



AL SALAM BANK  
البحرين البحرين

# GROWTH & SOLIDITY

AGM FOR THE YEAR ENDED  
31 DECEMBER 2018 AND EGM



**FIRSTLY**

---

**ANNUAL ORDINARY  
GENERAL ASSEMBLY MEETING  
FOR THE YEAR ENDED  
31 DECEMBER 2018**

Wednesday, 20 March 2019  
At 10:00 AM

Al-Sarr Ballroom  
Jumeirah Royal Saray Hotel

---

# ANNUAL ORDINARY GENERAL ASSEMBLY MEETING AGENDA FOR THE YEAR ENDED 31 DECEMBER 2018

1. To approve the minutes of the previous Annual Ordinary General Assembly Meeting held on 22 March 2018.
2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2018.
3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2018.
4. To receive the external auditor's report for the year ended 31 December 2018.
5. To discuss and approve the financial statements for the year ended 31 December 2018.
6. To ratify and approve the operations and transactions carried out during the year ended 31 December 2018 with any related parties or major shareholders of the Bank as presented in the notes (no. 31) of the consolidated audited financial statements.
7. To approve the recommendations of the Board of Directors with respect to the following distributions of the net profit for the year ended 31 December 2018 (amounting to BD 18.5 million):
  - a. Transfer of BD 1.850 million to statutory reserves.
  - b. Distribution of 7% dividends of the paid-up share capital, equating to BD 14.987 million for the year ended 31 December 2018 to be equally distributed in cash dividends and bonus shares as follows:
    - I. 3.5% cash dividends equating to BD 7.493 million excluding treasury shares as of the date of approval of the dividends by the Annual Ordinary General Assembly Meeting; and
    - II. 3.5% bonus shares equating to 74.932 million shares – i.e. (1 share for each 28.6 shares held) to the shareholders registered in the share register of the Bank as of date of approval of the dividends by the Annual Ordinary General Assembly Meeting.  
All cash dividends shall be paid by no later than ten days from the date of the Annual Ordinary General Assembly Meeting.
  - c. Transfer of the remaining balance of BHD 1.662 million to reserves and retained earnings.
8. Approve the Board of Directors remuneration in the aggregate amount of BD 595 thousand for the year ended 31 December 2018, subject to the necessary approvals of the regulatory bodies.
9. To receive the Board of Directors' report on the Bank's compliance with the Corporate Governance requirements.

10. To absolve the Directors of the Board from liability for their actions as directors during the year ended 31 December 2018.
11. To approve the use of treasury shares for its transfer to the remaining shareholders of Bahrain Saudi Bank B.S.C.(C) (merged with Al Salam Bank – Bahrain B.S.C.), and authorize the Board of Directors to appoint an independent advisor to determine an exchange rate for this transaction subject to obtaining the Central Bank of Bahrain's approval.
12. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration.
13. To appoint external auditors for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.
14. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.



1

To approve the minutes of the previous Annual Ordinary General Assembly Meeting held on 22 March 2018.

—

# MINUTES OF THE 2018 ANNUAL ORDINARY GENERAL ASSEMBLY MEETING

*In the Name of Allah, the Beneficent and the Merciful*

The Ordinary General Assembly Meeting was held at Manama Ballroom 1, Four Seasons Hotel, Kingdom of Bahrain at 11 am, on Tuesday 22 March 2018, chaired by **His Excellency Shaikh Khalid bin Mustahail Al-Mashani**, Vice Chairman of the Board of Directors of Al Salam Bank – Bahrain, in the presence of:

## **Members of the Board of Directors of Al Salam Bank - Bahrain**

1. Mr. Hussein Mohammed Al Meeza
2. Mr. Salman Saleh Al Mahmeed
3. Mr. Khalid Salem Al Halyan
4. Mr. Mohammed Shukri Ghanem
5. Mr. Yousif Abdulla Taqi

## **Members of the Fatwa and Shari'a Supervisory Board**

1. Dr. Mohammed Abdul Hakeem Zoeir
2. Sheikh Adnan Abdullah Al-Qattan
3. Mohammed Burhan Arbouna

## **Regulatory**

1. Mrs. Duaa Al Muallim  
(Representative of the Ministry of Industry, Commerce and Tourism)
2. Mr. Fahad Yateem
3. Ms. Khadija Ahmed
4. Ahmed Humaidan  
(Representatives of the Central Bank of Bahrain)
5. Mr. Sinan Al Sherooqi  
(Bahrain Bourse Representative)
6. Mr. Essa Al Jowder
7. Mr. Baskar Rajaraman  
(Representatives of Ernst & Yong, Auditors of Al Salam Bank)
8. Ms. Huda Al Tarboush
9. Ms. Heba Mahmoud
10. Ms. Fatima Hejris  
(Representatives of Bahrain Clearing Company, Registrars of Al Salam Bank shares)



### Approved Agenda of the Ordinary General Assembly Meeting

1. To read and ratify the minutes of the previous Ordinary General Assembly Meeting held on 8 March 2017.
2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2017.
3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2017.
4. To receive the external auditor's report for the year ended 31 December 2017.
5. To discuss and approve the financial statements for the year ended 31 December 2017.
6. To authorize and ratify the operations and transactions carried out during the year ended 31 December 2017 with any related parties or major shareholders of the Bank as outlined in the Board of Directors report presented to the general assembly and as presented in the notes (no. 29) to the consolidated audited financial statements and approve the same, in line with Article 189 of Bahrain Commercial Companies Law.
7. To appropriate the net profit for the year ended 31 December 2017 upon the recommendations of the Board of directors as follows:
  - a. Transfer of BD1,809,900 to statutory reserves.
  - b. Distribution of dividends of 7 fils per share or 7% of the paid up share capital, amounting to BD 14,986,515 for the year ended 31 December 2017, subject to the Central Bank of Bahrain approval. All dividends shall be distributed by no later than 1 April 2018.
  - c. Approve Board of Directors remuneration in the aggregate amount of BD415,000 for the year ended 31 December 2017, subject to the necessary approvals of the regulatory bodies.
8. To receive the report on the Bank's compliance with the Corporate Governance Guidelines and the Central Bank of Bahrain's requirements.
9. To absolve the members of the Board from liability for their actions during the year ended 31 December 2017.
10. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2018 and authorize the Board of Directors to determine their remuneration.
11. To appoint external auditors for the year ending 31 December 2018 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain..
12. Elect / appoint the members of the Board of Directors for the next term of three years, subject to the approval of the Central Bank of Bahrain.
13. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.

### Meeting Chairman and Rapporteur

**H.E. Shaikh Khalid bin Mustahail Al Mashani** chaired the General Assembly Meeting and appointed Mrs. Seema Al Kooheji as the meeting's rapporteur and **Mrs. Heba Mahmoud** from Bahrain Clearing Company as Registrar of shares of Al Salam Bank, for recording the attendance in the meeting.

## Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

### Legal Quorum

**H.E. Shaikh Khalid bin Mustahail Al Mashani** (meeting President) requested the share registrar of Al Salam Bank - Bahrain to confirm the quorum of the General Assembly Meeting, after which he announced the quorum was present for holding the meeting. The quorum of the shareholders, in person and by proxy, was 2,121,712,738 shares, i.e. (%71.969) of the total shareholders of Al Salam Bank – Bahrain. The **meeting President** requested the Bahrain Clearing Company, being the Registrar of Al Salam Bank, the Ministry of Industry, Commerce and Tourism and the Bank's external auditor to sign and approve the attendance register.

### Invitation to the Ordinary General Assembly Meeting

**H.E. Shaikh Khalid bin Mustahail Al Mashani** inaugurated the meeting and noted that the invitation to this meeting has been sent to all of the Banks' shareholders within the legal period specified. Then the agenda was read and the shareholders were asked to make their remarks on the agenda's items.

The agenda was endorsed by the shareholders and its items were discussed as follows:

#### 1. To read and ratify the minutes of the previous Ordinary General Assembly Meeting held on 8 March 2017.

The **meeting President** asked the shareholders to bring up their remarks on the items of the previous meeting's minutes and the resolutions passed.

The minutes were endorsed with no remarks or amendments.

**Resolution No. (1): The minutes of the previous Ordinary General Assembly Meeting held on 8 March 2017 were ratified.**

#### 2. To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2017.

The **meeting President** requested shareholders to make any remarks on the Board of Directors' report to the shareholders given to the General Assembly for discussion and comment.

**Resolution No. (2): The Ordinary General Assembly unanimously approved the Board of Directors' report on the Bank's activities for the financial year ended 31 December 2017.**

#### 3. To receive the Shari'a Supervisory Board's report for the year ended 31 December 2017.

**Sheikh Adnan Abdullah Al-Qattan**, member of Fatwa and Shari'a Supervisory Board of Al Salam Bank – Bahrain, read the report of the Fatwa and Shari'a Supervisory Board, pointing out that the Board has supervised the Banks' activities and transactions during the year and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions. The Board has reviewed what was necessary of the bank's records and obtained the data that helps in performing the duty of auditing and supervision. Further, the Board studied the forms of contracts and agreements that were presented and requested the management to adhere to them. Moreover, the Board considered the consolidated statement of financial position, according to the information presented by the Bank's management, does not contradict with the provisions and principles of the Islamic Shari'a and the opinions of the Board. The accuracy of information and data regarding the Bank's assets, liabilities, equity of investment account holders and owner equity, etc., are the responsibility of the Bank's management.

## Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

The Board pointed out that the distribution of dividends among the shareholders and depositors on one hand and among the depositors themselves on the other hand had been prepared in conformity with the Islamic Shari'a regulations and the opinions of the Board.

**Sheikh Adnan Abdullah Al-Qattan** demonstrated that the Bank's Articles of Association does not require the bank to pay Zakat on behalf of the Shareholders, therefore, the Board has calculated the due Zakat on the shareholders to inform them and which is disclosed in the notes to the consolidated financial statements.

The Board avoided spending the Shari'a non-compliant income of the transactions executed during the year and have spent it on charity.

**Resolution No. (3): The Ordinary General Assembly unanimously approved the report of the Fatwa and Shari'a Supervisory Board of the Bank for the year ended 31 December 2017.**

### 4. To receive the external auditor's report for the year ended 31 December 2017.

**Mr. Essa Al Jowder**, on behalf of Ernst & Yong, the external auditor, read out the external auditors' report, in which he mentioned that the consolidated financial statements represent fairly, in all material aspects, the consolidated financial position of the Group as of 31 December 2017, the results of its operations, its cash flows and changes in equity for the year then ended, in accordance with the Financial Accounting Standards issued by AAOIFI.

He also clarified that they are not aware of any violations of any provisions of Bahrain Commercial Companies Law, Central Bank of Bahrain, Financial Institutions Law, the CBB Rule Book (Vol. no. 2 the applicable provisions of the vol. No. 6), CBB directives, regulations and associated resolutions and rules and procedures of the Bahrain Bourse or the terms of the Bank's Memorandum and Articles of Association that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. He added that they have obtained from management all the information and explanations considered necessary for the purpose of their audit. The Bank has also adhered to the principles and rules of Shari'a set forth by the Bank's Sharia Supervisory Board.

**Resolution No. (4): The Ordinary General Assembly unanimously approved the report of the external auditors on the financial statements for the year ended 31 December 2017.**

### 5. To discuss and approve the financial statements for the year ended 31 December 2017.

The financial statements for the year ended 31 December 2017 were presented and the **meeting President** requested the shareholders to bring up their comments.

One of the shareholders inquired about the provisions. The Board responded by pointing out that the provisions are considered high in recent years due to funding companies, individuals and also because that some investments are facing some difficulties, and that the Executive Management and the Board are working on restructuring them in a better way in coordination with the auditors and under the guidance of the Central Bank of Bahrain.

## Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

Another shareholder also inquired about the implications of the merger with BMI Bank and the allocations for the same. The Executive Management pointed out that although the merger has some negative effects, there are some positive advantages on the other hand. The main activities increased significantly since the Bank used to rely on investments only in the past. Thus, without the merger, profits from the main activities would not have increased by BD 6 million and that the Bank is growing at a rate of 10% annually, and the merger decision was sound and in the interest of the Bank. The meeting President added that the provisions shall continue but the Board is seeking to reduce them in the coming years.

In response to a shareholder's inquiry regarding the assessment of Board members prior to they are selected, the meeting President indicated that the names of the nominees are submitted to the Nominations Committee and to the Central Bank of Bahrain afterwards. The shareholders; therefore, select the final list and at the end of that meeting, a new Board of Directors will be appointed for the next three years. We hope that the Board's next efforts will focus on the development of the Bank.

One of the shareholders referred to the Board's previous promise to improve the dividends and thanked the Board and the Executive Management for their efforts to develop and improve the Bank.

***Resolution No. (5): The Ordinary General Assembly unanimously approved the financial statements for the year ended 31 December 2017.***

- 6. To authorize and ratify the operations and transactions carried out during the year ended 31 December 2017 with any related parties or major shareholders of the Bank as outlined in the Board of Directors report presented to the general assembly and as presented in the notes (no. 29) to the consolidated audited financial statements and approve the same, in line with Article 189 of Bahrain Commercial Companies Law.**

The Board of Directors' report was presented to the shareholders at the Ordinary General Assembly Meeting to authorize and ratify the operations carried out during the year ended 31 December 2017 with any related parties or with major shareholders of the Bank in 2017 and requested the shareholder to present any comments.

***Resolution No. (6): The Ordinary General Assembly unanimously agreed to authorize and ratify the transactions carried out during the year ended 31 December 2017 with any related parties or with major shareholders of the Bank.***

- 7. To appropriate the net profit for the year ended 31 December 2017 upon the recommendations of the Board of directors.**

The **meeting President** presented the Board of Directors' recommendation to appropriate the net profit for the year ended 31 December 2017 as follows:

- a. Transfer of BD1,809,900 to statutory reserves.
- b. Distribution of dividends of 7 fils per share or 7% of the paid up share capital, amounting to BD 14,986,515 for the year ended 31 December 2017, subject to the Central Bank of Bahrain approval. All dividends shall be distributed by no later than 1 April 2018.
- c. Approve Board of Directors remuneration in the aggregate amount of BD 415,000 for the year ended 31 December 2017, subject to the necessary approvals of the regulatory bodies.

Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

***Resolution No. (7): The Ordinary General Assembly unanimously agreed to appropriate part of the net profit of 2017 as follows:***

- a. Transfer of BD1,809,900 to statutory reserves.***
- b. Distribution of dividends of 7 fils per share or 7% of the paid up share capital, amounting to BD 14,986,515 for the year ended 31 December 2017, subject to the Central Bank of Bahrain approval. All dividends shall be distributed by no later than 1 April 2018.***
- c. Approve Board of Directors remuneration in the aggregate amount of BD 415,000 for the year ended 31 December 2017, subject to the necessary approvals of the regulatory bodies.***

- 8. To receive the report on the Bank's compliance with the Corporate Governance Guidelines and the Central Bank of Bahrain's requirements.**

The **meeting President** requested the shareholders to bring up their remarks on the Corporate Governance report presented to the Ordinary General Assembly for discussion and comments.

***Resolution No. (8): The Ordinary General Assembly unanimously approved the corporate governance report and the Bank's compliance with the requirements of the Central Bank of Bahrain.***

- 9. To absolve the members of the Board from liability for their actions during the year ended 31 December 2017.**

The shareholders agreed on discharging the members of the Board from liability.

***Resolution No. (9): The Ordinary General Assembly unanimously agreed to absolving the members of the Board from liability for their actions as directors for the year ended 31 December 2017.***

## Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

### **10. To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2018 and authorize the Board of Directors to determine their remuneration.**

The meeting President stated that the Board of Directors of the Bank has recommended the appointment of members of the Shari'a Supervisory Board for the next three years and requested shareholders to present any comments or suggestions thereon.

***Resolution No. (10): The Ordinary General Assembly unanimously agreed to appoint the members of the Shari'a Supervisory Board for the next three years who are:***

- ***Sheikh Adnan Abdullah Al-Qattan***
- ***Dr. Mohammed Abdul Hakeem Zoeir***
- ***Dr. Fareed Yaqoob Almeftah***
- ***Sheikh Dr. Mohammed Qaseem***
- ***Sheikh Dr. Ezzeddin bin Zghaybeh***

### **11. To appoint external auditors for the year ending 31 December 2018 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.**

The meeting President stated that the Board of Directors of the Bank had considered options for the appointment of the External Auditor. Based on the data, the options were limited to the following institutions:

- 1- KPMG
- 2- Ernst & Young

These two institutions are the best in terms of their reputation and efficiency. The ***meeting President*** noted that the performance of the two institutions was close. Thus, he presented to the shareholders the costs of the scope of work to be followed in the annual audit process and asked the shareholders to make any comments or suggestion.

The shareholders unanimously agreed to appoint KPMG as the external auditors for the fiscal year ended 31 December 2018.

***Resolution No. (11): The Ordinary General Assembly unanimously agreed to appoint KPMG to carry out the external auditing work for the year ended 31 December 2018 and authorize the Board of Directors to determine their fees.***

### **12. Elect / appoint the members of the Board of Directors for the next term of three years, subject to the approval of the Central Bank of Bahrain.**

Ten members were elected and votes were counted under the supervision of a committee composed of representatives of the registrars, the Ministry of Industry, Commerce and Tourism and a representative of the shareholders.

Afterwards, ***Mrs. Duaa Al Muallim*** read out the results of the elections and thus the General Assembly elected 10 members.

Minutes Of The 2018 Annual Ordinary General Assembly Meeting (continued)

**Resolution No. (12): The Ordinary General Assembly agreed that the members of the Board shall be ten members and elected the following members to the Board of Directors of Al Salam Bank - Bahrain for the next three-year period from March 2018 to March 2021 in the following order:**

- 1. Mr. Salman Saleh Al Mahmeed**
- 2. His Excellency Shaikh Khalid bin Mustahail Al Mashani**
- 3. His Excellency Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi**
- 4. Mr. Hussein Mohammed Al Meeza**
- 5. Mr. Salem Abdullah Al Awadi**
- 6. Mr. Alhur Mohammed Al Suwaidi**
- 7. Mr. Khalid Salem Al-Halyan**
- 8. Mr. Zayed Rashid Al Amin**
- 9. Mr. Matar Mohamad Al Blooshi**
- 10. Mr. Khalid Shehab Eddin Madi**

**13. To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.**

No new matter was discussed under this item.

At the conclusion of the meeting, **H.E. Shaikh Khalid bin Mustahail Al Mashani** expressed his appreciation and thanks to Her Excellency. Shaikha Hessa bint Khalifa Al Khalifa, and all the members wishing all success. He also extended his appreciation to the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, Bahrain Bourse, and Bahrain Clearing Company for their continued support to the Bank.



