AL SALAM BANK
Bahrain البحرين

GROWTH & SOLIDITY

2018 ANNUAL REPORT

For more than a decade, we at Al Salam Bank-Bahrain transcend the boundaries of possibilities and build new paradigms, offering dynamic and innovative Shari'a-compliant products and financial solutions tailored to meet our increasingly diverse clients in Retail Banking, Private Banking, Corporate Banking, Asset Management and Treasury Services.

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

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VISION

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a-compliant products to focused segments.

MISSION

- Become a "one-stop shop" for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken.

Dynamic

Diversified

Differentiated

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CORPORATE OVERVIEW

Al Salam Bank-Bahrain B.S.C (ASBB) was established on 19 January 2006 in the Kingdom of Bahrain with paid-up capital of BD 120 million (US$ 318 million) and was the largest Initial Public Offering (IPO) in the Kingdom's history with subscriptions reaching over BD 2.7 billion (US$ 7 billion). The Bank commenced commercial operations on 17 April 2006. ASBB was listed in Bahrain Bourse on 27 April 2006 and subsequently on Dubai Financial Market (DFM) on 26 March 2008.

Following a resolution of ASBB's Extraordinary General Assembly meeting held on 4 May 2009, ASBB completed its merger with the Bahraini Saudi Bank (BSB) on 22nd of December 2011. On the 2nd of February 2014, Al Salam Bank-Bahrain and BMI Bank B.S.C (c) confirmed the conclusion of a business combinations between the two institutions after obtaining the approval of their shareholders at their respective extraordinary general assembly meetings by way of exchanging 11 ASBB shares for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. As of the 30th of March 2014, both Banks updated their respective CRs to give effect to the share swap and consequently BMI Bank became a wholly owned subsidiary of ASBB.

ASBB, the pioneering Shari'a-compliant Bank in the Kingdom, offers its customers a comprehensive range of innovative and unique financial products and services through its extended strong network of branches and ATMs utilizing the state-of-art technologies to meet various banking requirements. In addition to its Retail Banking services, the Bank also offers Corporate Banking, Private Banking, Asset Management as well as Treasury Services. The Bank's high-caliber management team comprises of a highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance and related fields.

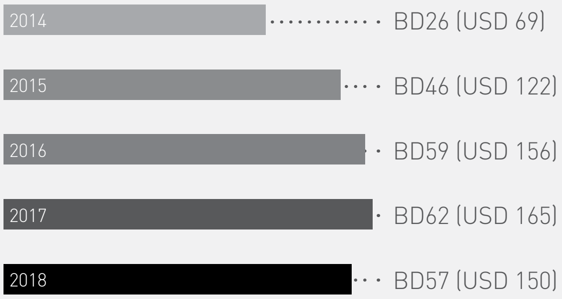
The Bank won two prestigious awards the "Best Islamic Retail Bank and "Most Innovative Shari'a-compliant Products" in Bahrain for 2018 awarded by Global Business Outlook, Enterprise Excellence award in the field of training and national manpower development at the 34th annual ceremony organized by the Ministry of Labor and Social Development. Al Salam Bank-Bahrain has been awarded with the "Critics' Choice award – The Best Islamic Retail Bank in Bahrain for 2017" by Cambridge IF Analytica – a UK-based Islamic finance intelligence specialized in providing strategic advice in the field of financial services and conduct professional academic researches for financial institutions.

Key factors that contribute to the Bank's distinct market differentiation include:

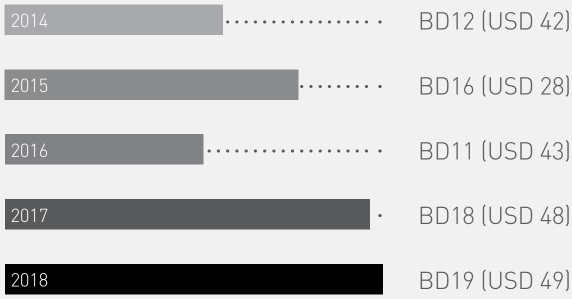
- *Strong paid-up capital base;*
- *Pre-eminent founding share-holders;*
- *High-caliber management team;*
- *State-of-the-art IT infrastructure;*
- *Innovative, tailor-made Shari'a-compliant product solutions;*
- *Universal business model covering deposits, financing and investment products and services.*

ANNUAL HIGHLIGHTS

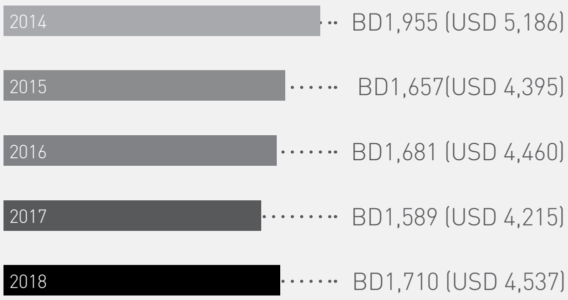
Total Operating Income
(million)



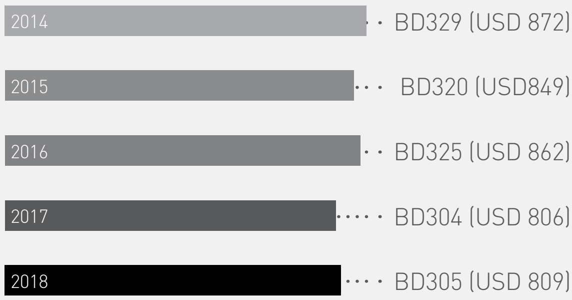
Net Profit
(million)



Total Assets
(million)

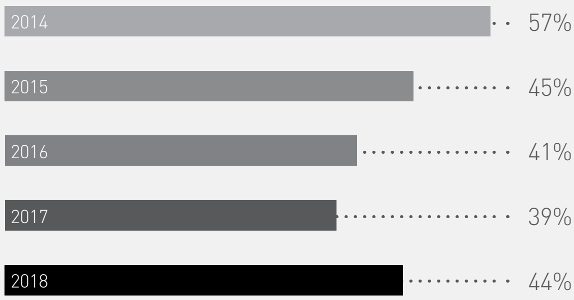


Net Equity
(million)



Earnings per share
(fils)

Cost to Income Ratio
(percent)



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BOARD OF DIRECTORS

Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman

Director since: 22 March 2018
Term started: 22 March 2018
Experience: 16 years

Non-executive

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.

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

Non-executive

Director since: 5 May 2014
Term started: 22 March 2018
Experience: 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: 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.

Mr. Hussein Mohammed Al Meeza
Board Member

Independent

Director since: 20 March 2012
Term started: 22 March 2018
Experience: 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 Fracais 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.

Mr. Alhur Mohammed Al Suwaidi
Board Member

Independent

Director since: 22 March 2018
Term started: 22 March 2018
Experience: 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: 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.

Mr. Zayed Ali Al-Amin
Board Member

Independent

Director since: 22 March 2018
Term started: 22 March 2018
Experience: 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: 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.

Mr. Khalid Shehab Eddin Madi
Board Member

Independent

Director since: 22 March 2018
Term started: 22 March 2018
Experience: 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.

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FATWA SHARI'A SUPERVISORY BOARD

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 Zoeir
Vice Chairman

Dr. Mohamed Zoeir 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. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.

* From AGM held on 20 March 2019, this Shari'a Board member ceased to hold his position.

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.

* From AGM held on 20 March 2019, this Shari'a Board member ceased to hold his position.

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.

* From AGM held on 20 March 2019, this Shari'a Board member ceased to hold his position.

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EXECUTIVE MANAGEMENT TEAM

Mr. Rafik Nayed
Group Chief Executive Officer

Experience: 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.

Mr. Anwar Mohammed Murad
Deputy CEO

Experience: 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: 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.

Mr. Yousif Ahmed Ebrahim
Chief Financial Officer

Experience: 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: 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.

Mr. Ahmed Abdulla Saif
Head of Strategic Acquisition and Investment Management

Experience: 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: 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 seen very focused on in 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).

Mr. Ahmed Jasim Murad
Head of Corporate Banking

Experience: 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: 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.

Mr. Mohammed Yaqoob Buhijji
Head of Retail Banking

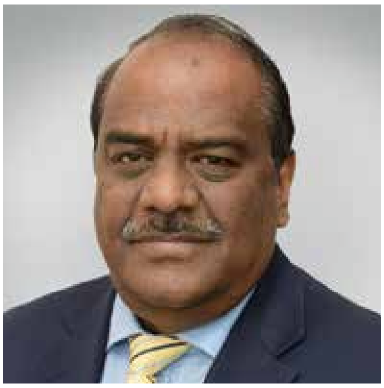
Experience: 15 years

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: 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.



