Bank Alkhair B.S.C. (c)

SHARIA SUPERVISORY BOARD REPORT
REPORT OF THE BOARD OF DIRECTORS
INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENT

31 DECEMBER 2019

CHAIRMAN'S MESSAGE

In the name of Allah, the Most Beneficial, the Most Merciful, Prayers and Peace be upon our Prophet Moahmmed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31 December 2019.

As you are aware, due to continued loss-making situation, allied to an unviable investment-banking model, your Board, with considerable regret, took the decision during 2018 that it would be in the best interest of the business if Bank Alkhair were to cease Islamic banking activities in Bahrain and to covert the Bank into a holding company, which would then be better positioned to manage and develop our various activities. Accordingly, at an Extraordinary General Meeting of the Bank, held on 22 February 2018, the shareholders unanimously approved the cessation of banking activities in Bahrain and the conversion of Bank Alkhair into a holding company, subject to the Central Bank of Bahrain (CBB) and the Ministry of Industry, Commerce and Tourism (MOICT) approvals.

The management has been working on the process of surrender of license and conversion to a holding company. We have successfully fulfilled most of the requirements of the Central Bank of Bahrain ("CBB") for surrender of license and working towards the remaining few.

To implement our restructuring plan, we exited our investment in Alkhair Capital Turkey in 2018. Furthermore, during the year, below investment structural changes took place:

The Bank sold its total stake of 52.1% in one of its subsidiary, Cleanswift UAE held through Tintoria International Limited.

The Bank's holding in its subsidiary Alkhair Capital Saudi Arabia ("ACSA") was diluted from 53.33% to 16% due to new capital issue at ACSA.

Banking license for Alkhair International Islamic Bank was surrendered and the company was renamed to AKIIM Sdn Bhd. The company was put under voluntary liquidation and the control was handed over to the liquidator.

Financial services license for Alkhair Portfoy Turkey was also surrendered and the company was renamed as Alkhair Gayrimenkul Yatirim Ve Ticaret A.S. The company will be put under voluntary liquidation.

Both Unicorn Global Private Equity Fund and Strategic Acquisition Fund are under the process of liquidation and were handed over to liquidator.

Bank Alkhair solved the ownership issues of the subsidiaries of Turquoise Coast Investment Company ("TCIC"), which is involved in real estate development in Turkey, and is managed by Bank Alkhair. Bank Alkhair is currently working on the exit of TCIC.

The Board remains committed to managing our business in the best interest of all stakeholders.

In closing, on behalf of the Bank's Board of Directors I would like to extend our sincere appreciation to our loyal shareholders for their unwavering support and confidence and I would like to pay special thanks to the Government of Bahrain for their progressive vision, to the Central Bank of Bahrain for their valuable direction and guidance, to our Shari'ah Supervisory Board for their invaluable insight and, finally, to our employees globally for their individual contributions.

May Allah guide us on the proper path, and lead us to the realisation of our goals.

Yousef Abdullah Al-Shelash
Chairman of the Board

29 March 2020

BANK ALKHAIR

**SHARI'AH SUPERVISORY BOARD REPORT
TO THE SHAREHOLDERS OF
BANK ALKHAIR B.S.C. (c)**

Asslamo A'laikom WA Rahmatu Allah WA Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Shari'ah Board, through the Shari'ah department, and under its direct supervision, reviewed the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2019. The review was conducted in order to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

Based on the Articles of Association of the Bank, the Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Shari'ah while the Shari'ah Board's responsibility is to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2019 are in compliance with the rules and principles of Shari'ah.

b) The Shari'ah Board emphasis that non-Shari'ah compliance issues related to the investment in Taj Mall project, which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues and not being corrected yet although a various Shari'ah Board resolution issued requesting solving the same several times.

c) During the year, the Bank has realized no earnings from sources prohibited by Shari'ah .

d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'ah rules and principles.

e) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah based on AAOIFI Shari'ah standard no. (35) and Accounting standard no. (9).

We supplicate to Allah the Almighty to grant us success and a straight path.
Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Sh. Dr. Nizam M. Yacoubi
Chairman

2 Rajab 1441 H - 26 February 2020

www.bankalkhair.com
بنك الخير ش.م.ب. (م) | ص.ب ٣١٧٠٠، المنامة، مملكة البحرين | هاتف ٦٠٠٠ ١٧٥٦ ٩٧٣+، فاكس ٦٠٠١ ١٧٥٦ ٩٧٣+ | س.ت. ٥٣٤٦٢
Bank Alkhair B.S.C (c) | P.O. Box 31700, Manama, Kingdom of Bahrain | T + 973 1756 6000, F + 973 1756 6001 | C.R No 53462

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
Kingdom of Bahrain

Independent auditor's report to the shareholders of Bank Alkhair B.S.C. (c)

Report on the audit of the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Bank Alkhair B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), as of 31 December 2019, and the related consolidated statements of income, changes in owners' equity and cash flows for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which discusses certain matters relating to the Group's liquidity position, accumulated losses and regulatory capital adequacy requirements, implications of these matters for the basis of preparation of the consolidated financial statements and management's action plans to deal with these matters.

Our opinion is not modified in respect of this matter.

Report on Other Regulatory Requirements

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

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

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

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
Kingdom of Bahrain

Independent auditor's report to the shareholders of Bank Alkhair B.S.C. (c) (continued)

Report on Other Regulatory Requirements (continued)

c) Except as disclosed in note 35 the Bank's capital adequacy ratio as of 31 December 2019 was below the minimum requirement and note 2 which discusses certain matters relating to the Group's liquidity position, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association 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. Satisfactory explanations and information have been provided to us by management in response to all our requests; and

d) Except for the matters discussed in the Shari'a Supervisory Board report dated 26 February 2020 we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

BDO

BDO Public Accountants Reg. No. 156 Arshad Gadit

Manama, Kingdom of Bahrain
29 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	***31 December 2019 US$ '000***	*31 December 2018 US$ '000*
ASSETS			
Cash and balances with banks	5	**1,265**	3,777
Placements with financial institutions		**-**	5,056
Financing receivables	6	**-**	1,911
Investments	7	**70,778**	73,342
Investment in associates	8	**122,552**	127,440
Investment in real estate	9	**184,053**	222,310
Other assets	10	**10,947**	29,215
Assets held-for-distribution	19	**315**	-
Equipment		**102**	7,821
TOTAL ASSETS		**390,012**	470,872
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to financial institutions	11	**32,982**	47,866
Due to customers	12	**213,909**	212,944
Other liabilities	13	**18,753**	26,371
Liabilities relating to assets held-for-distribution	19	**4**	-
Total liabilities		**265,648**	287,181
Owners' equity			
Share capital	14	**207,962**	207,962
Statutory reserve		**664**	664
Fair value reserve		**207**	242
Foreign currency translation reserve		**(2,726)**	(2,812)
Accumulated losses		**(153,535)**	(130,353)
Equity attributable to shareholders of the Bank		**52,572**	75,703
Non-controlling interests		**71,792**	107,988
Total owners' equity		**124,364**	183,691
TOTAL LIABILITIES AND OWNERS' EQUITY		**390,012**	470,872