**H.E. Shaikh Khalid bin Mustahail Al Mashani**  
Meeting President



**Mrs. Seema Abdullah Al Kooheji**  
Meeting Rapporteur





# 2

---

**To discuss and approve the Board of Directors' report on the Bank's activities for the year ended 31 December 2018.**

# THE BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Al Salam Bank-Bahrain B.S.C. ("the Bank") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year ended 31 December 2018.

On the back of fiscal expansion in the United States the global economy witnessed improved monetary conditions, solid labor markets, healthy global trade and higher commodity prices in 2018 with the world economy growing at an annualized rate of 3.4 percent in the second quarter of the year. Regionally, factors such as geopolitical instability, oil price fluctuations and a deterioration in sectors such as real estate ensured the business environment remained challenging for banks in Bahrain. On the other hand, Bahrain's fiscal balance plan will seek to cut its budget deficit and reduce borrowing costs while using investment to stimulate growth. However, despite these challenges, the Bank is pleased to report positive results for the fiscal year 2018. The Group posted a net profit attributable to shareholders of BD 18.5 million for the year, an increase of 2.57% on the previous year, (2017: BD 18.1 million), taking into consideration allowance for credit losses and impairment of BD 10.7 million (2017: BD 20.7 million). The results can be attributed to steady growth in the core banking business, improved operational efficiency, the booking of new financing, and the recovery of delinquent assets, which was partially offset by the market liquidity challenges and a steadily increasing funding cost. The total assets of the Group increased by 7.6% to BD 1.7 billion at 31 December 2018. Excluding costs incurred towards strategic initiatives, the Group's cost to income ratio stood at 44%, one of the most efficient amongst Islamic financial institution in the Kingdom of Bahrain.

The Group implemented a new three-year strategy during the reporting period. The strategy is focused on growing the core banking business, enhancing product and service offerings, in particular to SME's and the affluent banking segment, leveraging technology for a more effective and efficient bank, and fast-tracking global expansion. Testament to the strategy's success, the core banking business grew during the year, with the retail banking business in particular, witnessing phenomenal growth in net financing assets.

With a high level of capitalization, abundant liquidity, and a new strategy, the Board of Directors is confident that the Group is well positioned to achieve strategic success. And, although the sustained global growth that was witnessed in 2018 may soften due to financial market volatility and global economic policy uncertainty in the first half of 2019, the Group is equipped to navigate the challenges towards its goal of providing diversified and innovative Shari'a compliant products and services.

The Directors take this opportunity to express their appreciation to the leadership led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Bahrain Bourse, Dubai Financial Market, correspondents, customers, shareholders and employees of the Bank for their support since the establishment of the Bank. We look forward to sharing a productive and successful 2019 with you.



**Khaleefa Butti Bin Omaid Bin Yousif Al Muhairi**

**Chairman**

12 February 2019

Manama, Kingdom of Bahrain

# 3

---

**To receive the Shari'a Supervisory Board's report for the year ended 31 December 2018.**

# FATWA & SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS

*In the name of Allah, the Beneficent and the Merciful  
Praise be to Allah; Prayers and peace be upon the most noble Messenger, our Prophet Muhammad  
and his Companions*

The Report of Shari'a Supervisory Board of Al Salam Bank-Bahrain B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2018.

## **First: Memorandum & Articles of Association**

We confirm that the Memorandum & Articles of Association of the Bank are in conformity with the rules and principles of Shari'a.

## **Second: Activities of the Bank and Board's Guidance**

The Board supervised the activities and transactions of the Bank during the reporting year and instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board while undertaking such activities and transactions. A number of meetings were held with the senior staff of the Bank for this purpose.

## **Third: Contracts & Transactions**

The Board studied the structures of the transactions that were presented to it during the year, approved their contracts and documentation, and responded to the questions and inquiries that were raised in respect thereof and issued appropriate decisions and fatwas. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. Similarly, the Board, reviewed drafts of the contracts and agreements that were presented to it with respect to Sukuk (investment certificates) and syndicated financing transactions; commented upon them and approved them when its comments were complied with.

## **Fourth: Access to Records**

The Board was provided with the required records of the Bank and obtained the information and data that it requested to enable it to perform the Sharia audit requirements.

## **Fifth: Shari'a Audit**

The Sharia audit reports were submitted to the Board, and the Board issued its comments and observations on the reports and directed the Bank's Management to rectify what is required to be rectified.

## **Sixth: Training**

The Board recommends that the Bank's Management should conduct regular training programmes for the Bank's employees in order to raise the level of their performance and minimize Shari'a-related violations.

### Seventh: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing profit to the shareholders and depositors and issued its observations in this regard; and the Bank's Management has promised to comply with Board's observations.

The Board is of the opinion that the balance sheet, to the extent presented to it by the Bank's Management, the information supplied to it and the Management's undertaking to implement the observations thereon, represents the Bank's assets and income. The accuracy of information and data is, however, the responsibility of the Bank's Management.

### Eighth: Zakat

Since the Articles of Association do not oblige the Bank to pay zakat on the Shareholder's equity, the Board has calculated the Zakat, as disclosed in the balance sheet, which is payable by the Shareholders and instructed the Bank to notify them accordingly.

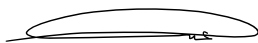
### Ninth: Charity Fund

With regard to the transactions that have not yet been converted to Shari'a compliant transactions, as a result of court proceedings or for any other reasons, including the assets and liabilities of Al Salam Bank, Seychelles which have been disclosed in the balance sheet, the Board has instructed the Bank's Management to channel any resulting interests to the Bank's Charity Fund.

### Decision of the Board

The Board would like to emphasize that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Board would like to confirm that the transactions executed by the Bank during the year, to the extent of the information and data made available to it by the Bank's Management, the observations of the Board and the response of the Bank's Management for compliance with observations, do not conflict, in general, with the rules and principles of Shari'a.

### Fatwa & Shari'a Supervisory Board



**Shaikh Adnan Abdulla AlQattan**



**Dr. Mohamed Abdulhakim Zoair**



**Dr. Fareed Yaqoob Almeftah**



**Dr. Azzeddine Ben Zaghiba**



**Dr. Muhammad Qaseem Mohammad**



4

To receive the external auditor's report for the year ended 31 December 2018.

\_\_\_\_\_

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS



KPMG Fakhro Audit  
12th Floor, Fakhro Tower  
P.O. Box 710, Manama  
Kingdom of Bahrain

Tel: +973 17 224807  
Fax: +973 17 227443  
[www.kpmg.com/bh](http://www.kpmg.com/bh)  
C.R. No. 6220

## Report on The Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al Salam Bank-Bahrain B.S.C. [“the Bank”] and its subsidiaries [together “the Group”], which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Respective responsibilities of Board of Directors and Auditors

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

## Basis of Opinion

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its consolidated results of operations, its consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Bank.



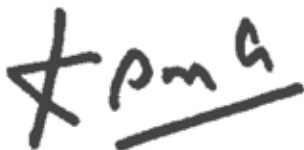
### Report on other regulatory requirements

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

- a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b. the financial information contained in the Board of Directors' report is consistent with the consolidated financial statements;
- c. we are not aware of any violations during the year of the provisions of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rulebook (Volume 2, applicable provision of the volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have a material adverse effect on the business of the Bank or on its financial position; and
- d. satisfactory explanations and information have been provided to us by management in responsive to all our requests.

### Other Matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 were audited by another auditor whose report thereon dated 13 February 2018 expressed an unmodified opinion.



KPMG Fakhro

Partner registration number 137

12 February 2018



# 5

---

**To discuss and approve the financial statements for the year ended 31 December 2018.**

# Consolidated Statement of Financial Position

## 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	4	82,587	66,351
Sovereign Sukuk	5	354,215	363,569
Placements with financial institutions	6	163,305	141,225
Corporate Sukuk	7	9,222	10,419
Financing assets	8	568,905	532,535
Finance lease assets	9	256,892	213,238
Non-trading investments	11	107,508	111,325
Investment properties	12	74,261	66,782
Development properties	13	6,290	6,448
Investment in associates	14	15,972	16,835
Other assets	15	45,182	34,530
Goodwill	16	25,971	25,971
<b>TOTAL ASSETS</b>		<b>1,710,310</b>	<b>1,589,228</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Placements from financial institutions	6	144,125	154,765
Placements from customers	18	705,924	602,784
Customer current accounts		251,842	283,886
Murabaha term financing	17	155,543	79,986
Other liabilities	19	48,293	45,089
<b>TOTAL LIABILITIES</b>		<b>1,305,727</b>	<b>1,166,510</b>
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	20	<b>99,761</b>	<b>118,881</b>
<b>EQUITY</b>			
Share capital	21	214,093	214,093
Treasury stock	21	(3,855)	(1,879)
Reserves and retained earnings		93,901	91,016
<i>Total equity attributable to shareholders of the Bank</i>		<b>304,139</b>	<b>303,230</b>
Non-controlling interest		683	607
<b>TOTAL EQUITY</b>		<b>304,822</b>	<b>303,837</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY</b>		<b>1,710,310</b>	<b>1,589,228</b>



**Khaleefa Butti Bin Omair Bin Yousif Al Muhairi**  
Chairman



**H.E. Shaikh Khalid bin Mustahail Al Mashani**  
Deputy Chairman



**Rafik Nayed**  
Chief Executive Officer

# Consolidated Income Statement

Year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>OPERATING INCOME</b>			
Finance income	24	49,384	44,809
Income from Sukuk		16,773	16,724
Income from non-trading investments	25	(895)	2,995
Income from properties	26	420	4,771
Fees and commission	27	9,284	8,550
Other income	28	9,576	5,299
		84,542	83,148
Finance expense on placements from financial institutions		(3,692)	(1,831)
Finance expense on placements from customers		(19,370)	(15,476)
Finance expense on Murabaha term financing		(4,515)	(3,532)
Return on equity of investment accountholders before			
Group's share as a Mudarib		(492)	(230)
Group's share as a Mudarib	20	246	111
Share of profit of investment accountholders		(246)	(119)
<b>Total operating income</b>		<b>56,719</b>	<b>62,190</b>
<b>OPERATING EXPENSES</b>			
Staff cost	29	11,861	11,528
Premises and equipment cost		2,019	1,675
Depreciation		869	1,509
Other operating expenses		13,164	9,553
<b>Total operating expenses</b>		<b>27,913</b>	<b>24,265</b>
<b>PROFIT BEFORE IMPAIRMENT ALLOWANCES AND RESULTS OF ASSOCIATES</b>		<b>28,806</b>	<b>37,925</b>
Net allowance for credit losses / impairment	10	(10,661)	(20,656)
Share of profit from associates	14	375	786
<b>NET PROFIT FOR THE YEAR</b>		<b>18,520</b>	<b>18,055</b>
<b>ATTRIBUTABLE TO:</b>			
- Shareholders of the Bank		18,499	18,099
- Non-controlling interest		21	(44)
		18,520	18,055
<b>Basic and diluted earnings per share (fils)</b>	23	<b>8.7</b>	<b>8.5</b>



**Khaleefa Butti Bin Omair Bin Yousif Al Muhairi**  
Chairman



**H.E. Shaikh Khalid bin Mustahail Al Mashani**  
Deputy Chairman



**Rafik Nayed**  
Chief Executive Officer

# Consolidated Statement of Cash Flows

## Year ended 31 December 2018

	2018 BD'000	2017 BD'000
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	18,520	18,055
Adjustments:		
Depreciation	869	1,509
Amortisation of premium on Sukuk - net	1,033	1,179
Fair value changes on investments	(1,027)	(4,771)
Income from investments	1,882	(2,326)
Net allowance for credit losses / impairment	10,661	20,656
Share of profit from associates	(375)	(786)
Development properties	158	11,333
Operating income before changes in operating assets and liabilities	31,721	44,849
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	3,221	(2,710)
Financing assets and finance lease assets	(92,083)	(108,448)
Other assets	5,201	(7,124)
Placements from financial institutions	(10,640)	22,609
Placements from customers	103,140	(125,591)
Customer current accounts	(32,036)	4,277
Other liabilities	(5,278)	743
Equity of investment accountholders	(19,120)	50,085
Net cash used in operating activities	(15,874)	(121,310)
<b>INVESTING ACTIVITIES</b>		
Sovereign Sukuk	8,332	(638)
Corporate Sukuk	1,166	18,557
Non-trading investments	2,475	16,389
Investment in associates	740	(6,240)
Purchase of premises and equipment	(960)	(699)
Sales of a subsidiary	-	7,275
Net cash from investing activities	11,753	34,644
<b>FINANCING ACTIVITIES</b>		
Murabaha term financing	58,592	(12,051)
Dividends paid	(10,945)	(10,626)
Purchase of treasury stock	(1,976)	(233)
Net movements in non-controlling interest	(11)	-
Net cash from (used in) financing activities	45,660	(22,910)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>41,539</b>	<b>(109,576)</b>
Cash and cash equivalents at 1 January	175,352	284,928
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>216,891</b>	<b>175,352</b>
<b>Cash and cash equivalents comprise of:*</b>		
Cash and other balances with Central Bank	8,372	8,509
Balances with other banks	45,212	25,618
Placements with financial institutions with original maturities of less than 90 days	163,307	141,225
	<b>216,891</b>	<b>175,352</b>

\* Cash and cash equivalents as at 31 December 2018 is gross of the expected credit loss of BD 1 thousand (2017: BD 2 thousands)

# Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to shareholders of the Bank										Amounts in BD '000s	
	Share Capital	Treasury stock	Share premium	Statutory reserve	Retained earnings	Investment fair value reserve	Real estate fair value reserve	Foreign exchange translation reserve	Total reserves	Total Equity		Non-controlling interest
Balance as of 1 January 2018	214,093	(1,879)	12,209	17,148	40,304	199	24,196	(3,040)	91,016	303,230	607	303,837
Net profit for the year	-	-	-	-	18,499	-	-	-	18,499	18,499	21	18,520
Net changes in fair value	-	-	-	-	-	-	(607)	-	(607)	(607)	-	(607)
Foreign currency re-translation	-	-	-	-	-	-	-	(155)	(155)	(155)	-	(155)
<b>Total recognised income and expense</b>	-	-	-	-	18,499	-	(607)	(155)	17,737	17,737	21	17,758
Dividend for 2017	-	-	-	-	(14,852)	-	-	-	(14,852)	(14,852)	-	(14,852)
Purchase of treasury stock	-	(1,976)	-	-	-	-	-	-	-	(1,976)	-	(1,976)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	55	55
Transfer to statutory reserve	-	-	-	1,850	(1,850)	-	-	-	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>214,093</b>	<b>(3,855)</b>	<b>12,209</b>	<b>18,998</b>	<b>42,101</b>	<b>199</b>	<b>23,589</b>	<b>(3,195)</b>	<b>93,901</b>	<b>304,139</b>	<b>683</b>	<b>304,822</b>
Balance as of 1 January 2017 (as previously reported)	214,093	(1,646)	12,209	15,338	61,400	445	24,234	(2,708)	110,918	323,365	1,534	324,899
Transition adjustment on adoption of FAS 30 as of 1 January 2017	-	-	-	-	(26,759)	-	-	-	(26,759)	(26,759)	(12)	(26,771)
Restated balance as of 1 January 2017	214,093	(1,646)	12,209	15,338	34,641	445	24,234	(2,708)	84,159	296,606	1,522	298,128
Net profit for the year	-	-	-	-	18,099	-	-	-	18,099	18,099	(44)	18,055
Net changes in fair value	-	-	-	-	-	(246)	568	-	322	322	-	322
Foreign currency re-translation	-	-	-	-	-	-	-	(211)	(211)	(211)	-	(211)
<b>Total recognised income and expense</b>	-	-	-	-	18,099	(246)	568	(211)	18,210	18,210	(44)	18,166
Dividend for 2016	-	-	-	-	(10,626)	-	-	-	(10,626)	(10,626)	(12)	(10,638)
Disposal of subsidiaries	-	-	-	-	-	-	(606)	(121)	(727)	(727)	(871)	(1,598)
Purchase of treasury stock	-	(233)	-	-	-	-	-	-	-	(233)	-	(233)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	12	12
Transfer to statutory reserve	-	-	-	1,810	(1,810)	-	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>214,093</b>	<b>(1,879)</b>	<b>12,209</b>	<b>17,148</b>	<b>40,304</b>	<b>199</b>	<b>24,196</b>	<b>(3,040)</b>	<b>91,016</b>	<b>303,230</b>	<b>607</b>	<b>303,837</b>

The attached notes 1 to 46 form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

31 December 2018

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a conventional bank and a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. The Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2016.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of the operations of BMI to the Bank. The transfer of business was approved by the CBB on 17 April 2017 which was subsequently published in the official gazette dated 20 April 2017. The Bank has transferred majority of the BMI's rights and assumed all of its obligations at their respective carrying values.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding	
			2018	2017
ASB Seychelles	Seychelles	Provide Banking services	70%	70%
ASB Biodiesel (Note 30)	Hong Kong	Production of Biodiesel	36%	-

The Bank and its principal banking subsidiary operates through ten branches in the Kingdom of Bahrain and one branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 12 February 2019.



## **2 ACCOUNTING POLICIES**

### **2.1 BASIS OF PREPARATION**

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, fair value through equity and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off-balance sheet financial contracts held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

#### **2.1.a Statement of compliance**

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the guidelines of CBB and Financial Institutions Law. The matters for which no AAOIFI standards exist, the Group uses the relevant applicable International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding expected recovery or settlement within twelve months after the consolidated statement of financial position date (current) and more than twelve months after the consolidated statement of financial position date (non-current) is presented in note 36.

#### **2.1.b Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies of the Bank.

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

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

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 38.

**Notes To The Consolidated Financial Statements (continued)**

- 2 ACCOUNTING POLICIES (continued)  
2.1 BASIS OF PREPARATION (continued)  
2.1.b Basis of consolidation (continued)

Share of minority stakeholders' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Bank.

**Transactions eliminated on consolidation**

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

**2.1.c Functional and presentation currency**

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

**Foreign currencies**

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" and investment in associates are included in the consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

**Translation of foreign operations**

Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

**2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

## Notes To The Consolidated Financial Statements (continued)

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Impairment assessment of financial contracts subject to credit risk*

In determining impairment on financial contracts subject to credit risk, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL"). Refer to notes 2.3 (d) and 33.2 for further details.

#### *Impairment of goodwill*

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for five years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 16 for further details.

#### *Impairment of fair value through equity investments*

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

#### *Fair value of equity investment through profit or loss*

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

**Notes To The Consolidated Financial Statements (continued)**

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

*Valuation of unquoted private equity and real estate investments*

Valuation of above investments involve judgment and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

*Estimating net realisable value of development property*

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

**Judgments****Going concern**

The management has made an assessment of the Group's ability to continue on 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.