Mr. Krishnan Hariharan
Chief Risk Officer

Experience: 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: 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 non-executive Audit Committee member in Manara Developments B.S.C. (c). He served as a Board and Audit Committee member of Al Salam Bank-Algeria 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.

Ms. Muna Al Balooshi
Head of Human Resources and Administration

Experience: 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: 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 General Counsel, 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.

Dr. Mohammed Burhan Arbouna
Head of Shari'a Compliance

Experience: 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: 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 where 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).

Shaikh Ahmed Abdulrahim Al Mahmood
Acting Head of Internal Shari'a Audit

Experience: 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.

ASBB is adopting internationally recognized standards and best practices in areas such as corporate governance, compliance and risk management, operating with the highest levels of integrity, transparency and trust.

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.

Net Profit Attributable to Shareholders

BD 18.5 million

(2017: BD 18.1million)

↗2.58%

Credit Losses and Impairment

BD 10.7 million

(2017: BD 20.7million)

Total Assets of the Group

BD 1.7 billion

at 31 December 2018

↗7.6%

Cost to Income Ratio

STOOD AT 44%

One of the most efficient amongst Islamic financial institution in the Kingdom of Bahrain.

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.

Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman

The Group posted a net profit attributable to shareholders of BD 18.5 million for the year, an increase of 2.58% 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 20.7million). 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, correspondent banks, 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 Omair Bin Yousif Al Muhairi
Chairman
12 February 2019
Manama, Kingdom of Bahrain

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MESSAGE FROM THE GROUP CHIEF EXECUTIVE OFFICER

Al Salam Bank-Bahrain B.S.C. remains one of the leading financial institutions in the Kingdom of Bahrain and the wider region. The Bank's financial performance in 2018 cemented its prominent position and underscored its ability to achieve sustainable profitability and growth while increasing its investment investing in it's infrastructure, products, services and people with the aim of delivering an attractive and competitive offering to its valued customers.

As we move into 2019, our maiden year of strategy implementation, the Bank will continue its focus on core-banking growth by improving customer experience via the introduction of digital initiatives aimed at improving our front-line offering and our back-end processing.

Rafik Nayed
Group Chief Executive Officer

A series of milestone achievements were witnessed across all divisions in 2018. In Retail Banking, aligned with the Bank's customer centric focus, numerous pioneering initiatives were launched to enhance the Bank's customer experience and banking offerings. These included the launch of the "Apply @ Home" e-Application services, "iBank Kiosks", enhanced ATM functionality, the re-launch of the Bank's main branch in Manama, and the relocation of the Tubli branch to a more convenient and better-designed location. During the reporting period, the Bank launched the Kingdom's first ever Islamic Visa contactless credit card, multicurrency prepaid cards in USD, GBP and Euro, as well as the first in the Kingdom digital wage protection solution (Al Rateb) in partnership with Arab Financial Services (AFS). The automation of our financing approval process supported a 50% growth in the Bank's asset portfolio, while the Bank's flagship deposit savings product, the Danat Savings Scheme, witnessed positive growth during the year.

The numerous achievements of the banking divisions were highlighted with the receipt of accolades during the year such as the "**Best Islamic Retail Bank in Bahrain 2018**" and "**Most Innovative Sharia Compliant Products in Bahrain 2018**".

Against a backdrop of fierce market competition on rates, both in the conventional and Islamic banking sector, the Private Banking division continued to grow in 2018 by recording substantial increase in asset and liability books ahead of market metrics and by offering a range of bespoke investment opportunities to clients.

As a market leader and one of the largest players in this segment, the Bank's Corporate Banking division elevated its partnership with Tamkeen, working together to bring attractive features within the Tamweel / Tamweel+ schemes. The division continued expanding its products and services to the corporate and commercial segments to meet their business requirements, diversified its risk and business portfolio and played an instrumental role in the domestic syndication scene, taking a strategic role as Bahrain Security and Account Agent in the BD 56 million Marassi transaction, apart from being an active participant in sizeable, local syndication transactions.

The Treasury & Capital Markets division successfully expanded its network of counterparties and increased the volume of business with a focus on enhancing the Bank's liquidity position whilst maintaining profitability in a higher cost of funding environment. Reinforcing the strategy of creating a diversified network, the Bank forged new financial

The Bank won

Enterprise Excellence Award

in the field of training and national manpower development.

institutions relationships with select counterparts in MENA, East Africa and South Asia. The division continued to strategically manage liquidity and the Bank's financial position by deploying funds in Sovereign Sukuks and other Islamic securities that offer attractive risk-adjusted returns.

The year also saw the Bank focus on operational innovations by leveraging technology, not only to enhance customer experience, expand product and service offerings, but also to maximize operational effectiveness and efficiency through internal system enhancements.

Throughout the reporting period, the Bank robustly managed credit and market risk to ensure mitigation against market movements whilst ensuring the continued generation of sustainable risk-adjusted returns. The Bank will opportunistically explore and assess new markets and verticals for the deployment of funds and asset growth.

The Bank's talent pool remains the key pillar to its strong foundation and strategic success. The efforts of the Human Resource division to develop this prized asset were acknowledged at the 34th annual ceremony organized by the Ministry of Labor and Social Development. Al Salam Bank-Bahrain was rewarded with the "Enterprise Excellence Award" in the field of training and national manpower development.

Towards the end of 2018, the Bank approved a 3-year strategy in the form of a business plan blue print that is designed to further advance Al Salam Bank-Bahrain and solidify its position as a premier Shari'a-compliant bank in the region. As we move into 2019, our maiden year of strategy implementation, the Bank will continue its focus on core banking growth by improving customer experience via the introduction of digital initiatives aimed at improving our front-line offering and our back-end processing. Additionally, the Bank aims to leverage on its banking network and shareholder base to expand in specific core banking verticals in the MENA region with the objective of achieving asset and liability growth and diversification.

On behalf of Al Salam Bank-Bahrain, I would like to take this opportunity to express my deep appreciation to the wise leadership of the Kingdom of Bahrain 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 for their steadfast leadership and support. I express my sincere gratitude to the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, Bahrain Bourse, Dubai Financial Market (DFM), and Securities & Commodities Authority in UAE for their continued support and guidance. I thank our supportive Board of Directors, valuable shareholders and loyal customers whose ongoing backing drives our continued success. With their commitment and dedication, the valuable team at Al Salam Bank-Bahrain played an instrumental role in the progression achieved in 2018.

Rafik Nayed
Group Chief Executive Officer

12 February 2019
Manama, Kingdom of Bahrain

"Best Islamic Retail Bank in Bahrain 2018"

"Most Innovative Shari'a-compliant Products in Bahrain 2018"

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MANAGEMENT REVIEW OF OPERATIONS AND ACTIVITIES

OPERATING ENVIRONMENT

Lifted by a strong fiscal expansion in the United States of America, global growth momentum was sustained in 2018 with world gross product indicating that the economy expanded at an annualized rate of 3.4 percent in the second quarter of 2018. Moody's posited that "global business sentiment is good and consistent with a global economy that is growing just above its potential". The US Federal Reserve continued to raise interest rates during the year, resulting in an outflow of funds from developing economies, who may struggle in the wake of higher US borrowing costs, and the recording of a high equity index performance in the US. Most central banks in the GCC also raised their benchmark lending rates. Despite sustained global growth in 2018, heightened uncertainty - captured both by financial market volatility and global economic policy uncertainty – point to some softening in economic momentum for the first half of 2019 which may result in fragile investor sentiment.

BUSINESS ENVIRONMENT

Surrounding geopolitical instability, oil price fluctuations and a deterioration in sectors such as real estate posed challenges for banks in Bahrain, including tighter liquidity, higher interest rates and a higher cost of funding. Due to oil prices well below the nation's need to balance its budget, Bahrain witnessed a deteriorating credit profile during the year. However, the announcement of the Fiscal Balance Programme, a financial support agreement worth $10 billion between the Government of Bahrain and the Governments of Saudi Arabia, the UAE and Kuwait, saw Bahrain's credit risk decline in the second half of the year with opt growing optimism surrounding the agreed aid package.