Yousef Abdullah Al-Shelash
Chairman

Majid Al Qasem
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	31 December 2019 US$ '000	31 December 2018 US$ '000
Income from non-banking operations	15	**19,145**	21,509
Finance income		**39**	15
Fees and commission income	16	**441**	1,226
Foreign exchange loss - net		**(8)**	(344)
Share of profit from associates - net	8	**1,247**	1,766
Income from investments - net	17	**1,252**	5,277
Other income		**58**	462
Total income		**22,174**	29,911
Expenses of non-banking operations	15	**12,830**	13,175
Finance expense		**14,967**	12,695
Staff cost		**3,340**	4,747
General and administrative expenses	18	**2,199**	5,294
Depreciation		**62**	94
Total expenses		**33,398**	36,005
Loss for the year before impairment		**(11,224)**	(6,094)
(Loss) / income from assets held for distribution and discontinued operations	19	**(1,762)**	7,139
Net profit / (loss) on disposal/dercognition of subsidiaries	19	**575**	(3,190)
Impairment charge	20	**(7,296)**	(6,235)
Loss for the year		**(19,707)**	(8,380)
Attributable to:			
Shareholders of the Bank		**(23,182)**	(14,666)
Non-controlling interests		**3,475**	6,286
		(19,707)	(8,380)

Yousef Abdullah Al-Shelash
Chairman

Majid Al Qasem
Vice Chairman

Bank Alkhair B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to shareholders of the Bank							
	Share capital US$ '000	*Statutory reserve US$ '000*	*Fair value reserve US$ '000*	*Foreign currency translation reserve US$ '000*	*Accumulated losses US$ '000*	*Total US$ '000*	*Non-controlling interests US$ '000*	*Total equity US$ '000*
As at 1 January 2019	207,962	664	242	(2,812)	(130,353)	75,703	107,988	183,691
(Loss) / profit for the year	-	-	-	-	(23,182)	(23,182)	3,475	(19,707)
Foreign currency translation differences	-	-	-	(7)	-	(7)	-	(7)
Share of changes in reserves of associates	-	-	(35)	93	-	58	-	58
Adjustment on sale/derecognition of subsidiaries	-	-	-	-	-	-	(39,671)	(39,671)
As at 31 December 2019	**207,962**	**664**	**207**	**(2,726)**	**(153,535)**	**52,572**	**71,792**	**124,364**
As at 1 January 2018	207,962	664	487	(5,179)	(115,687)	88,247	101,711	189,958
(Loss) / profit for the year	-	-	-	-	(14,666)	(14,666)	6,286	(8,380)
Foreign currency translation differences	-	-	-	(20)	-	(20)	-	(20)
Share of changes in reserves of associates	-	-	(245)	(783)	-	(1,028)	-	(1,028)
Adjustment on sale/derecognition of subsidiaries	-	-	-	3,170	-	3,170	(9)	3,161
As at 31 December 2018	207,962	664	242	(2,812)	(130,353)	75,703	107,988	183,691

The attached notes 1 to 37 form part of these consolidated financial statements

Bank Alkhair B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	**31 December 2019 US$ '000**	*31 December 2018 US$ '000*
Loss for the year		**(19,707)**	(8,380)
Adjustments for:			
Gain on sale of investments		**(220)**	(5,346)
Fair value changes in investments		**(1,032)**	(1,399)
Share of profit from associates - net		**(1,551)**	(1,904)
Depreciation		**221**	1,762
Sukuk amortisation		**3**	53
Impairment charge		**7,296**	7,045
(Gain) / loss on disposal/dercognition of subsidiaries		**(575)**	3,181
		(15,565)	(4,988)
Changes in:			
Financing receivables		**5,705**	5,251
Other assets		**(2,373)**	(1,138)
Due to financial institutions		**(5,200)**	(18,065)
Due to customers		**965**	45,571
Other liabilities		**15**	(27,199)
		(16,453)	(568)
INVESTING ACTIVITIES			
Sale of equipment - net		**159**	313
Proceeds from sale of investments		**38,444**	52,987
Purchase of investments		**(8,692)**	(48,992)
Additions in investment property		**(264)**	(1,687)
Net cash on disposal/derecognition of subsidiaries		**(11,408)**	(20)
Investment in associate		**-**	(2,452)
Dividend received		**353**	-
Net cash from investing activities		**18,592**	149
FINANCING ACTIVITY			
Repayment of financing liabilities		**(9,700)**	(5,488)
Net cash used in financing activity		**(9,700)**	(5,488)
MOVEMENT IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**(7,561)**	(5,907)
Effect of exchange rate changes on cash and cash equivalents		**(7)**	(20)
Cash and cash equivalents at the beginning of the year		**8,833**	14,760
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,265**	8,833
Cash and cash equivalents comprise:			
Cash and balances with banks		**1,265**	3,777
Placements with financial institutions (with original maturity of less than 3 months)		**-**	5,056
		1,265	8,833

1 CORPORATE INFORMATION AND ACTIVITIES

a) Incorporation

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 26th floor, West Tower Bahrain Financial Harbour, Building No. 1459, Road No. 4626, Manama Sea Front 346, Kingdom of Bahrain.

Shareholders of the Bank at an Extra Ordinary General Meeting held on 22 February 2018 have approved a restructuring which will, inter alia, involve; the surrender of the banking license and the conversion of the Bank into a holding company. The appropriate application has been submitted with the CBB and is in process.

b) Activities

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'a principles. The principal products and services offered by the Group are:

a) financial advisory services;
b) private equity, equity structuring, private placements and initial public offerings;
c) facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
d) structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
e) advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
f) mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

2 BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investments and investment in real estate which are carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

Going concern

As at 31 December 2019, the current contractual liabilities of the Group exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due, depends on its ability to roll over short term liabilities and timely disposal of assets. Further, the Bank's capital adequacy ratio and equity as of 31 December 2019 was below the minimum regulatory capital requirements. These factors indicate the existence of material uncertainties, which may cast doubt about the Group's ability to continue as a going concern. To address these, the management has taken a number of initiatives including discussions with creditors who have shown willingness in the past to roll over short term placements, putting together a robust assets sales plan and particularly the ongoing support from major shareholders who have also in the past provided support when it was needed. The management is also working on the conversion of the Bank into a holding company as approved by the shareholders. The Board of Directors has reviewed these initiatives and is satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements.

2 BASIS OF PREPARATION (continued)

Basis of measurement (continued)

Going concern (continued)

Moreover, the accumulated deficit of the Group exceeded 50% of its paid-up capital as at the reporting date. The Bahrain Commercial Companies Law requires that, where the accumulated losses of the Group exceed its share capital by more than 50%, the shareholders should resolve to continue with the operations of the Group. The fact was conveyed to the shareholders during the last annual general meeting of the Bank held on 10 May 2018.

Basis of consolidation

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

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiaries are fully consolidated from the date; control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in subsidiaries' net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in subsidiaries' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transaction.