**Control over special purpose entities**

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

**Notes To The Consolidated Financial Statements (continued)**

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

**Classification of investments**

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

**2.3 SIGNIFICANT ACCOUNTING POLICIES****a) Financial assets and liabilities**

The Group has early adopted FAS 30 - Impairment and credit losses, effective from 1 January 2017 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

Financial assets contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Placements with Financial Institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion and other receivables. Balances relating to these contracts are stated net of allowance for credit losses.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customer current account, Murabaha term financing, and other payables.

All financial assets and financial liabilities are initially recognised at cost, being the FV of the instrument of origination. Subsequently, all financial assets and financial liabilities are carried at amortized cost.

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

**b) Trade and settlement date accounting**

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

**c) Derecognition**

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

**Notes To The Consolidated Financial Statements (continued)**

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**d) Impairment assessment*****Impairment of financial assets and commitments***

FAS 30 replaces the 'incurred loss' model in FAS 11 with ECL model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

The Group applies a three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

**Stage 1: twelve months ECL**

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

**Stage 2: Lifetime ECL – not credit impaired**

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

**Stage 3: Lifetime ECL – credit impaired**

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

**Credit-impaired financial assets and assets acquired for leasing**

At each reporting date, the Group assesses whether financial assets carried at amortised cost and finance lease assets are credit impaired. A financial asset and finance lease assets are 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset and finance lease asset is credit-impaired includes the following observable data:

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

## Notes To The Consolidated Financial Statements (continued)

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	d) Impairment assessment (continued)

### **Write-offs**

Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### **Presentation of allowance for credit losses in the consolidated statement of financial position**

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

### **e) Cash and cash equivalents**

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions and placements with financial institutions with original maturities of 90 days or less when acquired.

### **f) Financing assets**

Financing assets comprise of Sharia'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka and Mudaraba contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

All Sharia compliant contracts are interpreted for accounting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to achieve a single economic outcome.

#### **f-i) Murabaha financing**

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

**Notes To The Consolidated Financial Statements (continued)**

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

**f-ii) Mudaraba financing**

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise, the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

**f-iii) Musharaka financing**

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

**g) Finance lease assets**

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / periods, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. The impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependant on a single customer takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the income statement.

**h) Placements with financial institutions**

Placements with financial institutions comprise of Commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and allowance for credit losses, if any. Wakala receivables are stated at amortised cost less allowance for credit losses, if any.

**i) Sovereign Sukuk and Corporate Sukuk**

These are quoted / unquoted debt type securities and are classified as investments carried at amortised cost.



## Notes To The Consolidated Financial Statements (continued)

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	g) Finance lease assets (continued)

### **j) Assets and liabilities under conversion**

#### ***Assets under conversion:***

##### *Loans and advances*

At amortised cost less any amounts written off and allowance for credit losses, if any.

##### *Non-trading investments*

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.3 (k).

#### ***Liabilities under conversion:***

These are remeasured at amortised cost.

### **k) Non-trading investments**

#### *Equity-type investments*

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

#### *Recognition and de-recognition*

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

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

#### *Measurement*

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

Subsequent to initial recognition, investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the period which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

### **l) Investments in associates and joint ventures**

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates (2.3.k) are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is

## Notes To The Consolidated Financial Statements (continued)

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the above investment in the associates are included in the consolidated statement of changes in equity.

### **m) Investment properties**

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

### **n) Development properties**

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

### **o) Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

## Notes To The Consolidated Financial Statements (continued)

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

### **p) Subsidiaries acquired with a view to sell**

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as “held-for-sale” when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as “assets held-for-sale” and “liabilities relating to assets classified as held-for-sale” respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

### **q) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree’s equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group’s cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**Notes To The Consolidated Financial Statements (continued)**

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	q) Business combinations and goodwill (continued)

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

**r) Offsetting**

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

**s) Customers' current accounts**

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

**t) Equity of investment accountholders**

All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmaal). Operating expenses are apportioned to Shareholders' fund and Mudaraba pool in accordance with their contribution.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

**u) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

**v) Employees' end-of-service benefits***Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term

## Notes To The Consolidated Financial Statements (continued)

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### *Post employment benefits*

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

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

## **w) Revenue recognition**

### *Financing assets*

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on an effective yield basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

### *Sukuk*

Income on Sukuk is recognised on a time-proportionate basis based on an underlying rate of return of the respective type of Sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

### *Dividend*

Dividend income is recognised when the Group’s right to receive the dividend is established.

### *Finance lease assets*

Finance lease income is recognised on a time-proportionate basis over the lease term. Income related to non-performing finance lease is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

### *Fees and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.
- Other fee income: This is recognised when services are rendered.

**Notes To The Consolidated Financial Statements (continued)**

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	w) Revenue recognition (continued)

**x) Fair value of financial assets**

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on the current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for contracts with similar terms and risk characteristics.

**y) Fiduciary assets**

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

**z) Dividend on ordinary shares**

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

**aa) Financial guarantees**

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

**ab) Treasury Stock**

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

**ac) Zakah**

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

**ad) Wakala payables**

The Group accepts funds from banks and customers under Wakala arrangements in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under Wakala agreement.

## Notes To The Consolidated Financial Statements (continued)

- 2 ACCOUNTING POLICIES (continued)  
 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)  
 2.3.2 Summary of significant accounting policies (continued)

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

### ae) Repossessed assets

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

### af) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

## 2.4 STANDARDS ISSUED BUT NOT EFFECTIVE

### FAS 31

#### *Investment agency (Al-Wakala Bi Al-Istithmar)*

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency instruments and related assets and obligations, as applicable for the Islamic financial institutions from both perspectives. This standard shall apply to all investment agency contracts entered into by Islamic financial institutions, either in the capacity of an agent or principal.

This standard impacts the presentation of income and expenses, including variable compensation from Wakala arrangements.

The Bank is in the process of evaluating the impact of this standard. The standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

### FAS 33

#### *Investment in Sukuk, shares and similar instruments*

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to institutions investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments and produces revised guidance for classification and measurement of investments to align with international practices. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

The standard is not expected to have a significant impact on the Bank. The Bank is in the process of evaluating the impact of this standard. The standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

### FAS 35

#### *Risk reserves*

The standard shall apply to risk reserves that are established by an IFI (other than a Takaful (Islamic insurance) entity, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by stakeholders (mainly the profit and loss taking investors). On the other hand, operational risk is the responsibility of the IFI itself, so this standard shall not be applied on any risk reserve created to mitigate the operational risk.

**Notes To The Consolidated Financial Statements (continued)**

2 ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

This standard shall be effective for the annual financial periods beginning on or after 1 January 2021. Early adoption is permitted, only if the IFI decided to early adopt FAS 30 "Impairment, Credit Losses and Onerous Commitments".

Currently Bank is not providing for PER and IRR on a risk adjusted basis and it remains at the choice of the Bank. Bank is currently working on adopting Basel and IFSB guidance on profit rate risk management and the Risk Reserve policy will be addressed as part of this exercise.



## Notes To The Consolidated Financial Statements (continued)

**3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS**

	31 December 2018			
	<i>At fair value through profit or loss BD '000</i>	<i>At fair value through equity BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with banks and Central Bank	-	-	82,587	82,587
Sovereign Sukuk	-	-	354,215	354,215
Placements with financial institutions	-	-	163,305	163,305
Corporate Sukuk	-	-	9,222	9,222
Financing assets	-	-	568,905	568,905
Finance lease assets	-	-	256,892	256,892
Non-trading investments	105,850	1,658	-	107,508
Investment properties	-	74,261	-	74,261
Development properties	-	-	6,290	6,290
Investment in associates	-	-	15,972	15,972
Other assets	-	1,041	44,141	45,182
Goodwill	-	-	25,971	25,971
	105,850	76,960	1,527,500	1,710,310
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
Placements from financial institutions	-	-	144,125	144,125
Placements from customers	-	-	705,924	705,924
Customer current accounts	-	-	251,842	251,842
Murabaha term financing	-	-	155,543	155,543
Other liabilities	-	-	48,293	48,293
Equity of investment accountholders	-	-	99,761	99,761
	-	-	1,405,488	1,405,488

**Notes To The Consolidated Financial Statements (continued)**

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 December 2017			
	<i>At fair value through profit or loss BD '000</i>	<i>At fair value through equity BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with banks and Central Bank	-	-	66,351	66,351
Sovereign Sukuk	-	-	363,569	363,569
Placements with financial institutions	-	-	141,225	141,225
Corporate Sukuk	-	-	10,419	10,419
Financing assets	-	-	532,535	532,535
Finance lease assets	-	-	213,238	213,238
Non-trading investments	109,393	1,932	-	111,325
Investment properties	-	66,782	-	66,782
Development properties	-	-	6,448	6,448
Investment in associates	-	-	16,835	16,835
Other assets	-	1,359	33,171	34,530
Goodwill	-	-	25,971	25,971
	109,393	70,073	1,409,762	1,589,228
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
Placements from financial institutions	-	-	154,765	154,765
Placements from customers	-	-	602,784	602,784
Customer current accounts	-	-	283,886	283,886
Murabaha term financing	-	-	79,986	79,986
Other liabilities	-	-	45,089	45,089
Equity of investment accountholders	-	-	118,881	118,881
	-	-	1,285,391	1,285,391

## Notes To The Consolidated Financial Statements (continued)

**4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK**

	2018 BD '000	2017 BD '000
Mandatory reserve with Central Bank*	29,003	32,224
Cash and other balances with Central Bank	8,372	8,509
Balances with other Banks**	45,212	25,618
	<b>82,587</b>	<b>66,351</b>

\* This balance is not available for use in the day-to-day operations of the Group.

\*\* This balance is net of an insignificant amount of allowance for credit losses.

**5 SOVEREIGN SUKUK**

This includes BD 174,353 thousands (2017: BD 111,065 thousands) of sukuk which are pledged against Murabaha term financing of BD 138,578 thousands (2017: BD 79,786 thousands).

**6 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS**

These represent short-term interbank placements to and from financial institution in the form of Murabaha and Wakala contracts.

	2018 BD '000	2017 BD '000
<b>Placements with financial institutions</b>		
Wakala asset	80,735	105,817
Commodity Murabaha asset	82,571	35,410
Allowance for credit losses	(1)	(2)
	<b>163,305</b>	<b>141,225</b>
<b>Placements from financial institutions</b>		
Wakala liability	106,441	90,851
International Commodity Murabaha	37,684	63,914
	<b>144,125</b>	<b>154,765</b>

**7 CORPORATE SUKUK**

	2018 BD '000	2017 BD '000
Non-investment grade (< BBB-)	9,241	4,635
Investment grade (AAA - BBB+)	-	5,787
Allowance for credit losses	(19)	(3)
	<b>9,222</b>	<b>10,419</b>

This includes BD 8,484 thousands (2017: BD 4,941 thousands) of sukuk which are pledged against Murabaha term financing of BD 138,578 thousands (2017: BD 79,786 thousands).

## Notes To The Consolidated Financial Statements (continued)

**8 FINANCING ASSETS**

31 December 2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Murabaha financing	149,331	15,994	15,938	181,263
Mudaraba financing	314,640	36,287	34,986	385,913
Musharaka financing	24,267	92	469	24,828
Credit cards	3,284	116	67	3,467
<b>Total financing assets</b>	<b>491,522</b>	<b>52,489</b>	<b>51,460</b>	<b>595,471</b>
Allowance for credit losses (note 10)	(3,451)	(4,093)	(19,022)	(26,566)
	<b>488,071</b>	<b>48,396</b>	<b>32,438</b>	<b>568,905</b>

31 December 2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Murabaha financing	176,840	33,054	33,328	243,222
Mudaraba financing	267,287	18,780	56,389	342,456
Musharaka financing	18,205	1,337	235	19,777
Credit cards	1,801	-	1,456	3,257
<b>Total financing assets</b>	<b>464,133</b>	<b>53,171</b>	<b>91,408</b>	<b>608,712</b>
Allowance for credit losses (note 10)	(6,245)	(15,485)	(54,447)	(76,177)
	<b>457,888</b>	<b>37,686</b>	<b>36,961</b>	<b>532,535</b>

## Notes To The Consolidated Financial Statements (continued)

**9 FINANCE LEASE ASSETS**

This represents net investment in assets leased (land and buildings) under a finance lease arrangement. Lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Finance lease assets	<b>263,373</b>	218,553
Allowance for impairment	<b>(6,481)</b>	(5,315)
	<b>256,892</b>	213,238

Movements in finance lease assets are as follows:

	<b>2018</b> <b>BD '000</b>	2017 BD '000
At 1 January	<b>213,238</b>	188,485
Additions during the year - net	<b>61,265</b>	55,872
Finance lease assets depreciation	<b>(36,138)</b>	(34,029)
Allowance for credit losses during the year	<b>(1,166)</b>	( 1,277)
Settlements/adjustments during the year	<b>19,693</b>	4,187
At 31 December	<b>256,892</b>	213,238

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Due within one year	<b>61,831</b>	26,643
Due in one to five years	<b>94,843</b>	120,393
Due after five years	<b>100,218</b>	66,202
	<b>256,892</b>	213,238

The accumulated depreciation on finance lease assets amounted to BD 129,150 thousands (2017: BD 93,012 thousands).

## Notes To The Consolidated Financial Statements (continued)

9 FINANCE LEASE ASSETS (continued)

	31 December 2018			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Finance lease assets	224,389	23,694	15,290	263,373
Allowance for credit losses	(1,517)	(1,210)	(3,754)	(6,481)
	<b>222,872</b>	<b>22,484</b>	<b>11,536</b>	<b>256,892</b>

	31 December 2017			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Finance lease assets	166,812	9,443	42,298	218,553
Allowance for credit losses	(1,094)	(480)	(3,741)	(5,315)
	165,718	8,963	38,557	213,238

## 10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	31 December 2018			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total ECL BD '000
Balance at the beginning of the year	7,982	16,052	65,559	89,593
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,328	(485)	(843)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(664)	2,659	(1,995)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(290)	(14,938)	15,228	-
Net remeasurement of loss allowance	(2,237)	2,314	15,488	15,565
Recoveries / write-backs	(505)	(218)	(4,060)	(4,783)
Allowance for credit losses	(2,368)	(10,668)	23,818	10,782
Exchange adjustments and other movements	-	-	(227)	(227)
Amounts charged off during the year	-	-	(8,678)	(8,678)
Elimination on consolidation (note 30)	-	-	(52,045)	(52,045)
<b>Balance at the end of the year</b>	<b>5,614</b>	<b>5,384</b>	<b>28,427</b>	<b>39,425</b>

## Notes To The Consolidated Financial Statements (continued)

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

31 December 2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Cash and balances with banks and Central Bank	-	-	-	-
Sovereign Sukuk	-	-	-	-
Placements with financial institutions	1	-	-	1
Corporate Sukuk	4	15	-	19
Financing assets	3,451	4,093	19,022	26,566
Finance lease assets	1,517	1,210	3,754	6,481
Loans and advances to customers				
- Assets under conversion (note 15)	27	26	3,182	3,235
Other receivables	43	-	1,946	1,989
Financing commitments and financial guarantee contracts	571	40	523	1,134
	<b>5,614</b>	<b>5,384</b>	<b>28,427</b>	<b>39,425</b>

31 December 2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total ECL BD '000
Balance at the beginning of the year	5,313	17,625	58,479	81,417
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,966	(1,312)	(654)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(137)	586	(449)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(229)	(2,858)	3,087	-
Net remeasurement of loss allowance	1,910	2,293	18,030	22,233
Recoveries / write-backs	(838)	(199)	(2,039)	(3,076)
Allowance for credit losses	2,672	(1,490)	17,975	19,157
Amounts charged off during the year	(3)	(83)	(10,895)	(10,981)
Balance at the end of the year	7,982	16,052	65,559	89,593

**Notes To The Consolidated Financial Statements (continued)**

10 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	31 December 2017			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Placements with financial institutions	2	-	-	2
Corporate Sukuk	3	-	-	3
Financing assets	6,242	15,485	54,450	76,177
Finance lease assets	1,094	480	3,741	5,315
Loans and advances to customers				
- Assets under conversion (note 15)	77	33	5,150	5,260
Other receivables	41	-	1,947	1,988
Financing commitments and financial guarantee contracts	523	54	271	848
	7,982	16,052	65,559	89,593

**10.1 MOVEMENTS IN IMPAIRMENT FOR FAIR VALUE THROUGH EQUITY INVESTMENTS**

	2018 BD '000	2017 BD '000
Balance at the beginning of the year	3,251	8,624
Impairment during the year	-	1,048
Reversals on recoveries	(121)	(162)
Write-offs	-	(6,259)
<b>Balance at the end of the year</b>	<b>3,130</b>	<b>3,251</b>



## Notes To The Consolidated Financial Statements (continued)

### 11 NON-TRADING INVESTMENTS

Non-trading investments comprise investments in equity securities and are classified as fair value through equity or fair value through profit or loss.

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

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

#### Fair value hierarchy

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of the non-trading investments carried at fair value in the consolidated statement of financial position:

<b>31 December 2018</b>	<b>Level 1 BD '000</b>	<b>Level 2 BD '000</b>	<b>Level 3 BD '000</b>	<b>Total BD '000</b>
Financial assets at fair value through profit or loss	<b>3,576</b>	<b>5,282</b>	<b>96,992</b>	<b>105,850</b>
Financial assets at fair value through equity	-	-	<b>1,658</b>	<b>1,658</b>
	<b>3,576</b>	<b>5,282</b>	<b>98,650</b>	<b>107,508</b>

31 December 2017	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	5,903	5,561	97,929	109,393
Financial assets at fair value through equity	-	-	1,932	1,932
	5,903	5,561	99,861	111,325

During the year, there was no transfers between the levels.

**Notes To The Consolidated Financial Statements (continued)**

11 NON-TRADING INVESTMENTS (continued)

The Group has a 40% stake (2017: 40%) in Manara Developments Company B.S.C.(c), a company incorporated in Bahrain and engaged in the business of property development. The investment is being fair valued through profit or loss using the fair value scope exemption of FAS 24.

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	2018 BD '000	2017 BD '000
At 1 January	99,861	105,339
Fair value changes	(1,641)	502
Disposals during the year	(48)	(2,346)
Repayments during the year	(274)	(3,634)
Additions during the year	752	-
<b>At 31 December</b>	<b>98,650</b>	<b>99,861</b>

**12 INVESTMENT PROPERTIES**

	2018 BD '000	2017 BD '000
Land	66,714	62,784
Buildings	7,547	3,998
	<b>74,261</b>	<b>66,782</b>

The movements in fair value of investments in real estate classified in Level 3 of the fair value hierarchy are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	2018 BD '000	2017 BD '000
At 1 January	66,782	51,862
Fair value changes	(246)	569
Additions during the year	8,523	14,351
Disposals during the year	(711)	-
Others	(87)	-
<b>At 31 December</b>	<b>74,261</b>	<b>66,782</b>

During the year, the Bank obtained possession of collateral held as security against financing resulting in increase of investment properties.