Notwithstanding a general slowness in domestic economic activities, the Bank maximized on the high level of local debt issuance from the Central Bank of Bahrain and continued to invest in USD and BHD securities, while benefiting from further engagement with Tamkeen as it supported the Kingdom's SME sector.

Net profit attributable to shareholders

BD 18.5 million

↗ 2.6%

Current Paid Up Capital

BD 214 million

Treasury Stock

BD 3.8 million

Total Assets of the Group

BD 1.7 billion

at 31 December 2018

FINANCIAL PERFORMANCE

Notwithstanding challenging market conditions, the Group performed well in 2018, continuing on its growth track and meeting shareholder expectations while effectively managing risk. Underscoring its ability to remain flexible and adaptable, fiscal year 2018 saw the Group record a net profit attributable to shareholders of the Bank of BD 18.5 million, an increase of 2.6% 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 positive results are attributable to a steady increase in the core banking business, comprising of corporate, commercial and retail banking activities. In addition to focusing on its core banking activities, the implementation of the Group's recoverability strategy witnessed the recovery of substantial delinquent and past due assets, which also contributed positively to the bottom-line.

The Group's current paid up capital is BD 214 million. During the year the Group repurchased its own shares to record a Treasury stock of BD 3.8 million. The total assets of the Group stood at BD 1,710.3 million at 31 December 2018 (2017: BD 1,589.3 million). An increase of 7.6% compared to 2017. The year witnessed an overall growth in Islamic banking assets by 4.1%, while the growth in assets of the Group exceeded the overall Islamic banking asset growth.

The core banking business grew with the Retail Banking business witnessing a remarkable growth in its net financing assets by 58.5% from BD 99 million in 2017 to BD 157 million in 2018. The Group's investment in Sukuk remained constant throughout the year.

Net Financing Assets

BD 157 million

in 2018

↗58.5%

Total operating expenses increased by 15% as a result of costs incurred towards strategic initiatives. The Group's cost to income ratio stood at 44%, making the Bank one of the most efficient financial institutions amongst its peers in the Kingdom.

The Group has devised and envisioned a new strategy that is apart from the business as usual activities. The strategy focuses on the core banking business by outlining initiatives on various fronts. This included:

- Establishing a presence in other sovereigns commencing with a branch in the UAE.
- Enhancing existing SME offerings and International Transaction Banking.
- Developing a new segment of Affluent Banking.
- Growing retail deposits and automating the current retail banking business activities.
- Developing robust MIS and CRM systems, automating and digitizing processes and documentation..

CAPITAL ADEQUACY

The Group continues to have strong financial solvency and liquidity. In accordance with the Basel III Capital Adequacy Guidelines, the Group's capital adequacy continued to reflect a healthy ratio of 20.63% as of the end of the fiscal year against the Central Bank of Bahrain's minimum requirement of 12.5%.

ASSET QUALITY

The Group continues to maintain a conservative approach in the selection of new assets for financing and investments. As of the end of the year, 96% of the financing portfolio was classified under the "Good & Satisfactory" category (2017: 84%). Total provisions for the financing portfolio was BD 36.3 million (2017: BD 86.8 million). The Asset Remedial and Collection unit continued to closely monitor past due facilities.

BANKING ACTIVITIES

Retail Banking

The Bank continued to expand its Retail Banking products and services ensuring a more financially rewarding lifestyle for its customers. In 2018 we achieved this through the delivery of innovative, market leading offerings that are differentiated and created to the customer experience. Aligned with this customer centric focus, the Bank continued its automation and digitalization strategy, introducing several pioneering initiatives including the launch of our "Apply @ Home" e-Application services, "iBANK kiosks", and enhanced ATM functionality. In terms of traditional channels, the Bank optimized its network with the re-launch of our main branch in Manama, and the move of the Tubli branch to a more convenient and better-designed location.

The Bank remained a leader in payment and card innovation in 2018 with the launch of several firsts. These included:

- The Kingdom's first ever Visa contactless credit card.
- The first multi-currency student prepaid card - available in four currencies BHD, USD, GBP, and EUR.
- The first payroll solution in partnership with Arab Financial Services (AFS).

Card promotional offers successfully accelerated card utilization beyond market performance these included customer benefits such as more Air Miles with 4 times the miles and 6 times the miles on international card usage as well as chances to win on cross border swipes.

The automation of our financing approval process to enable same day disbursement for personal finance and extended promotional pricing supported a 50% growth in the Bank's asset portfolio.

The Danat Savings Scheme, the Bank's flagship deposit product, also witnessed positive growth with 15% growth in the participating customer base, year on year. This was driven by an enhanced prize structure with the first $1 million cash prize being very positively received by our customers.

The Bank continued to strengthen its corporate social responsibility and remained an active participant in the Mazaya Social Housing Scheme that supports citizens to achieve their dream of home ownership.

Looking ahead the Bank will continue to expand its traditional and digital networks while investing in the launch of innovative products and services designed to help customers save, support frictionless payments, and enable self-service and remote at the same time ensuring that the Bank maintains and enhances its position as a leading Bahraini retail Islamic bank.

UK's Global Business Outlook Winner

"Best Islamic Retail Bank - Bahrain 2018" and "Most Innovative Shari'a-compliant Products - Bahrain 2018"

Private Banking

The Private Banking division provides comprehensive, customized financial banking solutions that meet our valued client's retail, asset management, treasury and corporate banking requirements.

In 2018, against a backdrop of fierce market competition on rates, both in the conventional and Islamic banking sector, the Private Banking division continued its growth by providing high levels of services to our clients and by booking long-term assets, lowering cost of funding, and providing robust and well-diversified investment opportunities.

Corporate Banking

Although lower oil prices and limited liquidity continued to pose challenges for the Corporate Banking business, our Corporate banking book was maintained by proactive account management and the on-boarding of new high-profile customers with opportunity sourced through the selective enhancement of limits from the existing book through offering of competitive terms.

Throughout the year there was a continued focus on Tamkeen book enhancement and marketing, with over 37 SME clients benefitting from the scheme in 2018. The Bank is working closely with Tamkeen to bring attractive features within the Tamweel/ Tamweel+ schemes in order to meet market demands. Emphasis was also placed on developing the working capital book, with a resultant increase in transaction and fee income, and in identifying and participating in sizeable syndication tickets. The Division also focused on building the escrow account base identifying new projects by its on-going efforts to generate and build the deposit book.

Aligned with the Bank's automation and digitization journey, our Division is working closely with the Innovation and Information Technology Division to develop a state-of-the-art digital banking platform which will provide corporate customers with a more frictionless banking experience. The platform is set to be launched in 2019.

During the year in-depth training session for all corporate Relationship Managers (RM) and the implementation of a simplified and faster process for issuance of Letter of Guarantees (LG) and Letter of Credits (LC) against cash margins. A detailed review of the credit policy was also conducted with several enhancements designed to improve efficiency.

Treasury & Capital Markets

Amidst an environment of tight liquidity, the cost of funding and credit rating downgrades that negatively impacted the flow of international credit limits into the local banking system, the Treasury & Capital Markets Division performed very well in 2018. We adopted very cautious but expanded business strategies and increased the volume of business by capitalizing on our close and long standing relationships within a wide network of Financial Institutions (FIs).

With a steadfast focus on enhancing the Bank's profitability in a higher cost of funding environment the Division expanded the focus on services to boost income resulted in the increased FX business extended to a wider range of corporate and FIs clients and increased the structured products offerings.

During the reporting period, the division increased the liability and investment bookings and achieved over half-billion dollar of asset portfolio to date, while the team placed more than $80 million during the year. In line with the overall growth, the Brokerage unit has achieved over 300% increase in 2017.

The Private Banking team, which grew during the year, remained focused on delivering sustainable value to clients. New product and service offerings were explored locally and regionally including joint ventures, and the white labelling of products with international private banking players.

2019 will see a continued focus on growing our portfolio, further enhancing the product and service offering, and providing our clients with unmatched and turnkey banking services.

The Bank also grew the Sukuk portfolio by investing in high quality securities both locally and internationally as well as key regional corporate papers during the reporting period.

While maintaining sound liquidity position was a key and challenging objective, the Division managed to increase the volume of term financing to a broader base of international and regional counterparty banks providing the balance sheet with comfortable lines of sustainable funding.

Aligned with the bank-wide efficiency push, the Division is enhancing the Treasury infrastructure with a new Treasury system to be implemented next year. Going into 2019, a focus will be on optimizing the cost vs. revenue stream of the balance sheet given the escalating cost of funding and, taking into account the new Central Bank of Bahrain liquidity risk module requirements. Emphasis will be given to expanding the product range as the Bank explores new markets for Treasury and Financial Institutions business.