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

Subsidiary	*Ownership 2019*	*Ownership 2018*	*Year of Incorporation/ Acquisition*	*Country of Incorporat-ion*	*Principal activity*
Al-Tajamouat for Touristic Projects Co Pie	50.6%	50.6%	2013	Jordan	It was incorporated in January 2004 and its activities are real estate property investment, development, ownership and operation of a shopping mall in Amman.
Alkhair Gayrimenkul Yatirim Ve Ticaret A.S (formerly Alkhair Portfoy Yonetimi A.S.)	99.6%	99.6%	2007	Turkey	The entity was established to provide investment consultancy and asset management. Due to restructuring at group level, financial services license of the entity was surrendered and converted to a real estate and trading company.

2 BASIS OF PREPARATION (continued)

Subsidiary	*Ownership 2019*	*Ownership 2018*	*Year of Incorporation/ Acquisition*	*Country of Incorporation*	*Principal activity*
AKIIM Sdn Bhd (formerly Alkhair International Islamic Bank Malaysia Berhad)	100%	100%	2004	Malaysia	It was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit. Due to restructuring at group level, in 2019, banking license was surrendered to the regulator (Bank Negara Malaysia) and the entity was converted into Sdn Bhd. The entity has been put on voluntary liquidation and the control has been transferred to liquidator, therefore, the entity has been deconsolidated and classified as held-for-distribution in the financial statements.
Alkhair Capital Menkul Degerler A.S.	0.0%	95.8%	2007	Turkey	To provide investment consultancy and asset management. The company was sold during the year.
Tintoria International Limited (Cleanswift)	0.00%	52.10%	2014	UAE	General trading and investing in UAE and foreign companies. The company was sold during the year.
Alkhair Capital Saudi Arabia	16.00%	53.30%	2009	Kingdom of Saudi Arabia	Its activities are Asset Management, Corporate Finance & Investment banking and Brokerage. During the year, additional capital was raised at the company and Bank's holding was diluted from 53% to 16%. Therefore, the company is no more a subsidiary of the Bank and was deconsolidated and reclassified as investment at fair value.

The Bank has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

2 BASIS OF PREPARATION (continued)

Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated statement of income immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated statement of income. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in consolidated statement of income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with banks and placements with financial institutions with an original maturity of three months or less.

b) Placements with financial institutions

These comprise inter-bank placements mainly made using Sharia compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

c) Financing receivables

Financing receivables comprise Sharia compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost.

d) Investments

Investments comprise equity-type instruments at fair value through statement of income and debt-type instruments at amortised cost.

Equity-type instruments at fair value through statement of income

These include equity-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investment in associates

Associates are those entities in which the Group has significant influence but no control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 - *Investment in Associates* for venture capital organisation and designates certain of its investment in associates, as 'equity-type instruments at fair value through statement of income'. These investments are managed, evaluated and reported internally on a fair value basis.

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated statement of income where appropriate.

f) Investment in real estate

Properties held for rental or for capital appreciation purposes or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

g) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

h) Due to financial institutions

These comprise funds from financial institutions received on Sharia compliant contracts. Due to financial institutions are stated at their amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Due to customers
These comprise funds payable to corporate customers received using Sharia compliant contracts. Due to customers are stated at their amortised cost.

j) Revenue recognition
Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Dividend income
Dividend income is recognised when the Group's right to receive the payment is established.

Gain / (loss) on sale of investments (realised gain / (loss)
Gain / (loss) on sale of investments (realised gain / (loss)) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Fair value gain / (loss) on investments (unrealised gain or loss)
Fair value gain / (loss) on investments (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 d).

Sukuk Income
Sukuk Income comprises the coupon profit on Sukuk and realised gain or loss on the sale of Sukuk. The coupon profit is recognised through the effective profit rate in accordance with the accounting policy for debt-type instrument carried at amortised costs. Realised gain or loss on sale of Sukuk is recognised on trade date at the time of de-recognition of the Sukuk. The gain or loss is the difference between the carrying value on the trade date and the fair value of consideration received or receivable.

Fees and Commission income
Fees and Commission income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the. economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense
Finance income and expense is recognised using effective profit rate.

Income from non-banking operations
This consists of income from Al-Tajamouat for Touristic Projects Company PLC (lease income).

Lease income
Lease income is recognised on straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Revenue from a contract to provide services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract, when the outcome of the transaction and related revenue and cost can be measured reliably, and that economic benefit flows to the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The capital adequacy ratio as at 31 December 2019 was below the minimum regulatory capital requiremen

k) Employees' end of service benefits

Bahraini employees are covered by the Social Insurance Organisation scheme which comprises a defined contribution scheme to which the Group contributes a monthly sum based on a fixed percentage of the salary. The contribution is recognised as an expense in the consolidated statement of income.

The Group provides end of service benefits to its non-Bahraini employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits which comprise a defined benefit scheme are accrued over the period of employment based on the notional amount payable if all employees had left at the statement of financial position date.

l) Earnings prohibited by Sharia

The Group is committed to avoid recognising any income generated from non Islamic sources. Accordingly all non Islamic income is credited to a charity account and these funds are used for charitable

m) Zakah

The Group is not obliged to pay Zakah on behalf of its shareholders. However, the Group is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

n) Provision for taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

o) Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss on debt-type instruments is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

p) Foreign currency transactions

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

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

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, associates and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in owners' equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

r) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

s) Provisions

Provisions are recognised when the Group 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. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

t) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

v) Onerous contracts

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

w) Leases

Payments under operating lease are recognised in the consolidated statement of income on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

x) Sharia supervisory board

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

y) Trade date accounting

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

Special purpose entities

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

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements. Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Judgements and estimates (continued)

Impairment of financing receivables(continued)

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised inconsolidated of income and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Going concern

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

4 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standard issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

FAS 30 - Impairment, credit losses and onerous commitments

FAS 30 was issued in November 2017. The requirements relating to impairment and credit losses of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves". The standard is effective from the financial periods beginning on or after 1 January 2020, where early adoption is permitted. However based on CBB circular EDBS/KH/C/57/2017 dated 29 November 2017, the CBB required banks to implement FAS 30 with effect from 1 January 2018. However, the Group has sought an extension from CBB until 31 December 2019 in its letter dated 21 January 2019. The Group is in the process of assessing the impact of adoption of FAS 30 on its consolidated financial statements.

FAS 31 - Investment Agency (Al Wakala Bi-Al Istithmar) (effective from 1 January 2020)

FAS 33 - Investment in Sukuk, shares and similar instruments (effective from 1 January 2020)

FAS 35 - Risk reserves (effective from 1 January 2021)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5 CASH AND BALANCES WITH BANKS

	2019 **US$ '000**	2018 US$ '000
Cash in hand	**5**	5
Balances with banks	**1,260**	3,772
	1,265	3,777

6 FINANCING RECEIVABLES

	2019 **US$ '000**	2018 US$ '000
Gross murabaha receivables	**782**	12,901
Less: Deferred profits	**-**	(42)
Net murabaha receivables	**782**	12,859
Less: Specific impairment allowances	**(782)**	(10,699)
Less: Collective impairment allowances	**-**	(249)
	-	1,911

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances was 9% per annum (2018: 16.63% per annum).