## Notes To The Consolidated Financial Statements (continued)

### 13 DEVELOPMENT PROPERTIES

This represent property acquired and held through investment vehicles exclusively for development and sale in the United Kingdom. The carrying amount include land price and related construction costs.

### 14 INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2017: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank exercises a significant influence on ASBA.

The Group has a 20.94% (2017: 20.94%) stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya.

The Group has 23.2% (2017: 23.2%) stake in CSQ1 Property Unit Trust, a private company incorporated in Jersey.

The Group's interest in ASBA, GAB and CSQ1 Property Unit Trust is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA:

	2018 BD '000	2017 BD '000
Associates' statement of financial position:		
Total assets	350,238	282,037
Total liabilities	295,194	227,465
Net assets	55,044	54,572
Total revenue	22,315	13,093
Total expenses	14,624	9,144
Net profit for the year	7,691	3,949
Group's share of associates' net profit	297	451

The following table illustrates summarised financial information of Group's investments in GAB:

	2018 BD '000	2017 BD '000
Associates' statement of financial position:		
Total assets	123,438	115,427
Total liabilities	106,768	96,734
Net assets	16,670	18,693
Total revenue	13,233	11,661
Total expenses	12,475	10,074
Net profit for the year	758	1,587
Group's share of associates' net profit	78	335

## Notes To The Consolidated Financial Statements (continued)

**15 OTHER ASSETS**

	2018 BD '000	2017 BD '000
<b>Assets under conversion (a)</b>		
Loans and advances to customers	11,680	24,631
Non-trading investments - fair value through equity (b)	1,041	1,359
Non-trading-investments - debt	1,229	955
	<b>13,950</b>	26,945
Other receivables and advances	9,806	4,745
Prepayments	1,314	1,136
Premises and equipment (c)	20,112	1,704
	<b>45,182</b>	34,530

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. ("ex-BSB"). Any income derived from these assets are allocated to charity payable and as such are not recognised in the condensed consolidated income statement. During the year under review, Shari'a prohibited income amounting to BD 297 thousands have been recorded under charity payable, under "Accounts payable and accruals" of note 19.

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	2018 BD '000	2017 BD '000
At 1 January	1,359	1,341
Recovery	119	-
Disposals during the year	(144)	-
Fair value changes	(293)	-
Transfer during the year	-	18
At 31 December	<b>1,041</b>	1,359

**Notes To The Consolidated Financial Statements (continued)**

15 OTHER ASSETS (continued)

(c) This includes BD 18,317 thousands (2017: BD nil) of subsidiary property, plant & equipment (Note 30).

**Loans and advances to customer - Assets under conversion**

	31 December 2018			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Loans and advances to customers	2,237	932	11,625	14,794
Allowance for credit losses	(27)	(26)	(3,182)	(3,235)
	2,210	906	8,443	11,559

	31 December 2017			
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Loans and advances to customers	4,176	364	23,317	27,857
Allowance for credit losses	(77)	(33)	(5,150)	(5,260)
	4,099	331	18,167	22,597

**16 GOODWILL**

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousands (2017: BD 25,971 thousands) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use calculations using cash flow projections from financial forecasts approved by Board of Directors, extrapolated for five years projection using terminal growth rate of 1% and discount rate of 14.2%.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience.

Management performed a sensitivity analysis by changing the key assumptions to assess the impact of recoverable amount of the CGU. The discount rate and earnings are considered as key assumptions, a 0.5% change in the discount rate and a 0.25% change in earnings would have no impact on the carrying value of goodwill.

**17 MURABAHA TERM FINANCING**

These represents short-term to long-term financings with various financials institutions that are collateralised against corporate and sovereign sukuk carrying value of BD 182,837 thousands (2017: BD 116,006 thousands).

## Notes To The Consolidated Financial Statements (continued)

**18 PLACEMENTS FROM CUSTOMERS**

Placement from customer represents customer funds in the form of wakala contracts (wakala capital and generated profit) payable at respective maturity dates. These wakala contracts have stated maturities while "Equity of Investment Accountholders" are in the form of Mudaraba contracts that have no specified maturity dates.

**19 OTHER LIABILITIES**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Accounts payable and accruals	<b>30,401</b>	21,542
Dividend payable	<b>6,005</b>	4,704
Investment related payables	<b>3,513</b>	7,208
Project payables	<b>60</b>	4,645
Liabilities under conversion	<b>6,020</b>	2,743
End of service benefits and other employee related accruals	<b>1,161</b>	3,402
Allowance for credit losses relating to financing commitments and financial guarantee contracts	<b>1,133</b>	845
	<b>48,293</b>	45,089

**20 EQUITY OF INVESTMENT ACCOUNTHOLDERS**

The Group's funds, which include, among others, the Wakala funds, are commingled with Equity of investment accountholders funds to create a one general mudaraba pool. The pooled funds are used to fund / invest in assets generating income and no priority is granted to any party for the purpose of investments and distribution of profits. On average, Mudarib's share of profit was 50% for the year ended 2018.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year 2018 was 0.17% (2017: 0.20%).

The balances of equity of investment accountholders funds consists of:

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Saving accounts	<b>62,770</b>	58,014
Margin accounts	<b>21,948</b>	22,935
Call accounts	<b>15,043</b>	37,932
	<b>99,761</b>	118,881

## Notes To The Consolidated Financial Statements (continued)

**21 SHARE CAPITAL**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Authorised:		
2,500,000,000 ordinary shares (2017: 2,500,000,000 shares) of BD 0.100 each	<b>250,000</b>	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,140,930,752 (2017: 2,140,930,752)	<b>214,093</b>	214,093

Total number of treasury stock outstanding as of 31 December 2018 was 37,737,634 shares (2017: 19,218,000 shares).

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

	<b>Nationality</b>	<b>No. of Shares</b>	<b>% of the outstanding shares</b>
Bank Muscat (S.A.O.G.)	Omani	315,494,795	14.74
First Energy Bank B.S.C Closed	Bahraini	134,384,098	6.28
Overseas Investment S.P.C.	Bahraini	128,773,381	6.01

*A distribution schedule of each class of equity security, setting out the number of holders and the percentage in the following categories:*

<b>Categories</b>	<b>No. of Shares</b>	<b>No. of the Shareholders</b>	<b>% of the outstanding shares</b>
Less than 1%	810,548,142	22,507	37.86
1% up to less than 5%	751,730,336	15	35.11
5% up to less than 10%	263,157,479	2	12.29
10% up to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-

**21.1 PROPOSED APPROPRIATION**

The Board of Directors propose a dividend of 7% (2017: 7 %) of the paid up capital excluding treasury shares, to be paid 50% in cash and 50% by issue of bonus shares. This amounts to BD 14.98 million and BD 0.01 per share (2017: 14.98 million and BD 0.01 per share).

## Notes To The Consolidated Financial Statements (continued)

**22 STATUTORY RESERVE**

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law followed by the approval of the CBB.

**23 EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Group.

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Net profit attributable to Shareholders of the Bank	<b>18,499</b>	18,099
Weighted average number of shares (in '000)	<b>2,121,586</b>	2,125,147
Basic and diluted earnings per share (fils)	<b>8.7</b>	8.5

**24 FINANCE INCOME**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Murabaha financing	<b>11,644</b>	11,947
Mudaraba financing	<b>19,294</b>	17,289
Finance lease assets	<b>14,537</b>	10,499
Musharaka	<b>1,399</b>	961
Placements with financial institutions	<b>2,510</b>	1,656
Income from assets under conversion *	-	2,457
	<b>49,384</b>	44,809

\* The Bank's shareholders are advised to contribute this income to charity (Note 41).



## Notes To The Consolidated Financial Statements (continued)

**25 INCOME FROM NON-TRADING INVESTMENTS**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
(Loss)/gain on sale of investments	<b>(106)</b>	1,747
(Loss)/gain on sale of sukuk	<b>(6)</b>	10
Fair value changes on investments	<b>(1,788)</b>	559
Dividend income	<b>1,005</b>	679
	<b>(895)</b>	2,995

**26 INCOME FROM PROPERTIES**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Gain on sale of development properties *	<b>35</b>	4,771
Impairment of investment properties	<b>(143)</b>	-
Gain on sale on investment properties	<b>528</b>	-
	<b>420</b>	4,771

\* Sales: BD 193 thousands (2017: BD 23,152 thousands) and cost: BD 158 thousands (2017: BD 18,381 thousands).

**27 FEES AND COMMISSION**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Financing and transaction related fees and commission	<b>8,963</b>	8,395
Fiduciary and other fees	<b>321</b>	155
	<b>9,284</b>	8,550

**28 OTHER INCOME**

	<b>2018</b> <b>BD '000</b>	2017 BD '000
Recoveries from pre-acquisition provisions	<b>8,567</b>	3,688
Forex gain / loss	<b>416</b>	(354)
Others	<b>593</b>	1,965
	<b>9,576</b>	5,299

## Notes To The Consolidated Financial Statements (continued)

**29 STAFF COST**

	2018 BD '000	2017 BD '000
Salaries and short term benefits	10,827	10,904
Social Insurance expenses	973	576
Other staff expenses	61	48
	<b>11,861</b>	11,528

**30 BUSINESS COMBINATION**

During the year, the Group reassessed its involvement with an associate entity and its asset under management, ASB Biodiesel 1 ("Biodiesel"), a company incorporated in Cayman Islands with operations based on in Hongkong undertaking business of manufacturing biodiesel. The Group also had a significant financing exposure to Biodiesel. Based on the Groups ongoing involvement and support of the business and increase in variability of its exposure arising from the operations, it was assessed that the Group has obtained control over relevant activities of the Company in its capacity as principal. Accordingly the Group consolidated ASB Biodiesel and its subsidiaries (together "Biodiesel Group") effective 30 September 2018, being the deemed date of acquisition.

The following entities have been consolidated as part of Biodiesel and the Bank's effective percentage shareholdings are as follows:

Investee name	Country of incorporation	Parent	Effective ownership of Bank
ASB Biodiesel 1	Cayman Islands	Cayman Islands Al Salam Bank Bahrain BSC	14.81% and significant financing exposure
<b>Subsidiaries of Biodiesel</b>			
ASB Biodiesel (Hong Kong)	Hong Kong	ASB Biodiesel	36%

**Consideration transferred and non-controlling interests**

As there was no consideration transferred in the business combination, the Group had used the acquisition-date fair value of its interests (equity and debt) in Biodiesel Group for acquisition accounting purposes.

**Identifiable assets acquired and liabilities assumed**

The fair value of assets, liabilities, equity interests have been reported on a provisional basis as permitted by IFRS 3 'Business Combinations'. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be affected on a retrospective basis.

## Notes To The Consolidated Financial Statements (continued)

30 BUSINESS COMBINATION (continued)

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

	31 Dec 2018 BD '000	As of acquisition 30 Sep 2018 BD '000
<b>Non-current assets</b>		
Premises and equipment	18,317	28,204
<b>Current assets</b>		
Receivables and prepayments	4,590	3,705
<b>Total assets</b>	<b>22,907</b>	<b>31,909</b>
Current liabilities		
Murabaha term financing	16,965	16,965
<b>Other liabilities</b>	<b>4,632</b>	<b>5,427</b>
<b>Total liabilities</b>	<b>21,597</b>	<b>22,392</b>

### 31 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 31 December 2018 and 31 December 2017 were as follows:

	2018				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Assets:</b>					
Cash and balances with banks and Central Bank	-	9,471	-	-	9,471
Corporate Sukuk	-	-	3,393	-	3,393
Placements with financial institutions					
Financing assets	10,168	9	16,319	1,009	27,505
Non trading investments	89,277	-	2,297	-	91,574
Investment in associates	15,972	-	-	-	15,972
Other assets	3,204	-	-	-	3,204
<b>Liabilities and equity of investment accountholders:</b>					
Placements from financial institutions	-	5,658	-	-	5,658
Placements from customers	858	37,448	12,382	2,465	53,153
Customer current accounts	624	3,135	1,417	318	5,494
Equity of investment accountholders	-	-	24	199	223
Other liabilities	-	-	-	4	4
Contingent liabilities and commitments	-	501	100	-	601

## Notes To The Consolidated Financial Statements (continued)

31 RELATED PARTY TRANSACTIONS (continued)

	2017				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Assets:</b>					
Cash and balances with banks and Central Bank	-	107	-	-	107
Financing assets	16,297	8	10,383	918	27,606
Non-trading investments	90,915	-	2,461	-	93,376
Investment in associates	16,835	-	-	-	16,835
<b>Liabilities and equity of investment accountholders:</b>					
Placements from financial institutions	-	5,658	-	-	5,658
Placements from customers	1,864	17,393	432	2,333	22,022
Customer current accounts	321	2,214	999	158	3,692
Equity of investment accountholders	-	-	555	200	755
Other liabilities	280	-	-	-	280
<b>Equity</b>					
Transition adjustment	12,317	-	-	-	12,317
Contingent liabilities and commitments	1,261	509	-	-	1,770

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2018				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>					
Income from financing assets	445	45	898	34	1,422
Income from investments	883	-	(73)	-	810
Share of profits from associates	375	-	-	-	375
<b>Expenses:</b>					
Profit on placements from financial institutions	-	91	-	-	91
Profit on placements from customers	40	1,002	301	69	1,412
Share of profits on equity of investment accountholders	-	-	-	1	1
Other operating expenses	-	-	983	-	983

**Notes To The Consolidated Financial Statements (continued)**

31 RELATED PARTY TRANSACTIONS (continued)

	2017				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>					
Income from financing assets	192	16	227	23	458
Income from investments	2,442	-	328	-	2,770
Share of profits from associates	786	-	-	-	786
<b>Expenses:</b>					
Profit on placements from financial institutions	-	46	-	-	46
Profit on placements from customers	69	395	7	22	493
Share of profits on equity of investment accountholders	-	-	2	2	4
Other operating expenses	-	-	740	-	740

Board of Directors' remuneration for 2018 amounted to BD 595 thousands (2017: BD 415 thousands).

Sharia Supervisory Boards' remuneration for 2018 amounted to BD 34 thousands (2017: BD 34 thousands).

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

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

	2018 BD '000	2017 BD '000
Salaries and other short-term benefits	2,605	2,981
	<b>2,605</b>	<b>2,981</b>

## Notes To The Consolidated Financial Statements (continued)

**32 CONTINGENT LIABILITIES AND COMMITMENTS**

	2018 BD '000	2017 BD '000
<b>Contingent liabilities on behalf of customers</b>		
Guarantees	21,523	19,419
Letters of credit	13,781	10,767
Acceptances	2,195	954
	<b>37,499</b>	31,140
<b>Irrevocable unutilised commitments</b>		
Unutilised financing commitments	52,122	81,941
Unutilised non-funded commitments	9,262	9,594
	<b>61,384</b>	91,535
<b>Forward foreign exchange contracts - notional amount</b>	<b>22,730</b>	37,814

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

**Operating lease commitment - Group as lessee**

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2018 BD '000	2017 BD '000
Within 1 year	1,275	1,204
After one year but not more than five years	1,740	1,971
	<b>3,015</b>	3,175

## Notes To The Consolidated Financial Statements (continued)

### 33 RISK MANAGEMENT

#### 33.1 INTRODUCTION

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

The Group's risk function is independent of lines of business and the acting Group Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

#### ***Board of Directors***

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

#### ***Executive Committee***

The Executive Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

#### ***Shari'a Supervisory Board***

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

#### ***Risk Committee***

Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

#### ***Asset and Liability Committee***

The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

#### ***Audit and Risk Committee***

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)  
33.1 Introduction (continued)

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

***Internal Audit***

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

***Risk measurement and reporting systems***

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise 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 specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.



## Notes To The Consolidated Financial Statements (continued)

### 33.2 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

#### Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

##### *Credit risk grades*

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2018 BD '000</i>	<i>Gross maximum exposure 2017 BD '000</i>
<b>ASSETS</b>		
Balances with other banks	45,212	25,618
Placements with financial institutions	163,305	141,225
Corporate Sukuk	9,222	10,419
Financing assets and finance lease assets	825,797	745,773
Non-trading investments-debt	1,229	2,771
Financing contracts under other assets	11,680	22,597
Total	<b>1,056,445</b>	948,403
Contingent liabilities and commitments	<b>97,750</b>	93,420
<b>Total credit risk exposure</b>	<b>1,154,195</b>	1,041,823

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

***Type of credit risk***

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Corporate Sukuk and finance lease contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good grade, 5 to 7 represents satisfactory grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency (S&P, Moody's, Fitch & Capital Intelligence) are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavours continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

***Measurement of ECL***

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

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

- Probability of Default (PD);
- Loss Given Default (LGD); and - Exposure At Default (EAD).

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

***Definition of default***

The Group considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the customer is past due more than 90 days on any credit obligation to the Group. In assessing whether a customer is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

***Probability of default***

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

## Notes To The Consolidated Financial Statements (continued)

33 RISK MANAGEMENT (continued)  
33.2 CREDIT RISK (continued)

Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

### ***Generating the term structure PD***

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days- past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real profit rates, unemployment, domestic credit growth, oil prices, central government revenue as a percentage to GDP and central government expenditure as a percentage to GDP.

### ***Incorporation of forward - looking information***

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

### ***Loss Given Default***

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

**Cure Rate:** Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

**Recovery Rate:** Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

**Discounting Rate:** Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

### ***Exposure At Default***

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

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

***Significant Increase in Credit Risk***

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating.

***Renegotiated financial assets***

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

When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

***Backward transition***

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

***Credit Conversion Factor***

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or the CCF considered for capital charge.