International Transaction Banking

Notwithstanding a challenging business environment, 2018 was a productive year for our Financial Institution (FI) international banking business in terms of client base and revenue growth and expansion into new markets. During the year the Division was a solid revenue contributor. It successfully grew the Bank's network globally while supporting local commercial business in terms of cash management and other correspondent banking requirements. The Bank continued to build on our strong client base and banking network providing a robust foundation for our international transaction business and serving international financial institutions. The Bank, which has a strong correspondent banking network among its peers, forged new relationships in selected markets such as the MENA region, East Africa and South Asia; reaching beyond borders to positively impact the Bank's overall business revenues in 2018. The full effect of this client base expansion will be reflected in the 2019 balance sheet.

Throughout the reporting period the Division also focused on growing the Bank's relationships in its existing markets while implementing a cautious approach to building new partnerships with counterparties in new markets regionally and globally. We shall continue to seek to the Group's business activities and income stream, generate higher revenues and maintain a stable income.

Strong relationships with financial institutions were maintained to facilitate enhanced trade and correspondent banking activities and risk participation opportunities on the asset building side and sell down to partner banks when the Bank has reached capacity. During the year the Bank generated special funding linked to Shari'a-compliant trading instruments and has concluded several funding transactions to support underlying trade requirements. The Bank also enhanced cross border risk transactions on a selective basis in FI correspondent banking activities and in structured trade finance business that are supported by strong underlying trade instruments and self-liquidating transactions. The Group has the required capabilities, expertise and infrastructure to undertake complex trade transactions to serve its expanding client base and this, together with our robust, long-term partnership network, are key elements of the Division's key role in the Bank's strategic expansion over the coming years.

Throughout the year the Division continued to mitigate commercial and political risk, evaluating cooperation with export credit agencies and development banks on a continuous basis.

Operations

2018 saw the Operations Division play a key role in enhancing the effectiveness and efficiency of the Bank to facilitate a superior customer experience amidst challenges such as an increase in facility booking, changes in the internal and external technology environment, and the introduction of Value Added Tax (VAT) to the Kingdom.

The Department was instrumental in launching new and upgraded systems during the year including the implementation of the Service Request System, which increased the quality and traceability of intra-departmental service requests and we supported the increased volume of facility bookings in record time.

Throughout the year, the Division's focus remained on maintaining and elevating the customer service level, ensuring compliance with regulatory guidelines of the Central Bank of Bahrain, and implementing best practices while achieving new efficiencies. Aligned with this, the Division actively participated in launching the enhanced online banking, mobile banking and ongoing digital banking initiatives. The Bank has already achieved a high level of automation which will be increased in 2019.

Al Salam Bank-Bahrain was the first bank to go live with the upgraded Real Time Gross Settlement (RTGS) system, an electronic payment system that allows the transfer of funds between banks. The system allows real time processing of Bahraini Dinar funds transfers using improved technology in collaboration with the Central Bank of Bahrain as regulator and the CMA, which provides the technology and support solution to the Bank. ASBB was one of the first banks in Bahrain to go live with the "Benefit Pay" settlement system in 2018, allowing for the instant transfer of funds between accounts and for merchant payments using a single platform.

The Bank remains on par with world-class financial institutions in service delivery. 2019 will witness significant improvements to our customer service with more improvements designed to further enhance our customer experience even further.

Information Technology

Aligned with the Bank's ambitious digitization strategy, the Information Technology Division launched a number of initiatives in 2018 designed to enhance the Bank's infrastructure and support the delivery of superior products and services to the Bank's valued customers.

The year witnessed the launch of an improved Retail mobile banking suite, while Al Salam Bank-Bahrain's subsidiary, Al Salam Bank-Seychelles, went live with a new online banking system. The Bank's core banking system was also upgraded in order to further streamline the Group's workflow and elevate levels of efficiency and productivity. This included the introduction of new systems to optimize processes making banking experience ever better for our customers.

Throughout the year the Division ensured continued compliance with regulatory solution requirements.

Corporate Governance and Risk Management

The Group continues to accord the highest importance on effective corporate governance and robust risk management practices. During the reporting period a number of initiatives, such as the creation of a unified Corporate Governance booklet, were implemented to enhance risk-based monitoring and achieve the highest possible standards in corporate governance.

Following the Annual General Ordinary Meeting (AGM) held on 22 March 2018, the shareholders elected a new Board of Directors for the upcoming term from March 2018 to March 2021. Following the AGM, the members of Board of Directors unanimously elected Mr. Khaleefa Butti Bin Omair Bin Yousif Al Muhairi as the Chairman of the Board and H.E. Shaikh Khalid bin Mustahail Al Mashani as the Vice-Chairman. New Shari'a Board members were also elected and appointed. As per the guidelines contained in the HC Module of the CBB Rulebook and ASBB Charters, Board committees are evaluated on an annual basis. The committee of Remuneration, Nomination and Corporate Governance was separated into two separate committees "Remuneration Committee" and "Nomination and Corporate Governance Committee".

Effectively managing the Bank's risk remains a key priority. Challenging macro-economic conditions were preempted to ensure the Group's asset quality and overall risk exposure remained well under control. Testament to the success of the risk management initiatives was that the provisions were lower than previous years. Factoring in the market's deteriorating liquidity conditions; the Bank maintained an increased focus on liquidity management. Increased monitoring of Credit Risk and Operational Risk exposure witnessed significant reduction in credit and operational risk events, while an enhanced Information Security framework mitigated the impact of the market has increased Information Security Risk.

The year saw the Risk Team effectively reduce the level of non-performing assets, revalidate the Group's PCIDSS certification and automate the Retail credit approval workflow to achieve enhanced effectiveness and efficiency. Training on Credit Risk, Operational Risk, and Market Risk and Information Security Risk was conducted during the year.

The Group's Corporate Governance and Risk Management function is dedicated to enhance the Risk Governance; leveraging technology to manage risk more effectively, enhancing transparency in risk reporting, improving follow up on potential non-performing assets, and the effective and ongoing implementation of an Enterprise Wide Risk Management framework.

Know Your Customer

Appropriate due diligence is rigorously conducted to ensure that the financial activities of the Group's customers are performed in accordance with the guidelines issued by the regulatory authorities. The Group adheres to the Financial Crimes Module of the 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 (FATF), which is the international organization responsible for developing global anti-money laundering policies.

In 2018, the Bank further enhanced the Know Your Customer (KYC) review process with enhanced monitoring and additional automation. In particular, further automation of the customer onboarding risk assessment was achieved.

Ensuring full awareness of KYC policies and procedures, special sessions were conducted for relevant staff on the importance of reporting Suspicious Transaction Reports (STRs) while Anti-Money Laundering online training was also provided to all Bank employees.

Moving forward, the Bank will continue its focus on streamlining processes to facilitate full compliance, further expanding its resources and enhance its systems in order to comply with the increasing regulations enacted by regulators.

Human Resources

The Human Resources department seeks to attract, develop and retain local talent by encouraging a corporate culture characterized by respect, collaboration, career progression and continuous learning.

In 2018, the efforts of the Human Capital towards this mission were acknowledged at the 34th annual ceremony organized by the Ministry of Labor and Social Development. The Bank won the Enterprise Excellence Award in the field of training and national manpower development.

An unswerving commitment to learning saw the Division's training and development focus for the year on Leadership, Customer Service, Regulatory Compliance and Communication skills. In house workshops on Work Ethics and Business Etiquette, Emotional Intelligence and VAT were also conducted with 13,452 total training hours clocked during the year.

The Bank continues to empower and guide employees to reach their full potential. As such, a new career succession planning process was introduced during the reporting period as part of the Capacity Building Program. Going forward, the Bank will continue to nurture and leverage its dynamic and energetic employee population, which is comprised of 91% Bahraini talent, to drive strategic success and cement its reputation as an employer of choice.

Enterprise Excellence Award

Winner

in the field of training and national manpower development

Total Training Hours

13,452 hrs

clocked during the year

Bahraini Talent

91%

dynamic and energetic employees

CORPORATE GOVERNANCE REPORT

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

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	-	-	-
Total	**2,140,930,752**	**22,525**	**100.00**

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
Total	**2,140,930,752**	**100.00**

* Percentages are rounded.

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.