7 INVESTMENTS

	2019 **US$ '000**	2018 US$ '000
Equity-type instruments:		
At fair value through statement of income		
Equity securities		
- Quoted	**-**	22,448
- Unquoted	**49,807**	4,975
Total equity securities	**49,807**	27,423
Mutual funds		
- Quoted	**-**	3,785
- Unquoted	**20,971**	38,489
Total mutual funds	**20,971**	42,274
Total fair value through statement of income	**70,778**	69,697
Debt-type instruments:		
At amortised cost		
Sukuks	**-**	3,645
	70,778	73,342

7 INVESTMENTS (continued)

Movement in equity type investments carried at fair value through income statement is as follows:

	1 January 2019 US$ '000	***Additions during the year US$ '000***	***Disposal during the year US$ '000***	***Gain/(loss) Fair value/ exchange difference US$ '000***	***31 December 2019 US$ '000***
Quoted equity securities	22,448		(23,350)	902	-
Unquoted equity securities *	4,975	44,832	(205)	205	**49,807**
Quoted mutual funds	3,785	2,666	(6,563)	112	-
Unquoted mutual funds	38,489		(18,613)	1,095	**20,971**
	69,697	**47,498**	**(48,731)**	**2,314**	**70,778**

	1 January 2018 US$ '000	*Additions during the year US$ '000*	*Disposal during the year US$ '000*	*Gain/(loss) Fair value/ exchange difference US$ '000*	*31 December 2018 US$ '000*
Quoted equity securities	18,477	22,354	(19,881)	1,498	22,448
Unquoted equity securities	9,573	530	(8,370)	3,242	4,975
Quoted mutual funds	4,158	1,616	(1,646)	(343)	3,785
Unquoted mutual funds	29,121	8,014	(761)	2,115	38,489
	61,329	32,514	(30,658)	6,512	69,697

* This includes US$ 42,769 thousand for deconsolidation and reclassification of Bank's shareholding in Alkhair Capital Saudi Arabia due to dilution of Bank's holding from 53% to 16% during the year.

8 INVESTMENT IN ASSOCIATES

	2019 US$ '000	*2018 US$ '000*
BFC Group Holdings Ltd. (note 8.1)	**109,485**	117,366
T'azur Company B.S.C. (c) (note 8.2)	**7,534**	7,484
Independent Logistics and Warehousing Company (note 8.3)	**5,533**	-
Alkhair Capital Dubai (note 8.4)	**-**	2,590
	122,552	127,440

Note 8.1

The Group has 43.36% stake (2018: 43.36%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling of foreign currencies and traveler cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies. An impairment of US$ 8.5 million was booked on BFC during the year based on valuation.

Note 8.2

The Group has 25.86% (2018: 25.86%) stake in T'azur B.S.C. (c) an unlisted regional takaful company incorporated in the Kingdom of Bahrain. T'azur Company B.S.C (c) has a commitment to provide a qard hassan to the extent of the accumulated deficit in the participants' fund of US$ 41.51 million at 31 December 2018 (31 December 2018: US$ 42.17 million). The Group's share of the commitment is US$ 10.73 million (31 December 2018: US$ 10.91 million).

Note 8.3

The Group acquired 33.33% stake in Independent Logistics and Warehousing Company, a company incorporated in the Hashmiet Kingdom of Jordan. The company owns and operates warehouses in Amman, Jordan.

Note 8.4

Alkhair Capital Dubai ("ACD") was an indirect investment of the Bank through its 53.3% holding in Alkhair Capital Saudi Arabia ("ACSA"). During the year, Bank's holding in ACSA was diluted from 53.33% to 16% and the subsidiary was deconsolidated.

8 INVESTMENT IN ASSOCIATES (continued)

The movement in associates is as follows:

	2019 US$ '000	*2018 US$ '000*
1 January	**127,440**	125,035
Share of reserves of associates	**76**	(951)
Net share of profit from associates	**1,247**	1,766
Addition during the year	**2,642**	2,590
Dividend received	**(353)**	-
Impairment charge	**(8,500)**	(1,000)
31 December	**122,552**	127,440

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

	2019 US$ '000	*2018 US$ '000*
Assets	**576,650**	487,559
Liabilities	**309,316**	231,369
Revenue	**87,255**	85,243
Profit for the year	**3,076**	5,676

9 INVESTMENT IN REAL ESTATE

	1 January 2019 US$ '000	***Amount capitalised US$ '000***	***Amount Derecognised US$ '000***	***Fair value changes US$ '000***	***31 December 2019 US$ '000***
Land and building					
- Jordan	**183,789**	**264**	**-**		**184,053**
- Kingdom of Saudi Arabia	**38,521**	**-**	**(38,521)**	**-**	**-**
	222,310	**264**	**(38,521)**	**-**	**184,053**

	1 January 2018 US$ '000	*Amount capitalised US$ '000*	*Amount Derecognised US$ '000*	*Fair value changes US$ '000*	*31 December 2018 US$ '000*
Land and building					
- Jordan	186,352	1,686	-	(4,249)	183,789
- Kingdom of Saudi Arabia	38,521	-	-	-	38,521
	224,873	1,686	-	(4,249)	222,310

10 OTHER ASSETS

	2019 US$ '000	*2018 US$ '000*
Rental income receivable	**8,138**	9,620
Accounts receivable	**1,291**	8,327
Prepayments and advances	**1,199**	2,781
Fees and expenses recoverable	**1,059**	2,541
Others	**1,529**	8,215
	13,216	31,484
Less: Provision for impairment	**(2,269)**	(2,269)
	10,947	29,215

11 DUE TO FINANCIAL INSTITUTIONS

	2019 US$ '000	2018 US$ '000
Placements from financial institutions	-	5,184
Bank financing	32,982	42,682
	32,982	47,866

Bank financing represents a syndicated loan through the Housing Bank for Trade and Finance in Jordan secured by mortgage over the Group's investment property. The profit rate of the syndicated loan equals the prime lending rate of the Jordanian Dinar less an annual margin of 1.97%. The bank financing is repayable in annual installment of US$ 5.48 million with the final payments of US$1.37 million in 2024.

12 DUE TO CUSTOMERS

The capital adequacy ratio as at 31 December 2019 was below the minimum regulatory capital requirement of 12.5%.