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	163,120	-	-	163,120
Satisfactory (R5-R7)	45,398	-	-	45,398
Total allowance for credit losses	(1)	-	-	(1)
	<b>208,517</b>	<b>-</b>	<b>-</b>	<b>208,517</b>

2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	97,642	-	-	97,642
Satisfactory (R5-R7)	69,203	-	-	69,203
Total allowance for credit losses	(2)	-	-	(2)
	<b>166,843</b>	<b>-</b>	<b>-</b>	<b>166,843</b>

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

**i) Corporate Sukuk****2018**

	<b>Stage 1: 12 month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD '000</b>	<b>Total BD '000</b>
Good (R1-R4)	-	3,408	-	3,408
Satisfactory (R5-R7)	5,833	-	-	5,833
Default (D8-D10)	-	-	-	-
Total allowance for credit losses	(4)	(15)	-	(19)
	<b>5,829</b>	<b>3,393</b>	-	<b>9,222</b>

**2017**

	<b>Stage 1: 12 month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD '000</b>	<b>Total BD '000</b>
Good (R1-R4)	10,422	-	-	10,422
Default (D8-D10)	-	-	-	-
Total allowance for credit losses	(3)	-	-	(3)
	<b>10,419</b>	-	-	<b>10,419</b>

## Notes To The Consolidated Financial Statements (continued)

33 RISK MANAGEMENT (continued)  
 33.2 CREDIT RISK (continued)

## ii) Financing assets and receivable from finance lease assets

2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	594,079	50,780	3,424	648,283
Satisfactory (R5-R7)	121,832	25,403	28,242	175,477
Default (D8-D10)	-	-	35,084	35,084
Total allowance for credit losses	<b>(4,968)</b>	<b>(5,303)</b>	<b>(22,776)</b>	<b>(33,047)</b>
	<b>710,943</b>	<b>70,880</b>	<b>43,974</b>	<b>825,797</b>

2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	496,437	6,067	-	502,504
Satisfactory (R5-R7)	134,509	30,345	25,520	190,374
Default (D8-D10)	-	26,202	108,186	134,388
Total allowance for credit losses	<b>(7,340)</b>	<b>(15,965)</b>	<b>(58,188)</b>	<b>(81,493)</b>
	<b>623,606</b>	<b>46,649</b>	<b>75,518</b>	<b>745,773</b>

## iii) Non trading investments - debt-type

2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	1,229	-	-	1,229
Satisfactory (R5-R7)	-	-	-	-
Default (D8-D10)	-	-	-	-
Total allowance for credit losses	-	-	-	-
	<b>1,229</b>	<b>-</b>	<b>-</b>	<b>1,229</b>

2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	2,864	-	-	2,864
Total allowance for credit losses	<b>(93)</b>	<b>-</b>	<b>-</b>	<b>(93)</b>
	<b>2,771</b>	<b>-</b>	<b>-</b>	<b>2,771</b>

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

**iv) Financial contracts under other assets**

	<b>2018</b>			
	<b>Stage 1: 12 month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD '000</b>	<b>Total BD '000</b>
Good (R1-R4)	1,866	205	33	2,104
Satisfactory (R5-R7)	372	727	600	1,699
Default (D8-D10)	-	-	10,991	10,991
Total allowance for credit losses	(27)	(26)	(3,182)	(3,235)
	<b>2,211</b>	<b>906</b>	<b>8,442</b>	<b>11,559</b>

	<b>2017</b>			
	<b>Stage 1: 12 month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit-impaired BD '000</b>	<b>Total BD '000</b>
Good (R1-R4)	2,360	-	-	2,360
Satisfactory (R5-R7)	1,816	364	-	2,180
Default (D8-D10)	-	-	23,317	23,317
Total allowance for credit losses	(77)	(33)	(5,150)	(5,260)
	<b>4,099</b>	<b>331</b>	<b>18,167</b>	<b>22,597</b>



**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

**v) Financing commitments and financial guarantee contracts**

2018				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit- impaired BD '000	Total BD '000
Good (R1-R4)	75,060	3,220	1,083	79,363
Satisfactory (R5-R7)	13,415	2,960	429	16,804
Default (D8-D10)	-	-	2,716	2,716
Total allowance for credit losses	(570)	(40)	(523)	(1,133)
	<b>87,905</b>	<b>6,140</b>	<b>3,705</b>	<b>97,750</b>

2017				
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit- impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	85,533	5,594	-	91,127
Satisfactory (R5-R7)	-	3,138	-	3,138
Total allowance for credit losses	(523)	(322)	-	(845)
	<b>85,010</b>	<b>8,410</b>	<b>-</b>	<b>93,420</b>

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 32 except capital commitments.

During the year BD 7,720 thousands (2017: BD 8,345 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

**Write-off policy**

The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that he can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written off financing facilities amounting to BD 45 thousands (2017: BD nil ) which were fully impaired.

**Collateral held and other credit enhancements**

The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	2018 BD '000	2017 BD '000	Principal type of collateral held
Financing assets to corporates	<b>458,660</b>	481,898	Cash, Property, Machinery, Shares and Sukuk
Financing assets to retail customers	<b>201,253</b>	146,828	Cash, Property, Shares and Sukuk

**FTV ratio**

Financing to value (FTV) is calculated as the ratio of the gross amount of the financing – or the amount committed for financing commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2018 BD '000	2017 BD '000
Less than 50%	<b>249,374</b>	222,373
51-70%	<b>149,332</b>	147,210
71-90%	<b>105,287</b>	106,146
91-100%	<b>29,045</b>	14,603
More than 100%	<b>126,876</b>	138,394

**Notes To The Consolidated Financial Statements (continued)**

33 RISK MANAGEMENT (continued)  
33.2 CREDIT RISK (continued)

***Key drivers of credit risk and credit losses***

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as “counterparties”). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure.

The various types of credit risk are defined as follows:

- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net lending, population, GDP growth and government expenditure.

**33.3 LEGAL RISK AND CLAIMS**

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2018, legal suits amounting to BD 5,552 thousands (2017: BD 545 thousands) were pending against the Group. Based on the opinion of the Group’s legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group’s consolidated financial position as the Group has also filed counter cases against these parties.

## Notes To The Consolidated Financial Statements (continued)

**34 CONCENTRATIONS**

Concentrations arise 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 geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	<i>Assets</i>	<i>Liabilities and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>
	<i>2018 BD '000</i>	<i>2018 BD '000</i>	<i>2018 BD '000</i>	<i>2017 BD '000</i>	<i>2017 BD '000</i>	<i>2017 BD '000</i>
<b>Geographic region</b>						
GCC	1,549,884	1,210,175	91,014	1,441,799	1,153,955	121,365
Arab World	46,656	56,409	7,099	63,454	58,224	-
Europe	35,091	80,526	34	33,589	61,912	47
Asia Pacific	29,616	44,628	736	15,247	609	1,263
North America	17,646	475	-	15,982	1,607	-
Others	31,417	13,275	-	19,157	9,084	-
	<b>1,710,310</b>	<b>1,405,488</b>	<b>98,883</b>	<b>1,589,228</b>	<b>1,285,391</b>	<b>122,675</b>

	<i>Assets</i>	<i>Liabilities and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities and equity of investment account holders</i>	<i>Contingent liabilities and Commitments</i>
	<i>2018 BD '000</i>	<i>2018 BD '000</i>	<i>2018 BD '000</i>	<i>2017 BD '000</i>	<i>2017 BD '000</i>	<i>2017 BD '000</i>
<b>Industry sector</b>						
Government and public sector	469,774	138,809	7,325	520,095	173,751	12,704
Banks and financial institutions	296,476	503,184	10,338	230,163	321,778	1,445
Real estate	364,478	109,316	35,433	366,733	124,572	57,814
Trading and manufacturing	117,051	44,604	18,708	76,251	16,086	17,496
Aviation	1,308	6	-	509	6	-
Individuals	281,434	394,934	13,185	213,518	414,134	20,525
Others	179,789	214,635	13,894	181,959	235,064	12,691
	<b>1,710,310</b>	<b>1,405,488</b>	<b>98,883</b>	<b>1,589,228</b>	<b>1,285,391</b>	<b>122,675</b>

## Notes To The Consolidated Financial Statements (continued)

**35 MARKET RISK**

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

**35.1 EQUITY PRICE RISK**

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2018			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Saudi Arabia	358	-	(358)	-
Unquoted	10,227	270	(10,227)	(270)

	2017			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Saudi Arabia	590	-	(590)	-
Unquoted	10,349	329	(10,349)	(329)

**Notes To The Consolidated Financial Statements (continued)**

35 MARKET RISK (continued)

**35.2 PROFIT RETURN RISK**

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2018			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	134	0.10	(134)
US dollars	0.10	314	0.10	(314)

	2017			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	192	(0.10)	(192)
US dollars	0.10	201	(0.10)	(201)

**35.3 CURRENCY RISK**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2018 and 2017.

## Notes To The Consolidated Financial Statements (continued)

**36 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The maturity profile of sovereign and corporate sukuk, placements with or from financial institutions, financing assets, finance lease assets and murabaha term financing has been presented using the contractual maturity period. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

	31 December 2018				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>					
Cash and balances with banks and the Central Bank	82,587	-	-	-	82,587
Sovereign Sukuk	7,777	44,670	149,314	152,454	354,215
Placements with financial institutions	163,305	-	-	-	163,305
Corporate Sukuk	-	1,936	7,286	-	9,222
Financing assets and finance lease assets	112,369	222,409	284,815	206,204	825,797
Non-trading investments	-	-	107,508	-	107,508
Investment properties	-	-	74,261	-	74,261
Development properties	-	-	6,290	-	6,290
Investment in associates	-	-	15,972	-	15,972
Other assets	9,293	1,092	8,339	26,458	45,182
Goodwill	-	-	-	25,971	25,971
	<b>375,331</b>	<b>270,107</b>	<b>653,785</b>	<b>411,087</b>	<b>1,710,310</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>					
Placements from financial institutions	115,752	24,497	3,876	-	144,125
Placements from customers	294,577	373,955	37,392	-	705,924
Customer current accounts	251,842	-	-	-	251,842
Murabaha term financing	77,471	28,380	47,481	2,211	155,543
Other liabilities	20,540	-	27,711	42	48,293
Equity of investment accountholders	99,761	-	-	-	99,761
	<b>859,943</b>	<b>426,832</b>	<b>116,460</b>	<b>2,253</b>	<b>1,405,488</b>

## Notes To The Consolidated Financial Statements (continued)

36 LIQUIDITY RISK (continued)

	31 December 2017				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>					
Cash and balances with banks and the Central Bank	66,351	-	-	-	66,351
Sovereign Sukuk	11,293	31,609	150,521	170,146	363,569
Placements with financial institutions	141,225	-	-	-	141,225
Corporate Sukuk	1,966	3,121	5,332	-	10,419
Financing assets and finance lease assets	88,435	197,840	251,796	207,702	745,773
Non-trading investments	1,931	-	109,394	-	111,325
Investment properties	-	-	66,782	-	66,782
Development properties	-	-	6,448	-	6,448
Investment in associates	-	-	16,835	-	16,835
Other assets	4,614	1,073	27,429	1,414	34,530
Goodwill	-	-	-	25,971	25,971
	315,815	233,643	634,537	405,233	1,589,228
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>					
Placements from financial institutions	145,434	9,331	-	-	154,765
Placements from customers	266,453	263,675	72,556	100	602,784
Customer current accounts	283,886	-	-	-	283,886
Murabaha term financing	14,892	45,904	16,779	2,411	79,986
Other liabilities	4,922	-	37,017	3,150	45,089
Equity of investment accountholders	118,881	-	-	-	118,881
	834,468	318,910	126,352	5,661	1,285,391



## Notes To The Consolidated Financial Statements (continued)

36 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payment obligation:

	31 December 2018					Total BD '000
	On demand BD '000	Upto 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES</b>						
Placements from financial institutions	-	115,871	25,196	4,102	-	145,169
Placements from customers	-	295,571	382,535	40,392	-	718,498
Customer current accounts	251,842	-	-	-	-	251,842
Equity of investment accountholders	99,761	-	-	-	-	99,761
Murabaha term financing	-	77,768	29,745	47,481	2,211	157,205
Unutilised commitments	-	26,597	34,738	49	-	61,384
Contingent liabilities	-	34,536	22,045	6,663	-	63,244
Other financial liabilities	11,849	-	-	-	-	11,849
	<b>363,452</b>	<b>550,343</b>	<b>494,259</b>	<b>98,687</b>	<b>2,211</b>	<b>1,508,952</b>

	31 December 2017					Total BD '000
	On demand BD '000	Upto 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES</b>						
Placements from financial institutions	-	145,764	9,253	-	-	155,017
Placements from customers	-	265,718	265,760	81,813	123	613,414
Customer current accounts	283,886	-	-	-	-	283,886
Murabaha term financing	-	14,892	45,904	-	19,190	79,986
Equity of investment accountholders	-	118,881	-	-	-	118,881
Unutilised commitments	-	6,809	28,329	36,516	19,881	91,535
Contingent liabilities	-	46,922	12,406	12,801	-	72,129
Other financial liabilities	-	5,637	2,873	3,375	158	12,043
	<b>283,886</b>	<b>604,623</b>	<b>364,525</b>	<b>134,505</b>	<b>39,352</b>	<b>1,426,891</b>

## Notes To The Consolidated Financial Statements (continued)

**37 SEGMENT INFORMATION****PRIMARY SEGMENT INFORMATION**

For management purposes, the Group is organised into four major business segments:

<b>Banking</b>	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a- compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management
<b>Treasury</b>	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
<b>Investments</b>	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	<b>31 December 2018</b>				
	<i>Banking BD '000</i>	<i>Treasury BD '000</i>	<i>Investments BD '000</i>	<i>Unallocated BD '000</i>	<i>Total BD '000</i>
<b>Operating income</b>	<b>40,581</b>	<b>14,619</b>	<b>1,519</b>	<b>-</b>	<b>56,719</b>
<b>Segment result</b>	<b>8,561</b>	<b>13,312</b>	<b>(3,353)</b>	<b>-</b>	<b>18,520</b>
<b>Segment assets</b>	<b>841,772</b>	<b>654,908</b>	<b>212,148</b>	<b>1,482</b>	<b>1,710,310</b>
<b>Segment liabilities, and equity</b>	<b>968,448</b>	<b>419,406</b>	<b>11,827</b>	<b>310,629</b>	<b>1,710,310</b>

Goodwill resulting from BMI acquisition is allocated to banking segment.

	<b>31 December 2017</b>				
	<i>Banking BD '000</i>	<i>Treasury BD '000</i>	<i>Investments BD '000</i>	<i>Unallocated BD '000</i>	<i>Total BD '000</i>
Operating income	31,634	22,030	8,526	-	62,190
Segment result	1,579	17,540	(1,064)	-	18,055
Segment assets	749,815	619,319	217,065	3,029	1,589,228
Segment liabilities, and equity	933,909	330,158	16,654	308,507	1,589,228

Goodwill resulting from BMI acquisition is allocated to banking segment.

**Secondary segment information**

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

## Notes To The Consolidated Financial Statements (continued)

### 38 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 164,314 thousands (2017: BD 164,604 thousands). These assets are held in a fiduciary capacity, measured at initial subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPE's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

### 39 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of five Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently issue annual report on Bank's compliance following the review of the financial statements.

### 40 FAIR VALUE OF FINANCIAL ASSETS

The fair value of sovereign sukuk is BD 349,087 thousands (2017: BD 361,172 thousands) compared to carrying value of BD 354,215 thousands (2017: BD 357,778 thousands) and the fair value of corporate sukuk is BD 9,390 thousands (2017: BD 10,339 thousands) compared to carrying value of BD 9,222 thousands (2017: BD 10,419 thousands). The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2018 and 31 December 2017.

### 41 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Shari'a prohibited income totalling BD 297 thousands (2017: BD 397 thousands). These include income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions after deducting actual recovery expenses of these funds.

### 42 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 619 thousands (2017: 328 thousands) out of which BD 506 thousands (2017: BD 175 thousands) was paid from Sharia prohibited income pool.

### 43 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2018 has been determined by the Shari'a supervisory board as 2.4 fils (2017: 2.5 fils) per share.

## Notes To The Consolidated Financial Statements (continued)

**44 CAPITAL ADEQUACY**

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 maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years,

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	<b>2018</b> <b>BD '000</b>	<b>2017</b> <b>BD '000</b>
Common equity Tier 1 capital	<b>254,761</b>	253,469
Additional Tier 1 capital	<b>13</b>	9
Tier 2 capital	<b>35,558</b>	39,861
Total capital	<b>290,332</b>	293,339
Credit risk-weighted exposures	<b>1,303,753</b>	1,261,939
Market risk-weighted exposures	<b>2,306</b>	2,331
Operational risk-weighted exposures	<b>101,343</b>	104,310
Total risk-weighted assets	<b>1,407,402</b>	1,368,580
Total capital adequacy ratio	<b>20.63%</b>	21.43%
<b>Minimum requirement</b>	<b>12.5%</b>	12.5%

**45 DEPOSIT PROTECTION SCHEME**

Certain customers' deposits of the Bank are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Bank under this scheme.

**46 COMPARATIVE FIGURES**

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

# 6

---

**To ratify and approve the operations and transactions carried out during the year ended 31 December 2018 with any related parties or major shareholders of the Bank as presented in the notes (no. 31) of the consolidated audited financial statements.**



# 7

---

To approve the recommendations of the Board of Directors with respect to the following distributions of the net profit for the year ended 31 December 2018 (amounting to BD 18.5 million):

- a. Transfer of BD 1.850 million to statutory reserves.
  - b. Distribution of 7% dividends of the paid-up share capital, equating to BD 14.987 million for the year ended 31 December 2018 to be equally distributed in cash dividends and bonus shares as follows:
    - I. 3.5% cash dividends equating to BD 7.493 million excluding treasury shares as of the date of approval of the dividends by the Annual Ordinary General Assembly Meeting; and
    - II. 3.5% bonus shares equating to 74.932 million shares – i.e. (1 share for each 28.6 shares held) to the shareholders registered in the share register of the Bank as of date of approval of the dividends by the Annual Ordinary General Assembly Meeting.

All cash dividends shall be paid by no later than ten days from the date of the Annual Ordinary General Assembly Meeting.
  - c. Transfer of the remaining balance of BHD 1.662 million to reserves and retained earnings.
-





# 8

---

**Approve the Board of Directors remuneration in the aggregate amount of BD 595 thousand for the year ended 31 December 2018, subject to the necessary approvals of the regulatory bodies.**



# 9

---

**To receive the Board of Directors' report on the Bank's compliance with the Corporate Governance requirements.**

# CORPORATE GOVERNANCE

## Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the code.

## Shareholders

Major Shareholders as of 31 December 2018

Name	Country of origin	No. of shares	% Holding
Bank Muscat (S.O.A.G)	Oman	315,494,795	14.74
First Energy Bank B.S.C Closed	Bahrain	134,384,098	6.28
Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
Al Rushd Investments W.L.L.	UAE	105,000,000	4.9
Tasameem Real Estate Company L.L.C.	UAE	102,264,615	4.78
United International Representation of Companies L.L.C	UAE	77,450,000	3.62
Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.31
Securities and Investment Company B.S.C. (c)	Bahrain	65,976,177	3.08
Sayed Hussain Ali Alawy AlQatary	UAE	47,028,051	2.2
Alfateh Investment	Bahrain	40,687,500	1.9
Bond Investment Limited	UAE	38,300,000	1.79
Khaleefa Butti Bin Omair Bin Yousif Al Muhairi	UAE	38,000,000	1.77
Al Salam Bank - Bahrain B.S.C	Bahrain	37,737,634	1.76
Saeed Mohammed Butti Al Qubisi	UAE	26,551,784	1.24
Al Sueban Company	Bahrain	26,250,000	1.23

## Corporate Governance (continued)

## Shareholding – 31 December 2018

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	810,548,142	22,507	37.86
1% to less than 5%	751,730,336	15	35.11
5% to less than 10%	263,157,479	2	12.29
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
<b>Total</b>	<b>2,140,930,752</b>	<b>22,746</b>	<b>100.00</b>

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage*
Bahraini		
Government	-	-
Institutions	476,308,756	22.25
Individuals	159,020,045	7.43
GCC - Excluding Kingdom of Bahrain		
Government	-	-
Institutions	463,104,129	21.63
Individuals	893,789,677	41.75
Other		
Institutions	3,546,479	0.17
Individuals	145,161,666	6.78
<b>Total</b>	<b>2,140,930,752</b>	<b>100.00</b>

\* Percentages are rounded.