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 and its functioning within the agreed framework, 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 control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Group Chief Executive Officer ("GCEO").

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 Corporate Governance Report
- Approving the annual operating plan and budget;
- Ensuring regulatory compliance;
- Reviewing the adequacy and integrity of 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
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 positon.

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

Executive Members	
Mr. Yousif Abdulla Taqi*	Board Member and Group Chief Executive Officer

* Mr. Yousif Abdulla Taqi did not participate in the 2018 AGM Director elections and hence Mr. Yousif Taqi is no longer a Board member since 22 March 2018.

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.

* Directors did not participate in the 2018 AGM Director elections and hence are no longer a Board member since 22 March 2018.

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

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 absentation 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.

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.

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
Mr. Yousif Abdulla Taqi**	√	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.*

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*	136,492,817
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 includes his direct shareholding and the accounts under his guardianship. Mr. Khaleefa Al Muhairi's shareholding has increased by 31.9 million shares in 2018.*

Note: There are no other movements in the shares held by Directors during the year ended 2018.

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

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 during 2018 are as follows:

- 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.
- 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.
- 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.

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.*

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.*

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 as an invitee on 12 February 2018.

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 AAOIFI 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.

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 Group Chief Executive Officer ("GCEO"). The GCEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.

Senior Managers' Interests

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

	Shares	
Members	**2018**	**2017**
Dr. Mohammed Burhan Arbouna	336	336
Mr. Essa Abdulla Bohijji	118,995	118,995
Total	**119,331**	**119,331**

Management Committees

The Group 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:

Committee	Roles and Responsibilities
Management Executive Committee	The Management Executive Committee ("MANCO") has been established by the Group Chief Executive Officer ("GCEO") to oversee the activities of the other management level committees, which are not directly reporting to the Board or Board Committees. It is mainly engaged in reviewing the operations of all the management level committees as well as assigning relevant tasks to the other managing committees and reporting the results to the Group CEO.
Credit / Risk Committee	The Credit/ Risk Committee recommends 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.
Asset Liability Committee	The Asset Liability Committee ("ALCO") establishes policies and objectives for the asset and liability management of the Bank in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from a profit rate sensitivity and liquidity points of view. It further makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitor 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.
Technology Steering Committee	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 GCEO 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.
Remedial Committee	The Remedial Credit Management Committee ("RemCom") operates under the delegated authority of the MANCO to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank. The Committee is responsible for the design, implementation and supervision of the remedial credit management policy of the Bank in particular as well as acting on and taking decisions in relation to all credit facilities classified as remedial, monitoring the performance of the Remedial Division as well as Reporting to the Board Executive Committee, on a quarterly basis, outcomes from client remediation cases including open, settled and closed cases.
Human Resources Committee	The Human Resource Committee is appointed by the MANCO 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. This includes discharging their duties in relation to reviewing the Bank's Human Resource policies, which must be approved by the Board and be consistent with the corporate values and strategy of the Bank, making recommendations regarding Human Resource policies, identifying, assessing and reporting the changing needs for Human Resources Management with the overall objective of increasing the performance of the employees and that of the Bank as a whole.
Information Security Committee	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.
Social Responsibility Committee	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. The social causes that are supported by the Bank are: • Medical assistance; • Care for the less fortunate; and • Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.

Executive Management Compensation

The performance bonus of the Group 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 Group 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, replacing the previous auditors in line with good corporate governance, for the year ending 31 December 2018 and authorized the Board of Directors to determine their remuneration. The audit fees charged and non-audit services provided by external auditors have been made available to the shareholders as and when requested. Further details will be made available to the Bank's shareholders on specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

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.

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 on 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.

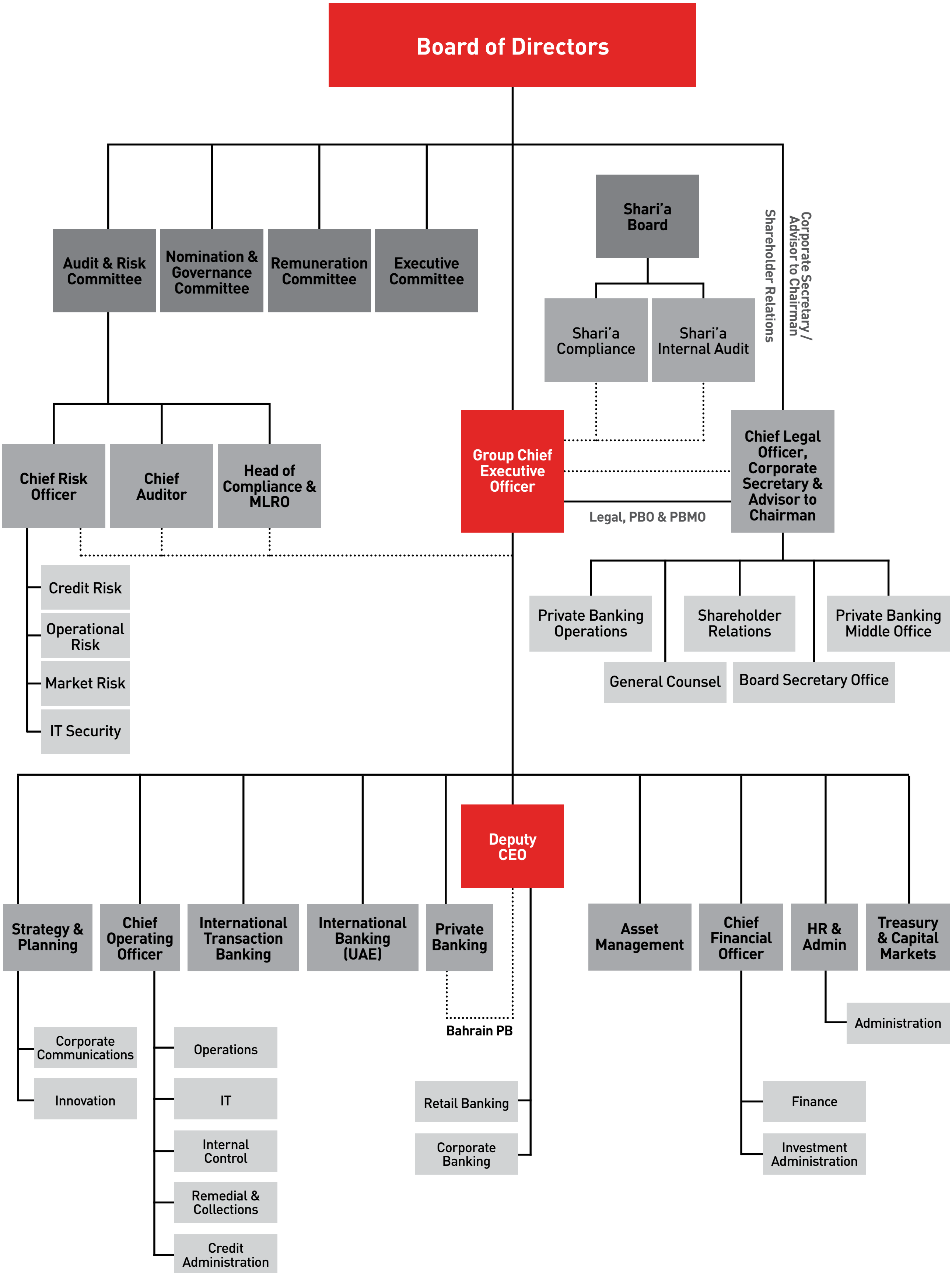
DISCLOSURES

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.

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.
6	HC-7.2.2 The Bahraini Islamic bank licensee should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).	Two Directors have not attended the Annual General meeting, including the Chairman of the Remuneration committee.	The Directors apologized due to other urgent commitments. They will endeavor to be present in the upcoming meetings.

ORGANIZATIONAL STRUCTURE



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REMUNERATION POLICY

This document has been prepared in accordance with CBB remuneration disclosure requirements for Islamic Banks under High Level Controls Module. These requirements are in addition to the disclosures published in the Annual Report.

CORE REMUNERATION POLICY

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration Committee in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the Remuneration Committee, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
    - Performance metrics for applicable business units are risk-adjusted where appropriate;
    - Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
    - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
    - Remuneration decisions are based on their respective functions and not the business units they support;
    - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
    - Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.

- Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.
- The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.
- The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain), to its employees.