13 OTHER LIABILITIES

	2019 US$ '000	2018 US$ '000
Advance rental income	8,277	8,807
Trade and other payables	8,495	11,530
Accruals and other provisions	771	2,243
Staff-related payables	1,210	3,372
Restructuring provision	-	419
	18,753	26,371

14 SHARE CAPITAL

	2019 US$ '000	2018 US$ '000
Authorised:		
750,000,000 (2017: 750,000,000) ordinary shares of US$1 each	750,000	750,000
Issued and fully paid up:		
186,170,234 (2017: 186,170,234) ordinary shares of US$1 each, issued against cash	186,170	186,170
20,371,807 (2017: 20,371,807) ordinary shares of US$1 each, issued in kind	20,372	20,372
1,419,873 (2017:1,419,873) ordinary shares of US$1 each, granted to employees	1,420	1,420
	207,962	207,962

15 INCOME FROM NON-BANKING OPERATIONS - NET

	2019 US$ '000	2018 US$ '000
Income from Al-Tajamouat for Touristic Projects Co Pie	**19,145**	21,509
Income from Tintoria International	**-**	-
Total Income	**19,145**	21,509
Expenses of Al-Tajamouat for Touristic Projects Co Pie	**(12,830)**	(13,175)
Expenses of Tintoria International	**-**	-
Total Expenses	**(12,830)**	(13,175)
Income from non-banking operations - net	**6,315**	8,334

16 FEES AND COMMISSION INCOME

	2019 US$ '000	2018 US$ '000
Management fees	**441**	1,211
Arrangement fees	**-**	15
Brokerage fees	**-**	-
	441	1,226

17 INCOME / (LOSS) FROM INVESTMENTS - NET

	2019 US$ '000	2018 US$ '000
Income / (loss) from equity type investment:		
Fair value gain / (loss) on equity type investments - net	**1,032**	1,695
Gain on sale of equity type investments - net	**205**	3,600
Income (loss) from debt type investment:		
Profit from sukuk	**-**	1
Realised (loss) / gain on sale of sukuk	**15**	(19)
	1,252	5,277

18 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 US$ '000	2018 US$ '000
Legal and professional expenses	**834**	3,269
Premises cost	**389**	408
Business development expenses	**36**	123
Other operating expense	**940**	1,494
	2,199	5,294

19 DISCONTINUED OPERATIONS AND ASSETS HELD-FOR-DISTRIBUTION

Below are the details of assets held-for-distribution and discontinued operations:

The Group sold its total stake of 52.1% in one of its subsidiary, Cleanswift UAE held through Tintoria International Limited.

The Group's holding in its subsidiary Alkhair Capital Saudi Arabia ("ACSA") was diluted from 53.33% to 16% due to new capital issue at ACSA.

Banking license for Alkhair International Islamic Bank was surrendered during the year and the company was renamed to AKIIM Sdn Bhd. The company was put under voluntary liquidation and the control was handed over to the liquidator.

Accordingly, the Group has derecognized/deconsolidated the operations and assets and liabilities of the subsidiaries on loss of control. Profit from operations of the subsidiaries till the date of loss of control has been presented as "Discontinued Operations" in the consolidated statement of income.

Financial services license for Alkhair Portfoy Turkey was also surrender during the year and the company was renamed asAlkhair Gayrimenkul Yatirim Ve Ticaret A.S. The company will be put under voluntary liquidation. Accordingly, the loss from operations of the subsidiary has been presented as "Discontinued Operation" in the consolidated statement of income and assets and liabilities have been presented as held-for-distribution in the consolidated statement of financial position.

The disposal/derecognitions have the following impact on the consolidated financial statements:

	2019	*2018*
	US$ '000	*US$ '000*
Revenue:		
Tintoria International Limited	**2,516**	9,938
Alkhair Capital Saudi Arabia	**5,137**	21,768
AKIIM Sdn Bhd	**249**	603
Alkhair Gayrimenkul Yatirim Turkey	**-**	-
Alkhair Capital Turkey	**-**	283
	7,902	32,592
Expenses:		
Tintoria International Limited	**(2,258)**	(9,782)
Alkhair Capital Saudi Arabia	**(4,587)**	(12,643)
AKIIM Sdn Bhd	**(2,758)**	(3,008)
Alkhair Gayrimenkul Yatirim Turkey	**(61)**	-
Alkhair Capital Turkey	**-**	(20)
	(9,664)	(25,453)
(Loss)/income from discontinued operations	**(1,762)**	7,139

	2019	*2018*
	US$ '000	*US$ '000*
Gross consideration		
Tintoria International Limited	**2,987**	-
Alkhair Capital Saudi Arabia	**42,769**	-
AKIIM Sdn Bhd	**261**	-
Alkhair Capital Turkey	**-**	150
	46,017	150
Less: Net assets derecognised		
Tintoria International Limited	**(2,889)**	-
Alkhair Capital Saudi Arabia	**(42,292)**	-
AKIIM Sdn Bhd	**(261)**	-
Alkhair Capital Turkey	**-**	(3,340)
	(45,442)	(3,340)
Net gain/(loss) on disposal / de-recognistion of subsidiaries	**575**	(3,190)

19 DISCONTINUED OPERATIONS AND ASSETS HELD-FOR-DISTRIBUTION (continued)

	2019 *US$ '000*	*2018* *US$ '000*
The effect of disposal for the purpose of cash flow statement is given below:		
Gross consideration		
Tintoria International Limited	**2,987**	-
Alkhair Capital Turkey	**-**	150
	2,987	150
Less: Cash derecognised		
Tintoria International Limited	**(299)**	-
Alkhair Capital Saudi Arabia	**(13,791)**	-
AKIIM Sdn Bhd	**(273)**	-
Alkhair Gayrimenkul Yatirim Turkey	**(32)**	-
Alkhair Capital Turkey	**-**	(170)
	(14,395)	(170)
	(11,408)	(20)

Below are the details of assets and liabilities held-for-distribution as of 31 December 2019 (2018; Nil):

	Assets *US$ '000*	**Liabilities** *US$ '000*
AKIIM Sdn Bhd	**261**	-
Alkhair Gayrimenkul Yatirim Turkey	**54**	4
	315	4

20 IMPAIRMENT CHARGE

	2019 *US$ '000*	*2018* *US$ '000*
Impairment on financing receivables	**1,204**	(986)
Impairment on investment property	**-**	(4,249)
Impairment loss on investment in an associate	**(8,500)**	(1,000)
	(7,296)	(6,235)

21 COMMITMENTS AND CONTINGENCIES

	2019 *US$ '000*	*2018* *US$ '000*
Commitment to invest	**-**	9,500
Lease commitments	**66**	72
	66	9,572

Litigations and claims

The Group has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain. The Bahraini Courts have ruled in favour of the Group in a number of the civil and criminal cases. Currently these rulings are being enforced in Kuwait, where the former Chief Executive Officer resides.

The Group's share of commitments arising from its associates is disclosed in note 8.

22 FAIR VALUE

The fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

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

Investments

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Financing receivables

The fair values of financing receivables are principally estimated at their carrying amount less impairment provisions as these are for short term (i.e. less than 12 months). Hence, the present value of expected future cash flows is not expected to be different from their carrying values.