## Corporate Governance (continued)

### Board of Directors

The Board of Directors provides central leadership to the Bank, establishes the Bank's objectives and develops the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders including its customers, correspondents, employees, suppliers and the local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and its stakeholders. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior management and, its external advisors and auditors.



**Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi**  
Chairman

*Non-executive*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: more than 16 years*

Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, is the founder and Chairman of KBBO Group, a leading investment group with a diverse portfolio of interests operating in the UAE and spanning across the MENA, European, and US regions. The Group's investment portfolio and operational verticals include leading companies in the field of healthcare, education, retail, financial services and technology, amongst others.

Mr. Khaleefa Al Muhairi, is a recognised UAE business leader with over 16 years of experience in entrepreneurship and financial investments. He began his career at the Abu Dhabi National Oil Company (ADNOC), where he gained extensive experience in the field of finance. In 2006, as the co-founder of Brokerage House Securities LLC, he was appointed Chairman and CEO. He later went on to found One Financial Markets, an FCA-regulated brokerage firm in the United Kingdom that offers global presence with local expertise through its wholly owned and affiliate offices throughout the Middle East, Europe, South America and Central and South-East Asia. In addition to his role as Chairman of Al Salam Bank-Bahrain, Mr. Khaleefa Al Muhairi is also the Executive Vice Chairman of NMC Health, where he led its successful IPO and premium listing on the London Stock Exchange in 2012. Additional responsibilities include serving as the Chairman of Travelex Group Limited, Infinite Investment and First Energy Bank, he is also the Executive Vice Chairman of Centurion Investment.

Spending his early school years in the UK, he went on to complete his studies in the US, earning a degree in Finance from Suffolk University, Boston.

## Corporate Governance (continued)



### H. E. Shaikh Khalid bin Mustahail Al Mashani Vice Chairman

*Non-executive*

*Director since: 5 May 2014*

*Term started: 22 March 2018*

*Experience: more than 23 years*

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 23 years of in depth experience. He is the Chairman of the Board of Directors of Bank Muscat S.A.O.G., Director of Al Omaniya Financial Services Company, and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.

H.E. Shaikh Khalid has a BSc. in Economics, and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), from the University of London.



### Mr. Matar Mohamed Al Blooshi Board Member

*Non-executive*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: more than 22 years*

Mr. Matar Mohamed Al Blooshi has over 22 years of experience in the financial and fund management industries. Beginning his career in 1992 with the Central Bank of the United Arab Emirates as a Dealer in the Treasury department, he joined Abu Dhabi Investment Company as a Portfolio Manager in 1995. In 1998, he joined First Gulf Bank as the Head of Treasury & Investment, moving to National Bank of Abu Dhabi in 2001 as Head of Foreign Exchange and Commodities. In February 2005, Mr. Matar Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (a subsidiary of National Bank of Abu Dhabi) and was given the title of Senior Manager, Asset Management Group in October 2006. Mr. Matar Al Blooshi is Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of Al Salam Bank-Bahrain, First Energy Bank in Bahrain, Etisalat Misr and Chairman of Maalem Holdings in Bahrain.

Mr. Matar Al Blooshi holds a BA in Banking & Financial Management from University of Arkansas, US.

## Corporate Governance (continued)



### Mr. Hussein Mohammed Al Meeza

Board Member

*Independent*

*Director since: 20 March 2012*

*Term started: 22 March 2018*

*Experience: more than 43 years*

Mr. Hussein Mohammed Al Meeza is a respected and award-winning Banker with over 43 years of experience spanning the Islamic banking, finance and insurance sectors. His outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. His professional career began in 1975 at the Dubai Islamic Bank (DIB), where he spent 27 years developing the Bank's services. Mr. Hussein Al Meeza played a key role in the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. He is also the Chairman of Al Salam Bank-Seychelles, Chairman of Top Enterprises L.L.C., Chairman of Lycée Fraçais Jean Mermoz L.L.C., and Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria.

He was a founding member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Mr. Hussein Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the Executive Committee of Islamic Trading company in Bahrain, Board member and Chairman of the Executive Committee in Amlak Finance – Dubai and Chairman of Emaar Financial Services Dubai, Vice Chairman of Emirates Cooperative Society – Dubai. Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies. He was also a Board Member of Emirates Society for Insurance.

Mr. Hussein Al Meeza is a graduate of the Beirut Arab University and holds an MBA degree from La Jolla University, USA.



### Mr. Salim Abdullah Al Awadi

Board Member

*Independent*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: 30 years*

Mr. Salim Abdullah Al Awadi is the Deputy CEO of Al Omaniya Financial Services S.A.O.G., Oman. He is also a Director of Al Madina Investments S.A.O.G., Oman, Director of Dhofar Cattle Feed Company S.A.O.G., Oman, Director and Chairman of the Audit Committee in Tilal Development Company S.O.A.C., Chairman of Dhofar Poultry S.A.O.G., Oman and Director of Dhofar International Development & Investment Holding S.A.O.G., Oman. He is a member of the Banking & Finance Committee at the Chamber of Commerce, Oman.

Mr. Salim Al Awadi holds a Bachelor Degree in Business Administration, a Post Graduate Diploma in Accounting from Strathclyde University, UK and an MBA from Lincoln University, UK.



## Corporate Governance (continued)



### Mr. Alhur Mohammed Al Suwaidi

Board Member

*Independent*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: more than 15 years*

Mr. Alhur Mohammed Al Suwaidi is a well-rounded investment strategist with over 15 years of experience in investments, portfolio management at both listed and private equities. He currently serves as a Director in Al Salam Bank-Bahrain and a Portfolio manager in the Abu Dhabi Investment Authority (ADIA), UAE. Beginning his career in 2004, Mr. Alhur Al Suwaidi held senior positions at ADIA as a Fund manager and Investment manager. He also served in a number of Advisory Boards of General Partners and International Private Equity Firms that includes Leonard Green and Partners, The Blackstone Group, Carlyle Group, Apollo Global Management, Ares Management and Silver Lake Partners.

Mr. Alhur Al Suwaidi holds a Bachelor degree in Business Administration from Chapman University, California, USA.



### Mr. Khalid Salem Al Halyan

Board Member

*Independent*

*Director since: 24 February 2015*

*Term started: 22 March 2018*

*Experience: more than 33 years*

Mr. Khalid Salem Al Halyan is a business professional with over 33 years of senior level experience spanning a number of industries. Mr. Khalid Al Halyan is currently the group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit & Risk Assessment (GIARA) function at DACC. Mr. Khalid Al Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, and Advisor to the Amlak Real Estate Company.

Mr. Khalid Al Halyan holds an MBA degree from Bradford University in the UK, and a BBA from the UAE University, Al Ain.

## Corporate Governance (continued)



### Mr. Zayed Ali Al-Amin

Board Member

*Independent*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: more than 19 years*

Mr. Zayed Ali Al-Amin is a Bahraini Businessman with over 19 years of experience in the finance and investment sectors. Currently serving as Executive Director of Investments at A.R. Al-Amin Co., he is also a board member of various organizations including MIDAD Gulf Energy (MGE), Al Salam Bank-Bahrain, TOMATO Publicity and RAMAKAZA Logistics, and a former board member of Food Storage Co. (FSCO), KSA. Prior to his current responsibilities at Al-Amin Group, he worked for National Bank of Bahrain (NBB) and Towry Law International (Tilney).

Mr. Zayed Al-Amin holds an Associate of Art in Business Administration from Navarro College (NC) Texas, and a Post Graduate Degree in Finance and Investment from the London School of Business & Finance (LSBF). He has also attended many executive courses in management, finance and investment.



### Mr. Salman Saleh Al Mahmeed

Board Member

*Independent*

*Director since: 15 February 2010*

*Term started: 22 March 2018*

*Experience: more than 33 years*

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 33 years. He is the Chairman of Board's Audit Committee at Al Salam Bank- Bahrain, the Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and the Movenpick Hotel in Bahrain. Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, and the Investment Director of Magna Holdings.

Mr. Salman Al Mahmeed holds an MBA in Business Administration, a Masters in Hotel Management and a BSc in Management.

## Corporate Governance (continued)



**Mr. Khalid Shehab Eddin Madi**  
Board Member

*Independent*

*Director since: 22 March 2018*

*Term started: 22 March 2018*

*Experience: more than 20 years*

Mr. Khalid Shehab Madi brings over 20 years of extensive experience in all aspects of private, commercial and investment banking. He currently serves as a Director in Al Salam Bank-Bahrain and a Managing Director of Advanced Living Solutions, which was established in 2013. His professional career began with Merrill Lynch as a Senior Financial Consultant, where he spent 8 years. In 2002, Mr. Khalid Madi founded Infinity Investment Solutions, a successful financial advisory practice in the United Arab Emirates where he served as a Managing Partner. In 2005, he was one of the founding Board members and the CEO of Al Mal Capital, which was set up with three core business lines including brokerage services in Saudi Arabia, asset management in Bahrain, and proprietary trading globally with a focus on Asia.

Mr. Khalid Madi holds a Bachelor degree in Marketing & Finance from Questrom School of Business, Boston University.

### Board Composition

The Board consists of members who possess both the required skills and expertise to govern the Bank in a manner that would achieve the objectives of all stakeholders. Furthermore, in compliance with relevant regulations, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition, the contribution of Directors and the performance of its various Committees. The appointment of Directors is subject to prior screening by the Nomination and Corporate Governance Committee and the Board of Directors, as well as the approval of both the Shareholders and the Central Bank of Bahrain. The classification of “executive”, “non-executive” and “independent” directors is as per the definitions stipulated in the Central Bank of Bahrain Rulebook.

Each Director is elected for a three year term, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. Board Meeting attendance is as per the regulations stipulated in the Central Bank of Bahrain Rulebook.

### Mandate of the Board of Directors and Directors’ Roles and Responsibilities

The principal role of the Board is to oversee the implementation of the Bank’s strategic initiatives in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated the responsibility of the day-to-day management of the Bank to the Chief Executive Officer (“CEO”).

## Corporate Governance (continued)

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes:

- Reviewing the strategic plan of the Bank;
- Performance reviews of the Senior Management (all approved persons);
- Performance assessment of the Board, Board Sub-Committees and the Shari'a Supervisory Board;
- Approving material acquisition and disposal of assets;
- Approving capital expenditure;
- Approving authority levels;
- Appointing auditors and, reviewing the financial statements and financing activities;
- Reviewing the Corporate Governance Report
- Approving the annual operating plan and budget;
- Ensuring regulatory compliance through its various committees;
- Reviewing the adequacy and integrity of the internal controls; and
- Approving all policies pertaining to the Bank's operations and functioning.

### Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The company shall be administered by a Board of Directors consisting of not less than five (5) members elected by the shareholders by means of cumulative voting by secret ballot and in accordance with the provisions of the Commercial Companies Law, after obtaining the approval of the Central Bank of Bahrain for their appointment. Members of the Board of Directors shall be appointed or elected to serve for a term not exceeding three (3) years renewable. A cumulative vote shall mean that each shareholder shall have a number of votes equal to the number of shares he owns in the Company, and shall have the right to vote for one candidate or to distribute them among his chosen candidates.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to votes shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.
3. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him. The Ministry of the Industry, Commerce and Tourism and the Central Bank of Bahrain shall be provided with a copy of the resolution electing the Chairman and the Deputy Chairman.

Article 29 of the Bank's Articles of Association covers the "Termination of Membership in the Board of Directors". Which states the following:

A Director shall lose his office on the Board in the event that he:

- a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
- b. Resigns his office by virtue of a written request;
- c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
- d. Is elected or appointed contrary to the provisions of the Law; and

## Corporate Governance (continued)

- e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.
- f. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law
- g. If he declares bankruptcy
- h. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with this Article 44 ; or
- i. If the Central Bank of Bahrain considers him not eligible for the position.

### Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31st December 2018, they have met all the conditions required by the various regulatory authorities to be considered independent.

In 2018, the members of the Board were:

Non-executive Members	
Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi	Chairman
H.E. Shaikh Khalid bin Mustahail Al Mashani	Vice Chairman
Mr. Matar Mohamed Al Blooshi	Board Member
Independent Members	
Mr. Hussain Mohammed Al Meeza	Board Member
Mr. Salim Abdullah Al Awadi	Board Member
Mr. Alhur Mohammed Al Suwaidi	Board Member
Mr. Khalid Salem Al Halyan	Board Member
Mr. Zayed Ali Al-Amin	Board Member
Mr. Salman Saleh Al Mahmeed	Board Member
Mr. Khalid Shehab Eddin Madi	Board Member
H.H Shaikha Hessa Bint Khalifa Al Khalifa	Chairman*
Mr. Essam Bin Abdulkadir Al Muhaidib	Board Member**
Mr. Sulaiman Bin Mohammed Al Yahyai	Board Member***
Mr. Hisham Saleh Al Saie	Board Member****
Mr. Mohammed Shukri Ghanem	Board Member*****

All current Directors were elected for a three-year term on 22 March 2018.

\* Her. Highness Shaikha Hessa Al Khalifa did not participate in the 2018 AGM Director elections and hence Her Highness is no longer a Board member since 22 March 2018.

\*\* Mr. Essam Al Muhaidib did not participate in the 2018 AGM Director elections and hence Mr. Essam is no longer a Board member since 22 March 2018.

\*\*\* Mr. Sulaiman Al Yahyai has resigned since 13 February 2018.

\*\*\*\* Mr. Hisham Al Saie did not participate in the 2018 AGM Director elections and hence Mr. Hisham is no longer a Board member since 22 March 2018

\*\*\*\*\* Mr. Mohammed Shukri Ghanem did not participate in the 2018 AGM Director elections and hence Mr. Mohammed is no longer a Board member since 22 March 2018

## Corporate Governance (continued)

### The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2018 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

### Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the abstention from voting relating to conflict of interest is made available to shareholders upon their request.

### Induction and Orientation for New Directors

When new Directors are appointed, they shall be provided with an appointment letter and the Directors' Handbook containing information relevant to the performance of their duties as members of the Board. The Handbook includes the Corporate Governance Guidelines, Charters of the Board and Committees, key policies, etc. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

### Code of Conduct

The Board has an approved Code of Conduct for Directors, as follows:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

## Corporate Governance (continued)

### Evaluation of Board Performance

The Board has adopted a 'Performance Assessment Framework' designed to provide Directors with an opportunity to assess their performance on an annual basis. The self-assessment consists of three categories, such as:

- Assessment of the Board as a unit;
- Assessment of the Committee as a unit; and
- Self-assessment of individual Directors.

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting. The directors self-assessment results were either above expectation or satisfactory in most areas.

### Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the regulatory authorities.

The Board, based upon the recommendation of the Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director compensation subject to final approval of the shareholders' at the Annual General Meeting. The Remuneration Committee shall conduct an annual review of Directors' compensation.

As per the Directors Remuneration Policy approved by the Shareholders, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attended during the year.

The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Meeting.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as Directors and Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit and Risk Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

## Corporate Governance (continued)

### Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2018, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2018 Annual General Meeting. The details of the Board meetings held during 2018 are as follows:

#### Board Meetings in 2018 - Minimum Four Meetings Per Annum

Members	13 Feb	22 Mar*	13 May	4 Oct	5 Dec
Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi	N/A	√	√	√	√
H.E. Shaikh Khalid bin Mustahail Al Mashani	√	√	√	√	√
Mr. Alhur Mohammed Al Suwaidi	N/A	-	√	√	√
Mr. Husein Mohamed Al Meeza	√	√	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	-	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√
Mr. Matar Mohamed Al Blooshi	N/A	-	√	√	√
Mr. Salim Abdullah Al Awadi	N/A	√	√	√	√
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√
Mr. Zayed Ali Al Amin	N/A	√	√	√	√
H.H. Shaikha Hessa bint Khalifa Al Khalifa**	√	N/A	N/A	N/A	
Mr. Essam Abdulkadir Al Muhaidib**	√	N/A	N/A	N/A	N/A
Mr. Sulaiman Mohammed Al Yahyai**	-	N/A	N/A	N/A	N/A
Mr. Mohamed Shukri Ghanem**	-	N/A	N/A	N/A	N/A
Mr. Hisham Saleh Al Saie**	√	N/A	N/A	N/A	N/A

\*The second Board meeting was held immediately following the AGM and there was no official invitation for it.

\*\*Director in the previous Board term.



## Corporate Governance (continued)

### Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of shares	
	2018	2017
Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi	168,392,817*	22,000,000
H.E. Shaikh Khalid bin Mustahail Al Mashani	0	0
Mr. Matar Mohamed Al Blooshi	0	0
Mr. Hussain Al-Meeza	462,819	462,819
Mr. Salim Abdullah Al Awadi	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0
Mr. Khalid Salem Al Halyan	10,000	10,000
Mr. Zayed Ali Al-Amin	100,000	100,000
Mr. Salman Saleh Al Mahmeed	100,000	100,000
Mr. Khalid Shehab Madi	0	0

\* Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi's shareholding consists of his personal shareholding and accounts under his guardianship.

### Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 31 - related party transaction.

### Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

### Material Contracts and Financing Involving Directors and Senior Management During 2018

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material contracts and financing facilities involving directors and senior management are as follows:

- BD 16.32 Million, which constitute financing extended to and Sukuk purchased from N.M.C Health Care L.L.C a public company which is related to a Director.
- BD 2.6 Million financing provided to Ali Rashid Al Amin Co., which is related to a Director.
- BD 150 thousand financing provided to Maalem Holding B.S.C which is related to a Director.
- Financing Facilities provided to certain Directors of the Board with a total amount of BD 122 thousand.
- Financing Facilities provided to senior management with a total amount of BD 409.7 thousand.

## Corporate Governance (continued)

All related party transactions are disclosed in note 31 of the consolidated financial statements for the year ending 31 December 2018.

### Directorships held by Directors on Other Boards

The High Level Controls Module of the Central Bank of Bahrain Rulebook provides that no Director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement and are approved by the Central Bank of Bahrain.

### Board Committees

Consistent with the industry's best practice, the Board has established four Committees with defined roles and responsibilities. The Standing Committees of the Board are Executive Committee, Audit and Risk Committee, Remuneration Committee and, Nomination and Corporate Governance Committee.