REGULATORY ALIGNMENT

The Bank reviewed and revised the remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarized below:

Regulatory Area	Bank's Practice
Governance	The composition of Remuneration Committee, is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The Remuneration Committee charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to Remuneration Committee members for 2018 amounted to BD 25,000 (2017: BD 30,000). The Committee utilized the services of an external consultant to redesign and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk Focused Remuneration Policy	The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus is being paid purely at the discretion of the Remuneration Committee in recognition of the employees exceptional effort in any given performance period. Should the Remuneration Committee decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the bank level. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to bank's performance.
Capital and Liquidity	The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the Remuneration Committee. The validation checks are the bonus pool as compared to the realized profit, impact on capital adequacy computed as per Basle III guidelines and as compared to the total fixed pay.
Deferral and Share Linked Instruments	The Bonus for the Group CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such staff. The deferral arrangements are as follows: CEO, his deputies and top 5 Executive Management members(in terms of total remuneration) in Business units: ○ 40% of the variable pay will be paid in cash at the end of the performance period; and ○ The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3 – year period. For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold: ○ 50% of the variable pay will be paid in cash at the end of the performance period; and ○ 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date. ○ The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
Claw Back and Malus	The Bank has introduced claw - back and malus clauses whereby the Remuneration Committee has the right to invoke these clauses under certain pre-defined circumstances where in the bank can claw-back the vested as well as the unvested bonus paid or payable to a staff.

REMUNERATION COMPONENTS

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardized framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the banking sector.

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay. The following table summarizes the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	Reviewed annually. Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity. The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.

Element of Pay	Variable Pay / Bonus
Rationale	To incentivize the achievement of annual targets set at the bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance. The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.
Summary	The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level. The basis of payment of bonus would be as follows: GCEO and Senior Management — Base multiple * Bank score * Individual score Business units — Base multiple * Bank score * Unit score * Individual score Control & Support units — Base multiple * Unit score * Individual score **Computation of Variable Pay - Business Units** **Beginning of the financial year:** Targets are set for the Business units and are aggregated to the Bank level target. In setting targets certain bank wide risk parameters which include capital, liquidity, profit and qualitative measure such as reputation risk and the bank and unit specific KPIs shall be considered. For achieving this target, total Bonus pool is set based on monthly multiples of salary across the bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus. This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realized profit and as a proportion of the total fixed pay in any given financial year. **At the end of the financial year:** The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the banks score as appropriate are made and the bonus pool is revised accordingly. The actual bonus pool is approved by the Remuneration Committee and the individual Bonus payments are as per the scoring matrix. **Computation of Variable Pay – Control and Support Units** The Unit targets as set out and agreed with the Remuneration Committee in the beginning of each evaluation period will be the base for Variable pay to be paid. Except in the case of bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance. Base Multiples are set for each employee level in each Control and Support unit. The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved. The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1. The Summary of the Variable pay process is: Links reward to bank, business unit and individual performance. Target setting process considers risk parameters which are both quantitative and qualitative such as reputation. Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employee's interest with that of the shareholders. Bonus can be lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realization of less than expected income which can be attributed to employee's actions the claw back or malus as appropriate is invoked.

DETAILS OF REMUNERATION

(a) Board of Directors

Amounts in BD	2018	2017
Attendance fee and travel expenses	298,395	294,715
Remuneration paid	595,000	415,000
ASBB subsidiaries' Board remuneration, attendance fees and expenses	33,252	13,195

(b) Employees

31 December 2018	Amounts in BD thousands						
			Variable Upfront		Variable Deferred		
	No. of Staff	Fixed	Cash	Non-cash	Cash	Non-cash	Total
Approved person business line	10	1,992	577	-	117	582	3,268
Approved person control & support	15	1,037	182	-	15	66	1,300
Other material risk takers	36	1,022	272	-	-		1,294
Other employees - Bahrain operations	280	6,007	1,203	-	-	-	7,210
Other employees - overseas	25	199	45	-	-	-	244
	366	10,257	2,279	-	132	648	13,316

31 December 2017	Amounts in BD thousands						
			Variable Upfront		Variable Deferred		
	No. of Staff	Fixed	Cash	Non-cash	Cash	Non-cash	Total
Approved person business line	11	1,858	522	110	110	440	3,040
Approved person control & support	11	752	169	10	-	41	972
Other material risk takers	8	384	101	4	-	15	504
Other employees - Bahrain operations	293	5,858	1,243	-	-	-	7,101
Other employees - overseas	23	127	-	-	-	-	127
	346	8,979	2,035	124	110	496	11,744

Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements (GOSI, indemnity, tickets and medical). There were no sign-on awards made during the year.

Severance payments amounted to BD 844,000 and the highest severance payment during the year amounted to BD 254,000.

Included in the above, remuneration received by approved person and material risk takers from SPVs / project companies managed by the Bank amounted to BD 56,000 (2017: BD 31,000).

DEFERRED PERFORMANCE BONUS AWARDS

31 December 2018	Cash BD '000	No. of Shares	Shares Value BD '000	Others BD '000	Total BD '000
Awards					
Balance as of 1 January 2018	272	10,999,785	1,619	-	1,819
Awarded during the year - 2018	132	4,565,322	648	-	780
Exercised / sold / paid during the year	(59)	(3,329,184)	(459)	-	(518)
Risk adjustment	-	-	(70)	-	(70)
Balance as of 31 December 2018	345	12,235,922	1,738	-	2,083

31 December 2017	Cash BD '000	No. of Shares	Shares Value BD '000	Others BD '000	Total BD '000
Awards					
Balance as of 1 January 2017	203	8,632,133	1,297	-	1,500
Awarded during the year - 2017	110	4,369,092	620	-	730
Exercised / sold / paid during the year	(41)	(2,001,440)	(298)	-	(339)
Risk adjustment	-	-	-	-	-
Balance as of 31 December 2017	272	10,999,785	1,619	-	1,891

RISK MANAGEMENT & COMPLIANCE

At Al Salam Bank-Bahrain ("ASBB", "Bank", "Group"), our success is largely dependent on how efficiently we identify, measure, control and manage risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel Accord as a catalyst to the successful implementation of the pillars of risk management in line with industry best practice.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank has focused its efforts on establishing effective and practical risk management and compliance frameworks taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank–Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks.

Moreover, the framework further covers the roles and responsibilities of the Board, risk management group and senior management towards risk management. The individual components of the framework capture the risk assessment methodology adopted, risk limits, the risk management information systems and reports, as well as the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic risk control self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

CAPITAL MANAGEMENT

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance and business groups.

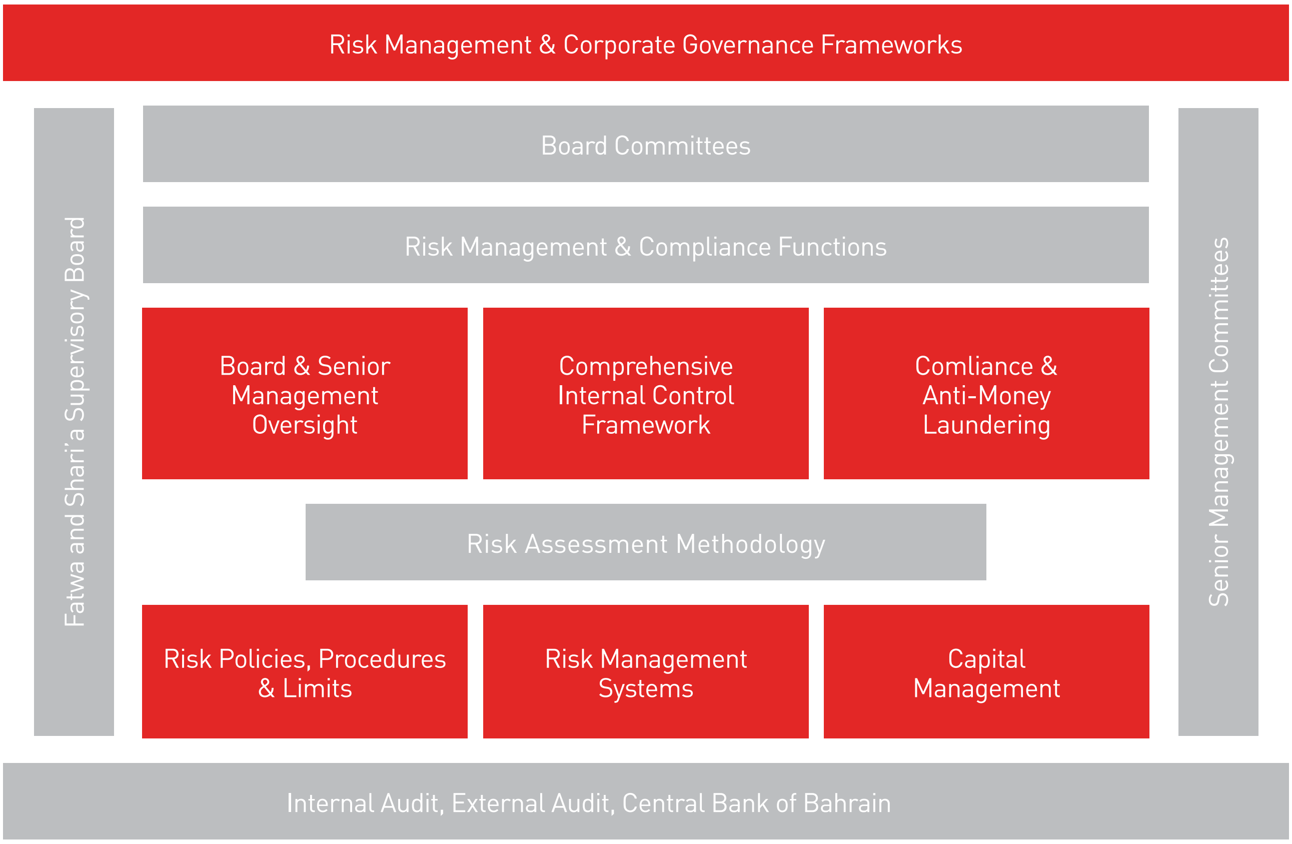
Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 36 to 51.