Other financial instruments

Placements with financial institutions, due to financial institutions and due to customers are for short term tenure hence their carrying value is not different from the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

Fair value hierarchy

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

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Investments carried at fair value through statement of income	**0**	**20,971**	**49,807**	**70,778**

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Investments carried at fair value through statement of income	26,233	38,489	4,975	69,697

22 FAIR VALUE (continued)

Movements in level 3 financial instruments

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

	1 January 2019 US$ '000	***Additions / Deletion US$ '000***	***Fair value loss US$ '000***	***31 December 2019 US$ '000***
Investments carried at fair value through statement of income	**4,975**	**44,832**	**-**	**49,807**
	1 January 2018 US$ '000	*Additions / Deletion US$ '000*	*Fair value loss US$ '000*	*31 December 2018 US$ '000*
Investments carried at fair value through statement of income	4,487	488	-	4,975

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2019 and 2018.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

For investments the Bank adjusted the carrying values ±5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Rate	***Carrying amount US$ '000***	***Effects of reasonably possible alternative assumptions on carrying amount US$ '000***
31 December 2019			
Investments carried at fair value through statement of income	5%	**49,807**	**2,490**
31 December 2018			
Investments carried at fair value through statement of income	5%	4,975	249

23 ASSETS UNDER MANAGEMENT

	2019	*2018*
	US$ '000	*US$ '000*
Proprietary	**7,038**	38,123
Clients	**16,038**	110,562
	23,076	148,685

Proprietary assets are included in the consolidated statement of financial position under "investments". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Sharia Supervisory Board, executive management and external auditors of the Group.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2019	*2018*
	US$ '000	*US$ '000*
Short term employee benefits	**2,200**	7,666
Post-employment benefits	**800**	712
	3,000	8,378

24 RELATED PARTY TRANSACTIONS (continued)

Significant related party transactions and balances included in this consolidated financial statements are as follows·

	31 December 2019				31 December 2018			
	Associates US$ '000	***Significant shareholders/ entities in which directors have interest US$ '000***	***Key management US$ '000***	***Assets under management and other entities US$ '000***	*Associates US$ '000*	*Significant shareholders/ entities in which directors have interest US$ '000*	*Key management US$ '000*	*Assets under management and other entities US$ '000*
Assets								
Investments	**20,971**	**42,769**	**-**	**7,037**	33,150	-	-	10,296
Investment in associates	**122,552**	**-**	**-**	**-**	127,440	-	-	-
Other assets	**59**	**247**	**-**	**1,058**	1,286	236	-	1,551
Liabilities								
Due to financial institutions	**-**	**-**	**-**	**-**	5,184	-	-	-
Due to customers	**-**	**213,909**	**-**	**-**	833	209,547	-	-
Other liabilities	**41**	**233**	**1,084**	**356**	21	422	2,458	42

	31 December 2019				31 December 2018			
	Associates US$ '000	***Significant shareholders/ entities in which directors have interest US$ '000***	***Key management US$ '000***	***Assets under management and other entities US$ '000***	*Associates US$ '000*	*Significant shareholders/ entities in which directors have interest US$ '000*	*Key management US$ '000*	*Assets under management and other entities US$ '000*
Income from investments - net	**1,237**	**15**	**-**	**-**	5,350	43	-	(110)
Fees and commission income	**441**	**-**	**-**	**-**	1,107	-	-	14,599
Net finance cost	**(15)**	**(14,884)**	**-**	**-**	(223)	(12,242)	-	-
Share of profit from associates - net	**1,247**	**-**	**-**	**-**	1,904	-	-	-
Directors' and Sharia board remuneration and expenses	**-**	**(201)**	**-**	**-**	-	(291)	-	-

25 RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Credit risk, Market risk, Liquidity risk and Operational.

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure, which includes prior review of all new activities by Risk management.
- Risk measurement: The Group measures risk using risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities. The Bank conducts periodic reporting for ongoing monitoring of its position at both Management and Board level.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the Board-approved risk framework. The Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance
The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework . The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors
The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee
The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Sharia Supervisory Board
The Group's Sharia Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Sharia rules and principles in its transactions, activities and general philosophy.

Group Risk Executive Committee
Group Risk Executive Committee REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, and makes preparations for forthcoming regulatory arrangements in line with Basel Committee recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

25 RISK MANAGEMENT (continued)

Internal Audit and Independent Review
All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Group Asset and Liability Committee (ALCO)
The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the CEO, CFO, Treasury and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management
The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. The Chief Risk Officer reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer. Risk Management conducts risk assessments of individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle by monitor the investment risk.

Treasury Activities
Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Investment Monitoring and Reporting
Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

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

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes below.

26 CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investments and other receivables. Institutional Banking proposes limits for its interbank placement activities and other client groups for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	2019 Maximum exposure US$ '000	*2018 Maximum exposure US$ '000*
On balance sheet:		
Balances with banks	**1,260**	3,772
Placements with financial institutions	**-**	5,056
Financing receivables	**-**	1,911
Investments	**-**	3,645
Other assets	**9,857**	26,528
	11,117	40,912

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2019 was US$ 0.6 million relating to "balances with banks" (2018: US$ 3.4 million related to "placement with financial institutions").

26 CREDIT RISK (continued)

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

	31 December 2019					
Type of Assets/Region	***Bahrain US$ '000***	***Other Middle East US$ '000***	***North America US$ '000***	***Asia US$ '000***	***Europe US$ '000***	***Grand Total US$ '000***
Balances with banks	615	645	-	-	-	**1,260**
Placement with financial institutions	-	-	-	-	-	**-**
Financing receivables	-	-	-	-	-	**-**
Investments	-	-	-	-	-	**-**
Other assets	1,035	8,488	-	-	334	**9,857**
Grand Total	**1,650**	**9,133**	**-**	**-**	**334**	**11,117**

	31 December 2018					
Type of Assets/Region	*Bahrain US$ '000*	*Other Middle East US$ '000*	*North America US$ '000*	*Asia US$ '000*	*Europe US$ '000*	*Grand Total US$ '000*
Balances with banks	467	1,692	-	1,351	262	3,772
Placement with financial institutions	-	-	-	5,006	50	5,056
Financing receivables	-	-	-	1,911	-	1,911
Investments	-	2,889	-	756	-	3,645
Other assets	5,258	20,301	-	269	700	26,528
Grand Total	5,725	24,882	-	9,293	1,012	40,912

26 CREDIT RISK (continued)

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	31 December 2019						
Type of Assets /Industry	*Banking and Finance US$ '000*	*Industrial US$ '000*	*Real Estate and Construction US$ '000*	*Technology US$ '000*	*Funds US$ '000*	*Trade US$ '000*	*Total US$ '000*
Funded:							
Balances with banks	1,260	-	-	-	-	-	**1,260**
Placement with financial institutions	-	-	-	-	-	-	**-**
Financing receivables	-	-	-	-	-	-	**-**
Investments	-	-	-	-	-	-	**-**
Other Assets	943	-	8,914	-	-	-	**9,857**
	2,203	**-**	**8,914**	**-**	**-**	**-**	**11,117**

