together with the notional amount. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. The following table shows the material outstanding contracts as at 31 December:

	2019		*2018*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Interest rate swap (cash flow hedge)	125,000	(442)	-	-
Forward foreign exchange contracts	362	-	4	4
	125,362	**(442)**	4	4

The fair values of derivative instruments are set out below:

31 December 2019	***Negative fair value US$ '000***	***Notional amount total US$ '000***	***Notional amounts by term to maturity within 3 months US$ '000***
Derivatives held as hedges			
Interest rate swap	(442)	125,000	125,000
	(442)	**125,000**	**125,000**

24 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

Transactions with related parties included in the statement of profit or loss and statement of financial position are as follows:

	31 December 2019				*31 December 2018*			
	Shareholders US$ '000	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*	*Shareholders US$ '000*	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*
Statement of profit or loss								
Interest income	4	-	168	172	2	-	212	214
Interest expense	15,138	-	682	15,820	12,526	-	555	13,081
Fee and commission income	912	-	142	1,054	1,114	-	97	1,211
Statement of financial position								
Assets								
Cash and balances with banks	746	-	6,645	7,391	324	-	5,583	5,907
Deposit with banks and financial institutions	-	-	-	-	-	-	9,714	9,714
Loans and advances	-	-	4,561	4,561	-	-	4,629	4,629
Interest receivable	-	-	38	38	-	-	44	44
Other assets	-	45	-	45	-	50	-	50
Liabilities								
Deposits from banks and other financial institutions	494,918	-	25,000	519,918	449,719	-	25,000	474,719
Due to banks and other financial institutions	19,572	-	1,063	20,635	1,676	-	2,104	3,780
Interest payable	1,649	-	43	1,692	1,440	-	18	1,458
Other liabilities	3	333	-	336	104	292	-	396
Assets under management (note 25)	21,535	-	-	21,535	21,967	-	-	21,967
Contingent liabilities								
Letters of credit and letters of guarantee	115	-	23,288	23,403	1,840	-	3,856	5,696

24 TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation paid to the Board of Directors and key management personnel:

	2019	*2018*
	US$ 000	*US$ 000*
Short term benefits	**4,499**	3,788
End of term benefits	**303**	217
Total compensation	**4,802**	4,005

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US$ 726 thousand (2018: US$ 705 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 110 thousand (2018: US$ 149 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

Short term benefits also include compensation paid to key management personnel as salary, allowances and provision for bonus accrual.

25 ASSETS UNDER MANAGEMENT

The Bank provides trade finance services to certain customers, which involve the Bank acting as an agent for those assets in a fiduciary capacity. Assets that are held in financing capacity are not included in these financial statements. At 31 December 2019, the Bank had fiduciary assets under management of US$ 21,535 thousand (2018: US$ 21,967 thousand).

26 CAPITAL ADEQUACY, NET STABLE FUNDING AND LIQUIDITY COVERAGE RATIOS

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

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel III, approved by the Central Bank of Bahrain is as follows:

	2019	*2018*
	US$ 000	*US$ 000*
Capital base:		
Tier 1 capital	**328,615**	296,278
Tier 2 capital	**6,937**	7,840
Total capital base (a)	**335,552**	304,118
Risk weighted assets (b)	**658,036**	709,897
Capital adequacy (a/b * 100)	**50.99%**	42.84%
Minimum requirement	**12.50%**	12.50%

In accordance with the Liquidity Risk Management Module issued by the CBB, the Bank computes the Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) and maintain these ratios greater than 100%, respectively. As of 31 December 2019, the Bank's NSFR is 196%, LCR is 572% and simple average LCR is 493%.