Risk Ownership

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.



Compliance & Anti-Money Laundering Department

The Bank has established an independent and dedicated department to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank-Bahrain through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has formulated appropriate policies and implemented the requirements of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) as required by the regulators. The due diligence and reporting requirements have been complied with.

CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

Al Salam Bank-Bahrain underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.

The Bank actively supports community activities through its charitable, educational, medical, social, sport and environmental initiatives.

FATWA AND 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: Zakah

Since the Articles of Association do not oblige the Bank to pay zakah on the Shareholder's equity, the Board has calculated the zakah, 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
Chairman

Dr. Mohamed Abdulhakim Zoeir
Vice Chairman

Dr. Fareed Yaqoob Almeftah
Board Member

Dr. Azzeddine Ben Zaghiba
Board Member

Dr. Muhammad Qaseem Mohammad
Board Member

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

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C.R. No. 6220

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

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Note	2018 BD'000	2017 BD'000
ASSETS			
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
TOTAL ASSETS		**1,710,310**	1,589,228
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND SHAREHOLDERS' EQUITY			
LIABILITIES			
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
TOTAL LIABILITIES		**1,305,727**	1,166,510
EQUITY OF INVESTMENT ACCOUNTHOLDERS	20	**99,761**	118,881
EQUITY			
Share capital	21	**214,093**	214,093
Treasury stock	21	**(3,855)**	(1,879)
Reserves and retained earnings		**93,901**	91,016
Total equity attributable to shareholders of the Bank		**304,139**	303,230
Non-controlling interest		**683**	607
TOTAL EQUITY		**304,822**	303,837
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY		**1,710,310**	1,589,228

Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman

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

Rafik Nayed
Group Chief Executive Officer

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

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
OPERATING INCOME			
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		**246**	111
Share of profit of investment accountholders	20	**(246)**	(119)
Total operating income		**56,719**	62,190
OPERATING EXPENSES			
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
Total operating expenses		**27,913**	24,265
PROFIT BEFORE IMPAIRMENT ALLOWANCES AND RESULTS OF ASSOCIATES		**28,806**	37,925
Net allowance for credit losses / impairment	10	**(10,661)**	(20,656)
Share of profit from associates	14	**375**	786
NET PROFIT FOR THE YEAR		**18,520**	18,055
ATTRIBUTABLE TO:			
- Shareholders of the Bank		**18,499**	18,099
- Non-controlling interest		**21**	(44)
		18,520	18,055
Basic and diluted earnings per share (fils)	23	**8.7**	8.5

Khaleefa Butti Bin Omair Bin Yousif Al Muhairi
Chairman

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

Rafik Nayed
Group Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018 BD'000	2017 BD'000
OPERATING ACTIVITIES		
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)
INVESTING ACTIVITIES		
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
FINANCING ACTIVITIES		
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)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**41,539**	(109,576)
Cash and cash equivalents at 1 January	**175,352**	284,928
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**216,891**	175,352
Cash and cash equivalents comprise of:*		
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
	216,891	175,352

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

Amounts in BD '000s

	Attributable to shareholders of the Bank											
			Reserves									
	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***	***Group Total Equity***
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)
Total recognised income and expense	-	-	-	-	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)	-	-	-	-	-	-	-
Balance at 31 December 2018	214,093	(3,855)	12,209	18,998	42,101	199	23,589	(3,195)	93,901	304,139	683	304,822
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)
Total recocgnised income and expense	-	-	-	-	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)	-	-	-	-	-	-	-
Balance at 31 December 2017	214,093	(1,879)	12,209	17,148	40,304	199	24,196	(3,040)	91,016	303,230	607	303,837

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 it's 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.

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.

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.

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.

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.

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.

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 complaint 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 contratcs 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.

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. Impairement 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.

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 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 changed 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.

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.

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 Rabalmal). 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 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 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 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.

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 accountholders.

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.

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 forclosure 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.

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.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 December 2018			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
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
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
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

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

	31 December 2017			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
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
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
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

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
	82,587	66,351

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

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)
	9,222	10,419

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).

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**
Total financing assets	**491,522**	**52,489**	**51,460**	**595,471**
Allowance for credit losses (note 10)	**(3,451)**	**(4,093)**	**(19,022)**	**(26,566)**
	488,071	**48,396**	**32,438**	**568,905**

	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
Total financing assets	464,133	53,171	91,408	608,712
Allowance for credit losses (note 10)	(6,245)	(15,485)	(54,447)	(76,177)
	457,888	37,686	36,961	532,535

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.

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

Movements in finance lease assets are as follows:

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

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

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

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

	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)**
	222,872	**22,484**	**11,536**	**256,892**

	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)**
Balance at the end of the year	**5,614**	**5,384**	**28,427**	**39,425**

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**
	5,614	**5,384**	**28,427**	**39,425**

	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

	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)
Balance at the end of the year	**3,130**	3,251

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:

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

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.

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:

	Fair value measurement using significant unobservable inputs Level 3	
	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**	-
At 31 December	**98,650**	99,861

12 INVESTMENT PROPERTIES

	2018 BD '000	2017 BD '000
Land	**66,714**	62,784
Buildings	**7,547**	3,998
	74,261	66,782

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

	Fair value measurement using significant unobservable inputs Level 3	
	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)**	-
At 31 December	**74,261**	66,782

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

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

15 OTHER ASSETS

	2018 BD '000	2017 BD '000
Assets under conversion (a)		
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
	13,950	26,945
Other receivables and advances	**9,806**	4,745
Prepayments	**1,314**	1,136
Premises and equipment (c)	**20,112**	1,704
	45,182	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:

	Fair value measurement using significant unobservable inputs **Level 3**	
	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	**1,041**	1,359

(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).

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

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

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

21 SHARE CAPITAL

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

	Nationality	No. of Shares	% of the Outstanding Shares
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:

Categories	No. of Shares	No. of the Shareholders	% of the Outstanding Shares
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).

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.

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

24 FINANCE INCOME

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

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

25 INCOME FROM NON-TRADING INVESTMENTS

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

26 INCOME FROM PROPERTIES

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

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

28 OTHER INCOME

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

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
	11,861	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
Subsidiaries of Biodiesel			
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.