Certain information relating to the work of certain Board Committees during the year 2018, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

### Executive Committee

The Committee operates under the delegated authority of the Board and provides direction to the executive management on business matters, as delegated by the Board, to address matters arising between the Board meetings. The Committee is responsible for reviewing business matters concerning credit and market risks, strategy review and providing recommendation to the Board.

### Committee Meetings in 2018 - Minimum four meetings per annum.

Four Committee meetings were held during 2018 as follows:

Members	5 Feb	17 Apr	4 Oct	11 Nov
Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi (Chairman)	N/A	√	√	√
Mr. Alhur Mohammed Al Suwaidi	N/A	√	√	√
Mr. Salim Abdullah Al Awadi	N/A	√	√	√
Mr. Zayed Ali Al Amin	N/A	√	√	√
Mr. Hussein Mohamed Al Meeza *	√	N/A	N/A	N/A
Mr. Essam Abdulkadir Al Muhaidib*	√	N/A	N/A	N/A
Mr. Mohamed Shukri Ghanem*	√	N/A	N/A	N/A
Mr. Yousif Abdulla Taqi*	√	N/A	N/A	N/A

\*Member of the Committee during the previous term.

## Corporate Governance (continued)

### Audit and Risk Committee

The Committee's responsibility is to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also acts as a liaison between the external auditor, internal auditor and the Board. The Committee is also charged with the responsibility of handling whistleblowing complaints and monitoring related party transactions.

### Committee Meetings in 2018 - Minimum four meetings per annum.

Four Committee meetings were held during 2018 as follows:

Members	30 Jan	7 May	1 Oct	1 Nov
Mr. Salman Saleh Al Mahmeed (Chairman)	√	√	√	√
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√
Mr. Matar Mohamed Al Blooshi	N/A	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	√	√	√
Mr. Khalid Salim Al Halyan	√	N/A	√	√
Mr. Zayed Ali Al Amin	N/A	√	N/A	N/A

*Note: Mr. Khalid AlHalyan joined Audit Committee as a member on Jun 2018 replacing Mr. Zayed Al Amin.*

### Remuneration Committee

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, Group Chief Executive Officer and Senior Management (approved persons and material risk takers); ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employee. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives to attract, motivate and retain key employees

### Committee Meetings in 2018 - Minimum two meetings per annum.

Three meetings were convened during 2018:

Members	12 Feb	28 Mar	1 Oct
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)*	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	√	√
H.H. Shaikha Hessa bint Khalifa Al Khalifa**	√	N/A	N/A
Mr. Hisham Saleh Al Saie**	√	N/A	N/A

\* Attended the meeting

\*\* Member of the Committee during the previous term.

## Corporate Governance (continued)

### Nomination and Corporate Governance Committee

The Committee's role is to evaluate and nominate candidates to the Board, as well as facilitate the assessment of the performance of the Board, Committees and individual Directors. In addition, the Committee is responsible to ensure that Directors receive adequate training during the year so as to be able to perform their duties on the Board and the Committees they serve on. The Committee is also charged with the responsibility of ensuring that the Corporate Governance Framework of the Bank is adequate and in compliance with the prevailing regulations. The Committee liaises with the Bank's Corporate Governance Officer to manage the governance related activities.

### Committee Meetings in 2018 - Minimum two meetings per annum.

#### Three meetings were convened during 2018:

Members	12 Feb*	28 Mar*	3 Oct
Mr. Salim Abdullah Al Awadi (Chairman)	N/A	N/A	✓
Mr. Hussein Mohamed Al Meeza	N/A	N/A	✓
Mr. Matar Mohamed Al Blooshi	N/A	N/A	✓
H.E. Shaikh Khalid bin Mustahail Al Mashani	✓	✓	N/A
Mr. Khalid Salim Al Halyan**	✓	✓	N/A
Mr. Khaled Shehabeddin Madi**	N/A	✓	N/A
H.H. Shaikha Hessa bint Khalifa Al Khalifa***	✓	N/A	N/A
Mr. Hisham Saleh Al Saie***	✓	N/A	N/A

\*RC & NCG were combined in one committee

\*\*Members of the combined committee

\*\*\* Member of the Committee during the previous term.

Note. H.E. Shaikh Khalid Al Mashani attended the meeting

### SHARI'A SUPERVISORY BOARD

The Bank is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Shari'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a. Further, the Shari'a Supervisory Board shall review and vet the screening criteria for charitable donations/sponsorships as well as the sponsorship contracts.

The Shari'a Supervisory Board shall also ensure that an internal Shari'a audit function is in place and is adequately performing their duties as stipulated in the Shari'a Governance Module and AAQIFI Standards.

In addition, one designated member from the Shari'a Supervisory Board shall form part of the Nomination and Corporate Governance Committee to ensure that the corporate governance related matters are in compliance with the Islamic Shari'a rules and guidelines.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

## Corporate Governance (continued)

### Shaikh Adnan Abdulla Al Qattan

Chairman

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at AL-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

### Dr. Mohamed Abdulhakim Zoair

Vice Chairman

Dr. Mohamed Zoair holds PhD in Islamic Economy; Master's degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years of experience with Egypt Central Bank. Dr. Zoair was also the Head of Shari'a compliance in Dubai Islamic Bank.

### Dr. Fareed Yaqoob Almeftah

Member

Dr. Fareed Almeftah is the Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain, member of the Supreme Council of Islamic Affairs and a former judge of the high Shari'a Court. Dr. Fareed is the Chairman of the Shari'a Supervisory Board of Khaleeji Commercial Bank (KHCB) and a former Lecturer at the University of Bahrain and wrote a lot of research papers. Dr. Fareed holds PhD in Islamic Philosophy from University of Edinburgh – United Kingdom.

### Dr. Azzeddine Ben Zaghiba

Member

Dr. Azzeddine Ben Zaghiba holds a PhD in Finance and a Doctorate of third phase in the purposes of Al Shari'a and a Bachelor of Jurisprudence in the Principles of Jurisprudence. Chairman of the Fatwa and Shari'a Supervisory Board of Al Salam Bank Algeria. Member of several bodies and Head of Studies, Publication and Foreign Affairs in Juma Al Majid Center for 20 years. He has published more than 20 research papers and two books in Purposes of Al Shari'a and more than 115 published articles and more than 10 TV shows in Islamic finance.

### Dr. Muhammad Qaseem

Member

Dr. Muhammad Qaseem is a well-known Shari'a scholar, trainer and speaker in international conferences on Islamic banking. He is sitting on the Shari'a boards of many Islamic banks and financial institutions in different parts of the world, such as Dubai Islamic Bank, UAE, Deutsche Bank Islamic Banking, Malaysia, as well as some real estate developers and Islamic finance companies. He is presently the Chairman of the Shari'a Board of Emaan Islamic Banking of Silk Bank Ltd in Pakistan. He is also a member of the Review Committee of AAOIFI for the Shari'a Standard translation. He has also been a Shari'a Board member of the State Bank of Pakistan, Dubai Financial Market, ADCB Islamic Banking, RAK-Bank Islamic Banking, National Bond Corporation, UAE. Dr. Qaseem has a PhD in Islamic Studies from International Islamic University of Islamabad, and has taught graduate and post-graduate classes for more than 2 decades.

## Corporate Governance (continued)

### ANNUAL GENERAL MEETING

The Board of Directors report to the Shareholders on the performance of the Bank through the Annual General Meeting. The meeting shall be convened upon an invitation from the Chairman of Board, and be convened during the three months following the end of the Bank's financial year.

All the Directors, especially the Chairs of the Board and Committees, at least one member of the Shari'a Supervisory Board and the external auditors shall be present at this meeting to answer questions from the Shareholder regarding matters within their responsibilities.

At a minimum, the Board shall report on the following to the Shareholders, for their approval, at the Annual General Meeting:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate governance report;
- Corporate social responsibility report;
- Performance assessment of the Board, Committees and individual Directors; and
- Remuneration for the Directors and the Shari'a Supervisory Board members.

### EXECUTIVE MANAGEMENT

The Board delegates the authority of managing the Bank to the Chief Executive Officer ("CEO"). The CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.



**Mr. Rafik Nayed**  
Chief Executive Officer

*Experience: more than 26 years*

Mr. Rafik Nayed is a seasoned banker with over 26 years of experience. He joined Al Salam Bank-Bahrain from Deutsche Bank where he was the Vice Chairman of the MENA region, Chief Country Officer for the UAE and Senior Executive Officer of Deutsche Bank AG Dubai (DIFC). Before joining Deutsche Bank, Mr. Rafik Nayed was the Chief Executive Officer of the Libyan Investment Authority and prior to that worked for many years in the oil and gas and financial services industries in a variety of international senior positions.

## Corporate Governance (continued)



### Mr. Anwar Mohammed Murad

Deputy CEO

*Experience: more than 25 years*

Mr. Anwar Murad is a proficient Banker with over 25 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Mr. Anwar served as the Executive Vice President - Head of Private Banking at Al Salam Bank-Bahrain since May 2006. Previous to joining Al Salam Bank-Bahrain, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank – Bahrain. Mr. Anwar has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.



### Mr. Eihab Abdellatif Ahmed

Chief Legal Officer, Corporate Secretary and Advisor to the Chairman

*Experience: more than 22 years*

Mr. Eihab Ahmed has a wide range of professional experience that spans over 22 years covering all major legal disciplines including but not limited to Investment Banking, Corporate Banking and Criminal, Labour, Public and Private International Laws. Prior to joining Al Salam Bank, he was the General Counsel - Corporate Secretary & Money Laundering Reporting Officer (MLRO) Legal & Compliance of First Energy Bank - Bahrain. He was the focal point of communication between the Board of Directors and Senior Management as well as between the Bank and its Shareholders, providing advisory and guidance on Corporate Governance principles and practices. Mr. Eihab had worked at the International Investment Bank - Bahrain (IIB) as Head of Legal and Compliance, MLRO and for Khaleej Finance & Investment as the Head of Legal, MLRO and Corporate Secretary. He also worked for a number of reputed firms in the Kingdom of Bahrain. Before coming to Bahrain 15 years ago, he served the Ministry of Justice, Sudan as a Legal Counsel.

Mr. Eihab holds L.L.B degree from the Faculty of Law - University of Khartoum, Sudan. In January 2017, he obtained his International Diploma in Governance, Risk and Compliance from the ICTA and University of Manchester, UK. He also holds the Sudanese Bar certificate from Sudan and he is a registered member of the Sudanese Advocates Association as a Proper Advocate before various Courts of Law. Mr. Eihab is a Certified Compliance Officer (CCO) from the American Academy of Financial Management - Dubai, UAE. In 2014, Mr. Eihab was awarded the GCC MLRO of the year.

## Corporate Governance (continued)



### Mr. Yousif Ahmed Ebrahim

Chief Financial Officer

*Experience: more than 25 years*

Mr. Yousif Ebrahim is a proficient banker with over 25 years of experience in the areas of finance and audit. He is primarily responsible for directing and overseeing the financial and fiscal management of the Bank and its subsidiaries that includes contributing to the Bank's strategy planning, leading and directing the budget process, maintaining appropriate accounting framework and establishing effective system of cost management and internal control. Prior to joining Al Salam Bank, he served as the Chief Financial Officer at First Energy Bank for more than 9 years. He also worked at Gulf International Bank as a Vice President of Internal Audit and he was also in the Audit & Business Assurance services at PricewaterhouseCoopers.

Mr. Yousif is a Certified Public Accountant (USA) and a member of the American Institute of Certified Public Accountant.



### Mr. Abdulkarim Turki

Chief Operating Officer

*Experience: more than 38 years*

Mr. Abdulkarim Turki is a well-rounded banker with more than 38 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Abdulkarim worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank-Bahrain in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Abdulkarim was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Abdulkarim holds an MBA in Investment & Finance from the University of Hull, UK.



**Corporate Governance (continued)****Mr. Ahmed Abdulla Saif**

Head of Strategy

*Experience: more than 12 years*

Mr. Ahmed Saif brings over a decade of experience in the banking sector. Prior to joining Al Salam Bank-Bahrain in 2008 as an Associate in the Investment Team, Mr. Ahmed worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Ahmed sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

**Mr. Hussain Abdulhaq**

Head of Treasury and Capital Markets

*Experience: more than 18 years*

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 18 years banking career as a treasury specialist has been very focused on Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Hussain joined Al Salam Bank-Bahrain in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, he was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Hussain holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).

**Corporate Governance (continued)****Mr. Ahmed Jasim Murad**

Head of Corporate Banking

*Experience: more than 22 years*

Mr. Ahmed Murad brings over 22 years of experience in the banking sector covering areas that include Retail, Commercial and Corporate Banking. Prior to joining Al Salam Bank-Bahrain BSC, he served as Head of Corporate Banking and also a member of the Credit Committee at National Bank of Bahrain BSC. Mr. Ahmed holds a Bachelor degree in Business Marketing from St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies from University of Bahrain, and Executive Diploma from University of Virginia, USA. Moreover, he attended number of banking training courses inside the Kingdom of Bahrain and abroad.

**Mr. Ali Habib Qassim**

Head of Private Banking

*Experience: more than 19 years*

Mr. Ali Habib Qassim is a banking expert with more than 19 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, Mr. Ali marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston. USA.

**Corporate Governance (continued)****Mr. Mohammed Yaqoob Buhijji**

Head of Retail Banking

*Experience: more than 15 years*

Mr. Mohammed Buhijji brings to the Bank more than 15 years of consultancy and banking experience. He joined Al Salam Bank-Bahrain in 2006 when he set up the Internal Audit division and various departmental policies and procedures during the Bank's establishment. In 2009, he moved to the Bank's Retail Banking division where he supported the development of products, services, the core banking system and Retail Banking policies. He also played an essential role in the integration and conversion phases of the Bank's acquisition of the Bahraini Saudi Bank and BMI Bank; serving as a member in the Integration Steering Committee and various other management committees including IT Steering Committee and Information Security Steering Committee. Prior to joining Al Salam Bank-Bahrain, he worked with Ernst & Young in the Business Risk Services division, where he was responsible for managing the audit and consultancy services for major financial institutions and governmental bodies. He holds an MBA degree from the University of Strathclyde Business School, Glasgow and a Bachelor degree in Accounting. He has also completed Executive Management Programs in Harvard Business School in USA and Ivey Business School in Canada.

**Mr. Sadiq Al Shaikh**

Head of International Transaction Banking

*Experience: more than 21 years*

Mr. Sadiq Al Shaikh is a professional banker with over 21 years of experience in both Wholesale and Retail Banks in the Kingdom of Bahrain. Mr. Sadiq managed global markets with a focus on the GCC, MENA region, East Africa, South Asia and CIS region, where he develops Financial Institutions Group (FIG) products and structured finance. These include bilateral and syndication, correspondent and transaction banking, global trade finance instruments, export credit insurance covers and credit review of credit limits for countries and banks. Prior to joining Al Salam Bank-Bahrain in 2014, he was the Head of FIG & International banking at BMI Bank for 10 years, and held various senior positions for 7 years at the Arab Investment Company in Operations, Risk Management and the International Banking Division, covering Financial Institutions and Corporate products in overseas markets. Mr. Sadiq holds a Bachelor degree in Business Management majoring in finance and marketing from Bangalore University.

## Corporate Governance (continued)



### Mr. Krishnan Hariharan

Chief Risk Officer

*Experience: more than 34 years*

Mr. Krishnan Hariharan is a versatile Banker with over three decades of experience in conventional and Islamic banks in the region and India. Prior to joining Al Salam Bank – Bahrain in 2019 he worked with Ithmaar Bank, Bahrain as Chief Risk Officer. Before joining Ithmaar Bank, he was part of the founding team of Alizz Islamic Bank, Sultanate of Oman. He holds twin Bachelor degrees one in Commerce and the other in Economics from Universities in India, he also holds a Master degree in Financial Management from Jamanalal Bajaj Institute of Management Studies, Mumbai – India.



### Mr. Essa Abdulla Bohijji

Chief Auditor

*Experience: more than 18 years*

Mr. Essa Bohijji has more than 18 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank-Bahrain, Mr. Essa was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Essa currently serves as a Board and Audit Committee member of Al Salam Bank-Algeria and a non-executive Audit Committee member in Manara Developments B.S.C. (c) and served as a Board member of BMI Bank and an interim Board member in BMIO Bank in Seychelles. Mr. Essa was also on the Board and Audit Committee Member for the Bahraini Saudi Bank in 2009 prior to its full merger with Al Salam Bank Bahrain in late 2012. Mr. Essa is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.

**Corporate Governance (continued)****Ms. Muna Al Balooshi**

Head of Human Resources and Administration

*Experience: more than 20 years*

Ms. Muna Al Balooshi is a practiced HR professional with over 20 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank-Bahrain in 2006, Ms. Muna was the Head of Human Resources at the Court of HRH the Crown Prince and previous to this served in the HR department of KPMG. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.

**Mr. Qassim Taqawi**

General Counsel

*Experience: more than 15 years*

Mr. Qassim Taqawi is a skilled legal counsel with over 15 years of experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Qassim has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank-Bahrain, Mr. Qassim held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as Group Head of Legal, Mr. Qassim is a member of the Bank's Investment Committee and Remedial Committee. Mr. Qassim holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

**Corporate Governance (continued)****Dr. Mohammed Burhan Arbouna**

Head of Shari'a Compliance

*Experience: more than 21 years*

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 21 years of Islamic banking experience. Prior to joining Al Salam Bank-Bahrain, Dr. Mohammed was the Shari'a Head and Shari'a Board member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Mohammed was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.

**Mr. Ali Al Khaja**

Head of Compliance and MLRO

*Experience: more than 10 years*

Mr. Ali Al Khaja brings more than 10 years of Compliance experience to the Bank. Prior to joining Al Salam Bank-Bahrain, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Bank's in the Kingdom of Bahrain. Mr. Ali holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).

## Corporate Governance (continued)



### Shaikh Ahmed Abdulrahim Al Mahmood

Acting Head of Internal Shari'a Audit

*Experience: more than 12 years*

Shaikh Ahmed Al Mahmood has over 12 years of professional experience in the field of Shari'a supervision and auditing in Islamic financial institution. Prior to joining Al Salam Bank-Bahrain, he established the Shari'a department in BMI Bank and GBCORP in addition to joining the Shari'a department of Abu Dhabi Islamic Bank (ADIB). He also played an essential role in the integration and conversion phases of the Bank's acquisition of BMI Bank; serving as a member in the Conversion Committee.

He holds an MBA degree in Islamic Finance from University of Bolton - UK, and he is currently preparing a PhD at the same university. In addition to BA in Islamic Studies from University of Bahrain. He holds various professional qualifications that includes Certified Shari'a Advisor and Auditor (CSAA) from AAOIFI along with Advanced Diploma in Islamic commercial Jurisprudence (ADICJ) from BIBF. He also provided several training workshops on the principles of Islamic banking and wrote a lot of researches and published articles about Islamic banking & products.

### Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

Members	Shares	
	2018	2017
Dr. Mohammed Arbouna	336	336
Mr. Essa Bohijji	118,995	118,995
<b>Total</b>	<b>119,331</b>	<b>119,331</b>

### Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

## Corporate Governance (continued)

Committee	Roles and responsibilities
<b>Management Executive Committee</b>	Overseeing the other Management committees and assisting the CEO in various issues or topics as and when required.
<b>Credit / Risk Committee</b>	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
<b>Asset Liability Committee</b>	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
<b>Investment Committee</b>	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
<b>Technology Steering Committee</b>	The Committee oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
<b>Remedial Committee</b>	The role of the committee is to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank.
<b>Human Resources Committee</b>	The role of the committee is to enable the bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance.
<b>Information Security Committee</b>	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The role of the Committee is to strengthen the Information Security Department's capabilities as well.
<b>Social Responsibility Committee</b>	<p>This Committee oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year.</p> <p>The social causes that are supported by the Bank are:</p> <ul style="list-style-type: none"> <li>• Medical assistance;</li> <li>• Care for the less fortunate; and</li> <li>• Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.</li> </ul>



## Corporate Governance (continued)

### Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance Audit for the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee.

## COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance its Compliance and Anti Money Laundering systems. The Bank has recently automated the AML monitoring process through a well-known system.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's Rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. The Bank complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

## REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Meeting held on 22 March 2018, the shareholders approved the appointment of KPMG as external auditors for the year ending 31 December 2018 and authorized the Board of Directors to determine their remuneration.

## INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process. Every employee of the Bank participates in the internal control process and contributes effectively by identifying risks at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

## KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee. The latest Key Persons' Policy is posted on the Bank's website.

## Corporate Governance (continued)

### EMPLOYEE RELATIONS

Al Salam Bank-Bahrain is committed to promoting a diverse and inclusive environment, and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being an equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree. Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so will subject the employee to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

### COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall communication goals, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications. The Bank's formal communication material is provided in both Arabic and English languages.

The annual reports and quarterly financial statements and Corporate Governance reports are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

### WHISTLE BLOWING POLICY

This Policy details the procedures for a whistleblower to escalate a complaint to the designated authority and procedures that are to be followed by the Audit and Risk Committee to ensure that a valid whistleblowing complaint is investigated properly and action taken appropriately, while protecting the whistleblower from any adverse reaction due to their complaint.

### DELEGATION OF AUTHORITY LIMITS

Approving limits for the Board, Board Committees and other designated individuals are incorporated into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

### DISCLOSURES

The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

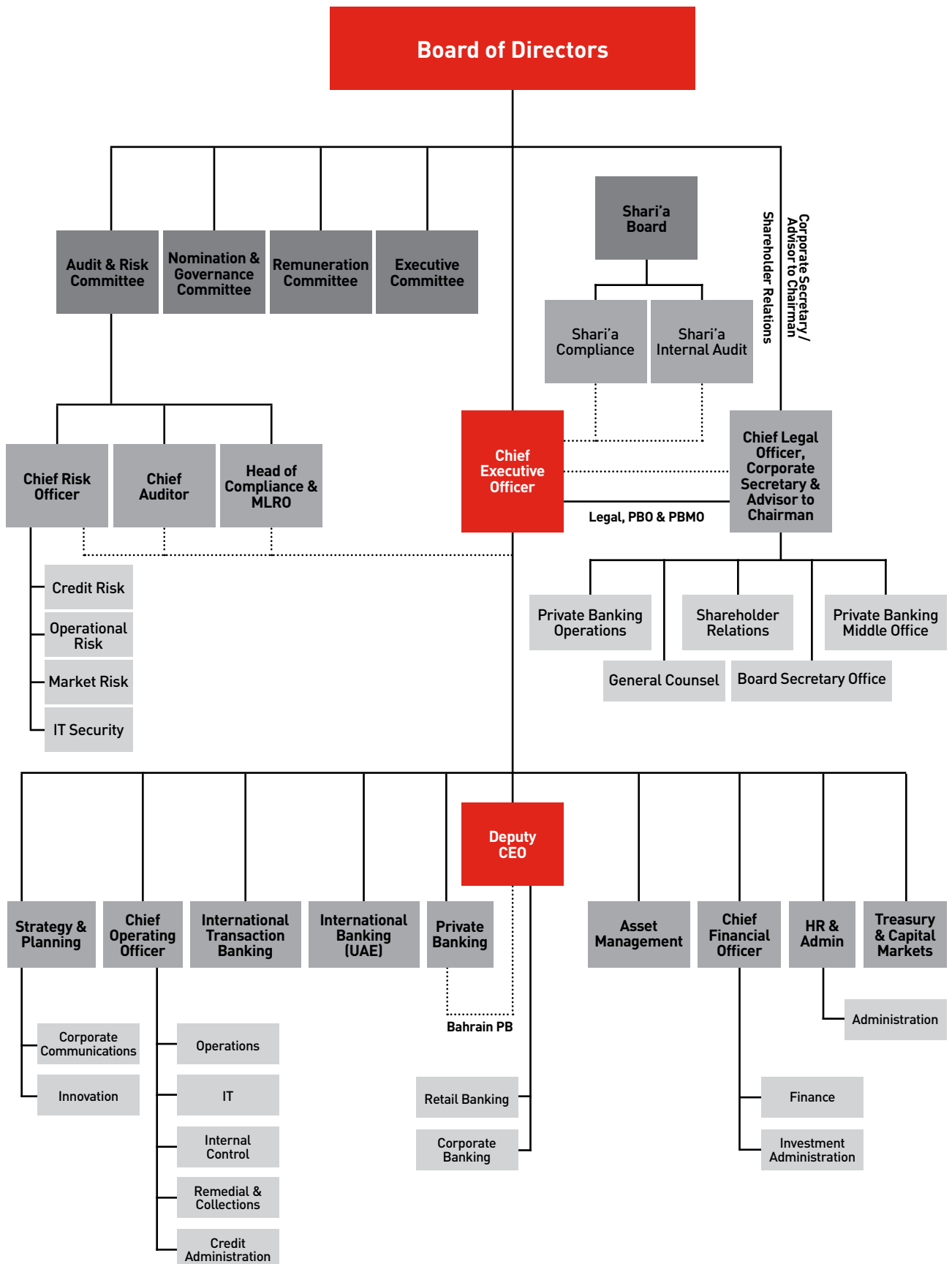
## Corporate Governance (continued)

## HC comply or Explain:

Sr	Rule	Non Compliance	Current Situation
1	HC-1.3.7- "To meet its obligations under Rule HC-1.3.3 above, the full Board should meet once every quarter to ....."	The Board did not meet every quarter.	The Board has met more than 4 times in 2018 (minimum is 4 times as per the AOA) which allowed it to effectively discharge its responsibilities.
2	HC-1.4.6- The Chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	The Chairman is not an independent Director	Given the Chairman's vast experience and business acumen, the board has seen fit to appoint him as the Chairman. The Current structure is approved by the Central Bank of Bahrain as well and the Chairman abides by the Corporate Governance code and insures all shareholders interests are met.
3	HC-5.3.2 (Remuneration Committee) -The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognises that the remuneration committee must exercise judgment free from personal career conflicts of interest.	Chairman is Non-Executive Director.	Given the remuneration committee's Chairman banking background and experience, the Board has seen fit to appoint him as the chairman of the remuneration committee. The Current structure is approved by the Central Bank of Bahrain as well and The Chairman abides by the Corporate Governance code and insures all the committees' responsibilities as per the charter are met.
4	HC-2.4.1A- The Chief Executive/ General Manager of the Bahraini Islamic bank licensees must disclose to the board of directors on an annual basis those individuals who are occupying controlled functions and who are relatives of any approved persons within the Bahraini Islamic bank licensee.	Although internally this is documented, this information is not shared to the Board.	This information was shared with the Board in its meeting held in 25 February 2019. It will be shared annually going forward.
5	HC-1.4.9-The Board should review the independence of each Director at least annually in light of interests disclosed by them, and their conduct. Each independent Director shall provide the Board with all necessary and updated information for this purpose.	A Director has missed declaring a company he owns in his annual declarations.	The Director has filled a new form and Submitted it to the Board secretary to be processed as per policy.

Corporate Governance (continued)

ORGANIZATIONAL STRUCTURE



# AGREED-UPON PROCEDURES REPORT ON RELATED PARTY TRANSACTION



KPMG Fakhro Audit  
12th Floor, Fakhro Tower  
P.O. Box 710, Manama  
Kingdom of Bahrain

Tel: +973 17 224807  
Fax: +973 17 227443  
www.kpmg.com/bh  
C.R. No. 6220

The Board of Directors  
Al Salam Bank-Bahrain B.S.C.  
P.O. Box 18282  
Manama  
Kingdom of Bahrain

We have performed the procedures enumerated below on the Related Party Transactions of Al Salam Bank-Bahrain B.S.C. (the "Bank") as described in note 31 to the audited consolidated financial statements for the year ended 31 December 2018, (the "Note") in accordance with the requirement of Article 189 of the Commercial Companies Law (the "Law").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements 4400. The procedures were performed solely for the purpose of agreeing the related party transactions and balances included in the Note to the Bank's accounting records and board of directors' approval.

The procedures and related findings are set out below:

1. We obtained the audited consolidated financial statements for the year ended 31 December 2018 and agreed the amount of the transactions, nature of the transactions, nature of the related party relationship, and outstanding balances included in the Note to the Bank's accounting records; and
2. We traced the related party transactions and related outstanding balances included in the Note to the Board of Directors' approvals.

**We report out findings below:**

- a. With respect to procedure 1, no exceptions were noted. Details of related party transactions for the year ended and as at 31 December 2018 described in the Note agrees to the Bank's accounting records; and
- b. With respect to procedure 2, no exceptions were noted.

Because these procedures do not constitute either an audit or a review made in accordance with the International Standards on Auditing or International Standards on Review Engagements, we do not express any audit or review assurance on the Bank's compliance with the Law. Had we performed additional procedures or had we performed an audit or review in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

**Agreed-Upon Procedures Report On Related Party Transaction (continued)**

Our report is solely for the purpose set forth in the second paragraph of this report and is only for the information of the Bank. This report should not be used for any other purpose or be distributed in whole or in part to any other parties. This report relates only to the related party transactions described in the Note and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of the consolidated financial statements of the Bank.

A handwritten signature in black ink, appearing to read 'KPMG' with a stylized flourish on the left and a horizontal line underneath.

KPMG Fakhro

Partner registration number 137

11 March 2019

# 10

---

To absolve the Directors of the Board from liability for their actions as directors during the year ended 31 December 2018.

---





To approve the use of treasury shares for its transfer to the remaining shareholders of Bahrain Saudi Bank B.S.C.(C) (merged with Al Salam Bank – Bahrain B.S.C.), and authorize the Board of Directors to appoint an independent advisor to determine an exchange rate for this transaction subject to obtaining the Central Bank of Bahrain's approval.



12

---

**To appoint or reappoint the Shari'a Supervisory Board for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration.**

---



# 13

---

**To appoint external auditors for the year ending 31 December 2019 and authorize the Board of Directors to determine their remuneration, subject to the approval of the Central Bank of Bahrain.**



14

---

To discuss and approve any other matters that may arise as per Article 207 of the Commercial Companies' Law.

---





**SECONDLY**

**EXTRAORDINARY GENERAL  
ASSEMBLY MEETING**

Wednesday, 20 March 2019

At 11:00 AM

Al-Sarr Ballroom  
Jumeirah Royal Saray Hotel

---

# EXTRAORDINARY GENERAL ASSEMBLY MEETING 2019 AGENDA

1. To ratify the minutes of Extraordinary General Assembly Meeting which was held on 25 June 2018.
2. To approve the amendment of Article 5 (Company's Capital) of the Memorandum and Articles of Association of the Bank to reflect the increase in the Bank's share capital from BD 214,093,075/200 to BD 221,586,332 and issued shares from 2,140,930,752 shares to 2,215,863,320 shares following the distribution of the bonus shares, subject to regulatory authorities approval.
3. To amend Article 31 (Quorum of the Board of Directors Meeting) of the Articles of Association with respect to the Board resolutions by circulation by requiring the approval of "majority" of members of the Board instead of "all", subject to regulatory authorities approval.
4. To authorize the Chairman of the Board of Directors, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi and/or the Bank's Chief Executive Officer, Rafik Nayed to individually sign the amendment to the Bank's Memorandum and Articles of Association before the notary public and any relevant documents related to official authorities, and undertake all procedures required to complete this process.

1

**To ratify the minutes of Extraordinary General  
Assembly Meeting which was held on  
25 June 2018.**

# MINUTES OF THE 2018 EXTRAORDINARY GENERAL ASSEMBLY MEETING

*In the Name of Allah, the Beneficent and the Merciful*

The Extraordinary General Assembly Meeting was held at Taj Ballroom, Sheraton Bahrain Hotel, Kingdom of Bahrain at 10:30 am, on Monday 25 June 2018.

**Chairman:** Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi - Chairman of the Board of Directors presided the meeting.

**Quorum:** The Chairman of the Board of Directors who presided the Extraordinary General Assembly announced that the quorum was present for holding the meeting of the Extraordinary General Assembly as per the Commercial Companies Law the Bank's Articles of Association, with 69.3% (in person or by proxy) of the Bank's total shares are present.

**Meeting rapporteur:** The Extraordinary General Assembly agreed to elect the Board Secretary, General Counsel/ Eihab Abdul Latif Ahmed as the Extraordinary General Assembly rapporteur.

## Directors Present:

- |   |          |
|---|----------|
| 1. Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi | Chairman |
| 2. Mr. Alhur Mohammed Al Suwaidi                      | Director |
| 3. Mr. Hussein Mohammed Al Meeza                      | Director |
| 4. Mr. Salman Saleh Al Mahmeed                        | Director |
| 5. Mr. Zayed Ali Al- Amin                             | Director |

## Bank's Executive Management present:

- |                        |                 |
|------------------------|-----------------|
| 1. Mr. Rafik Nayed Ali | CEO of the Bank |
| 2. Mr. Anwar Murad     | Deputy CEO      |

## Other People Present:

- |                                |   |
|--------------------------------|---|
| 1. Mrs. Khadija Ahmed Ali Juma | CBB representative  |
| 2. Mr. Sinan Al Sherooqi       | Bahrain Bourse representative                               |
| 3. Mr. Abdul Jalil Al Aali     | KPMG representative Bank auditors                           |
| 4. Mrs. Heba Mahmoud           | Bahrain Clearing Company representative,<br>Share registrar |

Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, Chairman, inaugurated the meeting, welcomed and thanked the shareholders for being present. He also welcomed the representatives of Central Bank of Bahrain, Bahrain Bourse, KPMG (the Bank Auditors) and the bank share registrars.

**1. To ratify the minutes of Extraordinary General Meeting which was held on 8 October 2013.**

Mr. Butti stated that a copy of the mentioned minutes has been sent to all the shareholders and that no comments nor inquiries have been received. He requested the shareholders present to either bring up any necessary comments or ratify the minutes as it is.

There were no comments received then:

***Resolution No. (1): The Extraordinary General Assembly unanimously ratified the previous Extraordinary General Assembly minutes dated 8 October 2013.***

2. Approval on the amendments to the Bank's Articles of Association to be in accordance with subsequent amendments to the Bahrain Commercial Companies' Law No. (21) for the year 2001 as stipulated in Decree Law No. (50) for the year 2014, Decree Law No. (28) for the year 2015, and Decree Law No. (1) for the year 2018, subject to the provisions of the Central Bank of Bahrain and the Financial Institutions Law issued in Law No. (64) of the year 2006, and its amendments as well as the regulations issued in implementation of its provisions, in accordance with the amended Articles of Association subject to the obtaining of approval of the Central Bank of Bahrain.

***Resolution No. (2): The Extraordinary General Assembly unanimously approved the amendments to the Bank's Articles of Association as per the new amendments to the Bahrain Commercial Companies Law, notwithstanding the provisions of the Law of Central Bank of Bahrain and Financial Institutions No. (64) of 2006 and the respective implementing regulations (subject to the consent of the Central Bank of Bahrain).***

3. Authorize the Chairman of the Board of Directors, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi and/or the Bank's Chief Executive Officer, Rafik Nayed to individually sign off on the amendment to the Bank's Articles of Association and any relevant documents related to official authorities, and undertake all procedures required to complete this process.

***Resolution No. (3): The Extraordinary General Assembly unanimously approved the authorization of Chairman Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, UAE national, holder of passport No. NKGR09693 and / or the Bank's CEO Mr. Rafik Nayed Ali, Swiss national, holder of passport No. 739177, to individually sign the amendment to the Bank's Articles of Association and any relevant documents with the official authorities and to carry out all the required formalities to complete the same.***

Since there were no other items to discuss on the agenda of the Extraordinary General Assembly; therefore, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi, Chairman of the Board of Directors and Chairman of the Extraordinary General Assembly thanked all the shareholders, representatives of the official authorities and the Executive Management for their effective contribution to the Extraordinary General Assembly success. The Extraordinary General Assembly was then adjourned.

Extraordinary General Assembly was adjourned at 11:00 AM.



**Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi**

Chairman of the Board of Directors  
Meeting President



**Eihab Abdullatif Ahmed**

General Counsel  
Meeting Rapporteur



# 2

---

To approve the amendment of Article 5 (Company's Capital) of the Memorandum and Articles of Association of the Bank to reflect the increase in the Bank's share capital from BD 214,093,075/200 to BD 221,586,332 and issued shares from 2,140,930,752 shares to 2,215,863,320 shares following the distribution of the bonus shares, subject to regulatory authorities approval.





# 3

---

To amend Article 31 (Quorum of the Board of Directors Meeting) of the Articles of Association with respect to the Board resolutions by circulation by requiring the approval of “majority” of members of the Board instead of “all”, subject to regulatory authorities approval.

---



4

---

To authorize the Chairman of the Board of Directors, Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi and/or the Bank's Chief Executive Officer, Rafik Nayed to individually sign the amendment to the Bank's Memorandum and Articles of Association before the notary public and any relevant documents related to official authorities, and undertake all procedures required to complete this process.

---



**Al Salam Bank-Bahrain B.S.C.**

Bahrain World Trade Center, East Tower  
P. O. Box 18282, Manama, Kingdom of Bahrain

**Investor Relations**

Tel: +973 1713 3399

Fax: +973 1713 1073

E-mail: [investors@alsalambahrain.com](mailto:investors@alsalambahrain.com)

[www.alsalambahrain.com](http://www.alsalambahrain.com)