	31 December 2018						
Type of Assets /Industry	*Banking and Finance US$ '000*	*Industrial US$ '000*	*Real Estate and Construction US$ '000*	*Technology US$ '000*	*Funds US$ '000*	*Trade US$ '000*	*Total US$ '000*
Funded:							
Balances with banks	3,772	-	-	-	-	-	3,772
Placement with financial institutions	5,056	-	-	-	-	-	5,056
Financing receivables	-	-	-	1,911	-	-	1,911
Investments	756	-	2,889	-	-	-	3,645
Other Assets	7,251	57	16,212	-	1,096	1,912	26,528
	16,835	57	19,101	1,911	1,096	1,912	40,912

26 CREDIT RISK (continued) 1992063

Collateral and other credit enhancements

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'a requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'a perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

0

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2019. Following is an analysis of credit quality by class of financial assets:

	2019				
	Neither past due nor Impaired US$ '000	***Past due but not impaired US$ '000***	***Individually impaired US$ '000***	***Impairment/ provision US$ '000***	***Total US$ '000***
Balances with banks	1,260	-	-	-	**1,260**
Placements with financial institutions	-	-		-	**-**
Financing receivables	-	-	-	-	**-**
Investments	-	-	-	-	**-**
The capital adequacy ratio as at 31 December 2019 was	9,857	-	2,269	(2,269)	**9,857**
Total	**11,117**	**-**	**2,269**	**(2,269)**	**11,117**

	2018				
	Neither past due nor impaired US$ '000	*Past due but not impaired US$ '000*	*Individually impaired US$ '000*	*Impairment/ provision US$ '000*	*Total US$ '000*
Balances with banks	3,772	-	-	-	3,772
Placements with financial institutions	5,056	-	-	-	5,056
Financing receivables	2,160	-	10,699	(10,948)	1,911
Investments	3,645	-	-	-	3,645
Other assets	26,528	-	2,269	(2,269)	26,528
Total	41,161	-	12,968	(13,217)	40,912

26 CREDIT RISK (continued)

Collateral and other credit enhancements (continued)
The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2019		31 December 2018	
	Gross positive FV of contracts	*Colleteral held	Gross positive FV of contracts	*Colleteral held
	US$ '000	US$ '000	US$ '000	US$ '000
Balances with banks	1,260	-	3,772	-
Placements with financial institutions	-	-	5,056	-
Financing receivables	-	-	12,859	7,297
Investments	-	-	3,645	-
Other assets	12,126	-	28,797	-
Total	13,386	-	54,129	7,297

* Collaterals values have been restricted to outstanding exposure of financing facilities.

27 LIQUIDITY RISK MANAGEMENT

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

The key features of the Group's liquidity methodology are:

The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.

In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

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

	Gross un-discounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
At 31 December 2019					
Due to financial institutions	2,517	7,348	28,311	38,176	32,982
Due to customers	216,019	-	-	216,019	213,909
Other liabilities	9,266	8,277	1,210	18,753	18,753
Liabilities relating to assets held-for-distribution	-	4	-	4	4
Total financial liabilities	227,802	15,629	29,521	272,952	265,648

27 LIQUIDITY RISK MANAGEMENT (continued)

Analysis of financial liabilities (continued)

	Gross un-discounted cash flows				*Carrying value*
	Less than 3 months US$ '000	*3 to 12 months US$ '000*	*Over 1 year US$ '000*	*Total US$ '000*	*US$ '000*
At 31 December 2018					
Due to financial institutions	10,529	7,756	38,176	56,461	47,866
Due to customers	350	219,228	-	219,578	212,944
Other liabilities	13,775	9,226	3,370	26,371	26,371
Total financial liabilities	24,654	236,210	41,546	302,410	287,181

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand US$ '000	***3 to 12 months US$ '000***	***Over 1 year US$ '000***
At 31 December 2019			
Investment-related commitments	-	-	-
Lease commitments	-	**66**	
Total	-	**66**	-

	On demand US$ '000	*3 to 12 months US$ '000*	*Over 1 year US$ '000*
At 31 December 2018			
Investment-related commitments	9,500	-	-
Lease commitments	-	72	
Total	9,500	72	-

28 MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in significant trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading

Profit rate risk
Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuks and due to financial and non-financial institutions.

28 MARKET RISK MANAGEMENT (continued)

Profit rate risk (continued)

	2019			2018		
	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	-	200	-	5,056	200	101
Financing receivables	-	200	-	1,911	200	38
Investments	-	200	-	3,645	200	73
Liabilities						
Due to financial institutions	(32,982)	200	(660)	(47,866)	200	(957)
Due to customers	(213,909)	200	(4,278)	(212,944)	200	(4,259)
Total			(4,938)			(5,004)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	2019			2018		
Currency	Exposure (USD) equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (USD) equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	9	2	-	(9)	(2)	-
Turkish Lira	7,954	1,586	5	5,067	995	18

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Prepayment risk

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

29 OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

30 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2019							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 to 12 months US$ '000*	*Total up to 1 year US$ '000*	*1 to 5 years US$ '000*	*5 to 10 years US$ '000*	*Total US$ '000*
ASSETS								
Cash and balances with banks	1,265	-	-	-	1,265	-	-	1,265
Placements with financial institutions	-	-	-	-	-	-	-	-
Financing receivables	-	-	-	-	-	-	-	-
Investments	-	-	20,971	7,038	28,009	42,769	-	70,778
Investment in associates	-	-	-	-	-	-	122,552	122,552
Investment in real estate	-	-	-	-	-	-	184,053	184,053
Other assets	-	2,702	8,245	-	10,947	-	-	10,947
Assets held-for-distribution	-	-	-	315	315	-	-	315
Equipment	-	-	-	-	-	-	102	102
Total assets	1,265	2,702	29,216	7,353	40,536	42,769	306,707	390,012
LIABILITIES								
Due to financial institutions	1,940	-	1,940	3,880	7,760	25,222	-	32,982
Due to customers	-	213,909	-	-	213,909	-	-	213,909
Other liabilities	215	9,050	8,278	-	17,543	1,210	-	18,753
Liabilities relating to assets held-for-distribution	-	-	-	4	4	-	-	4
Total liabilities	2,155	222,959	10,218	3,884	239,216	26,432	-	265,648
Commitments	-	66	-	-	66	-	-	66
Net liquidity gap	(890)	(220,323)	18,998	3,469	(198,746)	16,337	306,707	124,298
Net cumulative gap	(890)	(221,213)	(202,215)	(198,746)	(198,746)	(182,409)	124,298	

* There are no items beyond the maturity of 10 years.

30 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2018							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 to 12 months US$ '000*	*Total up to 1 year US$ '000*	*1 to 5 years US$ '000*	*5 to 10 years US$ '000*	*Total US$ '000*
ASSETS								
Cash and balances with banks	3,777	-	-	-	3,777	-	-	3,777
Placements with financial institutions	5,056	-	-	-	5,056	-	-	5,056
Financing receivables	1,911	-	-	-	1,911	-	-	1,911
Investments	22,448	3,771	42,134	4,989	73,342	-	-	73,342
Investment in associates	-	-	-	-	-	-	127,440	127,440
Investment in real estate	-	-	-	-	-	-	222,310	222,310
Other assets	1,104	19,592	8,519	-	29,215	-	-	29,215
Equipment	-	-	-	-	-	-	7,821	7,821
Total assets	34,296	23,363	50,653	4,989	113,301	-	357,571	470,872
LIABILITIES								
Due to financial institutions	9,064	-	1,940	3,880	14,884	31,042	1,940	47,866
Due to customers	350	-	212,594	-	212,944	-	-	212,944
Other liabilities	344	13,430	9,225	-	22,999	3,372	-	26,371
Total liabilities	9,758	13,430	223,759	3,880	250,827	34,414	1,940	287,181
Commitments	-	72	-	-	72	9,500	-	9,572
Net liquidity gap	24,538	9,861	(173,106)	1,109	(137,598)	(43,914)	355,631	174,119
Net cumulative gap	24,538	34,399	(138,707)	(137,598)	(137,598)	(181,512)	174,119	

* There are no items beyond the maturity of 10 years.

31 SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

Investment Banking	The Group's investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.
	The business manages Al-Tajamouat for Touristic Projects Co. "Taj" which own and operate a shopping mall in Amman. At 31 December 2019, the total assets of Taj are US$ 195 million and the total equity is US$ 147 million. In 2019, Taj reported a net profit of US$ 1.9 million.
	The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.
AKIIM Sdn Bhd (formerly Alkhair International Islamic Bank Malaysia Berhad)	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. Banking license was surrendered during the period and entity was put on voluntary liquidation.
Alkhair Capital Saudi Arabia	Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage. The entity was deconsolidated during the year due to dilution of Bank's holding in the company.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

31 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2019				
	Investment Banking	*AKIIM Sdn Bhd*	*Alkhair Capital Saudi Arabia*	*Inter-company*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Net finance expense	(14,928)	-	-	-	**(14,928)**
Income from investments - net	1,252	-	-	-	**1,252**
Fees and commission income	441	-	-	-	**441**
Share of profit from associates - net	1,247	-	-	-	**1,247**
Income from non-banking operations	19,145	-	-	-	**19,145**
Rental income	-	-	-	-	**-**
Foreign exchange loss - net	(8)	-	-	-	**(8)**
Other income	58	-	-	-	**58**
Total income	**7,207**	**-**	**-**	**-**	**7,207**
Total operating expenses	(18,431)	-	-	-	**(18,431)**
Charge of impairment	(7,296)	-	-	-	**(7,296)**
Profit on disposal of a subsidiary	575	-	-	-	**575**
Income / (loss) from assets held for sale and discontinued operations	197	(2,509)	550	-	**(1,762)**
(Loss) / profit for the year	**(17,748)**	**(2,509)**	**550**	**-**	**(19,707)**
Investment in associates	**122,552**	**-**	**-**	**-**	**122,552**
Segment assets	**389,739**	**273**	**-**	**-**	**390,012**
Segment liabilities	**265,636**	**12**	**-**	**-**	**265,648**

31 SEGMENT INFORMATION (continued)

	For the year ended 31 December 2018				
	Investment Banking	AKIIM Sdn Bhd	Alkhair Capital Saudi Arabia	*Inter-company*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Net finance expense	(12,680)	-	-	-	(12,680)
Income from investments	5,277	-	-	-	5,277
Fees and commission income	1,226	-	-	-	1,226
Share of profit loss from associates - net	1,766	-	-	-	1,766
Income from non-banking operations	21,509	-	-	-	21,509
Foreign exchange loss - net	(344)	-	-	-	(344)
Other income	462	-	-	-	462
Total income	17,216	-	-	-	17,216
Total operating expenses	(23,310)	-	-	-	(23,310)
Income / (loss) from assets held for sale and discontinued operations	418	(2,404)	9,125	-	7,139
Net Loss on disposal of subsidiary	(3,190)	-	-	-	(3,190)
Charge of impairment	(6,235)	-	-	-	(6,235)
(Loss) / profit for the year	(15,101)	(2,404)	9,125	-	(8,380)
Investment in associates	124,850	-	2,590	-	127,440
Segment assets	375,018	19,141	83,839	(7,126)	470,872
Segment liabilities	288,340	880	5,087	(7,126)	287,181

Geographic segment information:

The Group operates in four geographic markets: Bahrain, Other Middle East, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments:

	For the year ended 31 December 2019				
	Bahrain	***Other Middle East***	***Asia Pacific***	***Europe***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Total (loss) / income	(11,938)	19,145	-	-	7,207
Net (loss) / profit for the year	(24,214)	7,076	(2,509)	(60)	(19,707)
Non-current assets *	18	184,137	-		184,155

	For the year ended 31 December 2018				
	Bahrain	*Other Middle East*	*Asia Pacific*	*Europe*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Total income	(4,375)	21,506	-	85	17,216
Net (loss) / profit for the year	(18,758)	13,213	(2,404)	(431)	(8,380)
Non-current assets *	50	230,033	48		230,131

* includes equipment and investment in real estate.

32 SHARIA SUPERVISORY BOARD

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

33 EARNINGS AND EXPENSES PROHIBITED BY SHARIA

The Group did not receive any significant income or incur significant expenses that were prohibited by the Sharia.

34 SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

35 ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Sharia Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2019 was US$ 0.00656 per share (2018: US$ 0.00815 per share).

36 CAPITAL MANAGEMENT

The Group is regulated by the Central Bank of Bahrain (CBB) which sets and monitors capital requirements for the Group as a whole. CBB required the Group to maintain a prescribed ratio of total capital (net of prudential deductions) to total risk-weighted assets (determined according to specified requirements to reflect the varying levels of risk attached to assets and off-balance sheet exposures).

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintaining capital ratios in order to support its business and to maximise shareholders' value. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

The Bank's capital adequacy ratio, is calculated in accordance with the capital adequacy rules set by the regulator. The Group's regulatory capital is analysed into two tiers:

Tier 1 capital
Tier 1 capital includes CET1 and AT1.

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

AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

Tier 2 capital
It includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within regulatory adjustments applied in the calculation of Tier 2 capital.

36 CAPITAL MANAGEMENT (continued)

The regulatory adjustments are subject to limits prescribed by the CBB requirements. These deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

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

	Unaudited 2019 US$ '000	*Unaudited 2018 US$ '000*
Total risk-weighted exposures	**1,992,063**	2,583,634
CET1 capital	**(121,427)**	(58,136)
Tier 1 capital	**-**	(19,306)
Total Capital	**(121,427)**	(77,442)
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**-6.10%**	-2.25%
Tier1 capital adequacy ratio	**0.00%**	-0.75%
Total capital adequacy ratio	**-6.10%**	-0.41%

The capital adequacy ratio as at 31 December 2019 was below the minimum regulatory capital requirement of 12.5%.

Shareholders of the Bank at an Extraordinary General Meeting held on 22 February 2018 have approved a restructuring which will, inter alia, involve; the surrender of the banking license and the conversion of the Bank into a holding company. The application for conversion has been submitted with the CBB and is in process.

37 COMPARATIVES

Certain prior year amounts have been regrouped to agree with current year presentations. Such regrouping does not affect the previously reported loss or total equity.