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
Non-current assets		
Premises and equipment	**18,317**	28,204
Current assets		
Receivables and prepayments	**4,590**	3,705
Total assets	**22,907**	31,909
Current liabilities		
Murabaha term financing	**16,965**	16,965
Other liabilities	**4,632**	5,427
Total liabilities	**21,597**	22,392

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				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
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
Liabilities and equity of investment accountholders:					
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

	2017				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
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
Liabilities and equity of investment accountholders:					
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
Equity					
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				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Income:					
Income from financing assets	**445**	**45**	**898**	**34**	**1,422**
Income from investments	**883**	**-**	**(73)**	**-**	**810**
Share of profits from associates	**375**	**-**	**-**	**-**	**375**
Expenses:					
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**

31 RELATED PARTY TRANSACTIONS (continued)

	2017				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Income:					
Income from financing assets	192	16	227	23	458
Income from investments	2,442	-	328	-	2,770
Share of profits from associates	786	-	-	-	786
Expenses:					
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
	2,605	2,981

32 CONTINGENT LIABILITIES AND COMMITMENTS

	2018 BD '000	2017 BD '000
Contingent liabilities on behalf of customers		
Guarantees	**21,523**	19,419
Letters of credit	**13,781**	10,767
Acceptances	**2,195**	954
	37,499	31,140
Irrevocable unutilised commitments		
Unutilised financing commitments	**52,122**	81,941
Unutilised non-funded commitments	**9,262**	9,594
	61,384	91,535
Forward foreign exchange contracts - notional amount	**22,730**	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
	3,015	3,175

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, information security, 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.

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.

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.

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

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.

	Gross maximum exposure 2018 BD '000	*Gross maximum exposure 2017 BD '000*
ASSETS		
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	**1,056,445**	948,403
Contingent liabilities and commitments	**97,750**	93,420
Total credit risk exposure	**1,154,195**	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.

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 Rabalmal) 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. 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.

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.

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)**
	208,517	**-**	**-**	**208,517**

	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)
	166,843	-	-	166,843

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			
	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)	**-**	**3,408**	**-**	**3,408**
Satisfactory (R5-R7)	**5,833**	**-**	**-**	**5,833**
Default (D8-D10)	**-**	**-**	**-**	**-**
Total allowance for credit losses	**(4)**	**(15)**	**-**	**(19)**
	5,829	**3,393**	**-**	**9,222**

	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)	10,422	-	-	10,422
Default (D8-D10)	-	-	-	-
Total allowance for credit losses	(3)	-	-	(3)
	10,419	-	-	10,419

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	**(4,968)**	**(5,303)**	**(22,776)**	**(33,047)**
	710,943	**70,880**	**43,974**	**825,797**

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	(7,340)	(15,965)	(58,188)	(81,493)
	623,606	46,649	75,518	745,773

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	**-**	**-**	**-**	**-**
	1,229	**-**	**-**	**1,229**

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	(93)	-	-	(93)
	2,771	-	-	2,771

iv) Financial contracts under other 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)	**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)**
	2,211	**906**	**8,442**	**11,559**

	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)	2,360	-	-	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)
	4,099	331	18,167	22,597

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)**
	87,905	**6,140**	**3,705**	**97,750**

	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)
	85,010	8,410	-	93,420

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.

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	**458,660**	481,898	Cash, Property, Machinery, Shares and Sukuk
Financing assets to retail customers	**201,253**	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%	**249,374**	222,373
51-70%	**149,332**	147,210
71-90%	**105,287**	106,146
91-100%	**29,045**	14,603
More than 100%	**126,876**	138,394

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.

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 accountholders by geographic region and industry sector was as follows:

	Assets	**Liabilities and equity of investment account holders**	**Contingent liabilities and Commitments**	*Assets*	*Liabilities and equity of investment account holders*	*Contingent liabilities and Commitments*
	2018 BD '000	**2018 BD '000**	**2018 BD '000**	*2017 BD '000*	*2017 BD '000*	*2017 BD '000*
Geographic region						
GCC	**1,549,541**	**1,210,175**	**91,014**	1,441,799	1,153,955	121,365
Arab World	**46,808**	**56,409**	**7,099**	63,454	58,224	-
Europe	**35,400**	**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	**31,295**	**13,275**	**-**	19,157	9,084	-
	1,710,310	**1,405,488**	**98,883**	1,589,228	1,285,391	122,675

	Assets	**Liabilities and equity of investment account holders**	**Contingent liabilities and Commitments**	*Assets*	*Liabilities and equity of investment account holders*	*Contingent liabilities and Commitments*
	2018 BD '000	**2018 BD '000**	**2018 BD '000**	*2017 BD '000*	*2017 BD '000*	*2017 BD '000*
Industry sector						
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
	1,710,310	**1,405,488**	**98,883**	1,589,228	1,285,391	122,675

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

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

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			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
Bahraini dinars	**0.10**	**134**	**0.10**	**(134)**
US dollars	**0.10**	**314**	**0.10**	**(314)**

	2017			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
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.

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				
	Upto 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
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
	375,331	270,107	653,785	411,087	1,710,310
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
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
	859,943	426,832	116,460	2,253	1,405,488

36 LIQUIDITY RISK (continued)

	31 December 2017				
	Upto 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
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
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
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

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					
	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***	***Total BD '000***
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
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**
	363,452	**550,343**	**494,259**	**98,687**	**2,211**	**1,508,952**

	31 December 2017					
	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*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
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
	283,886	604,623	364,525	134,505	39,352	1,426,891

37 SEGMENT INFORMATION

PRIMARY SEGMENT INFORMATION

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

Banking	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
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	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:

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

Goodwill resulting from BMI acquisition is allocated to banking segment.

	31 December 2017				
	Banking BD '000	*Treasury BD '000*	*Investments BD '000*	*Unallocated BD '000*	*Total BD '000*
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.

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 transations 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.

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.

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

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BASEL III PILLAR III DISCLOSURES

CONTENTS

1 INTRODUCTION

The Central Bank of Bahrain ("CBB") requirements, which act as a common framework for the implementation of the Basel III accord in the Kingdom of Bahrain came into effect on 1 January 2015.

The Basel III accord is built on three pillars:

- **Pillar I** deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.
- **Pillar II** involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.
- **Pillar III** relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

The disclosures in this document are in addition to the disclosures included in the consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and relevant CBB directives.

2 FINANCIAL PERFORMANCE AND POSITION

The Bank was incorporated on 19 January 2006 in the Kingdom of Bahrain. The Bank operates under Islamic Shari'a principles in accordance with the regulatory requirements for Islamic banks set by the CBB. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market and operates under an Islamic retail banking license issued by CBB.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015. BMI Bank's operations are in compliance with Shari'a principles effective 1 January 2015.

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 it's obligations at their respective carrying values.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. BMIO used to operate under an offshore banking license issued by the Central Bank of Seychelles. From 20 May 2016, ASBS was granted a Banking Business License which permits onshore as well as offshore banking activities. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

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 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 Bank and its principal banking subsidiary operates through 10 branches in the Kingdom of Bahrain and 1 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 under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank together with its subsidiaries are referred to as the "Group".

The consolidated financial statements and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

Table 2.1 Key Financial Indicators (PD 1.3.9 a,b,c)

	BD '000					
	Dec 2018	***Dec 2017***	***Dec 2016***	***Dec 2015***	***Dec 2014***	***Dec 2013***
Total operating income	56,719	62,190	63,000	58,898	46,068	26,087
Net profit	18,520	18,055	16,096	10,548	15,821	12,372
Total assets	1,710,310	1,589,228	1,681,293	1,656,643	1,955,297	1,088,252
Total equity	304,822	303,837	324,899	320,002	328,803	246,097

Key Ratios	***Dec 2018***	***Dec 2017***	***Dec 2016***	***Dec 2015***	***Dec 2014***	***Dec 2013***
Earnings per share (fils)	8.7	8.5	7.6	5.8	8.0	8.3
Return on average assets (%)	1.1	1.1	1.0	0.6	1.0	1.2
Return on average equity (%)	6.1	5.7	5.0	3.3	5.5	5.4
Cost to operating income (%)	44.0	39.0	41.4	44.7	57.3	43.7
Dividend payout ratio (%)	81.0	83.0	66.5	86.2	67.7	60.5
Dividend yield ratio (%)	7.0	6.1	4.2	5.4	3.8	3.6
Net profit margin on Islamic assets (%)	2.9%	3.2%	2.7%	3.3%	2.8%	2.6%

Table 2.2 Financial Summary

BD '000

Consolidated Financial Position	Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Cash and balances with banks and Central Bank	82,587	66,351	131,990	152,572	277,751	86,097
Sovereign Sukuk	354,215	363,569	358,269	350,474	145,789	102,937
Placements with financial institutions	163,305	141,225	182,452	103,345	182,110	118,227
Corporate Sukuk	9,222	10,419	28,934	50,472	88,193	91,106
Financing assets	568,905	532,535	478,798	491,353	470,880	289,371
Finance lease assets	256,892	213,238	188,485	155,217	141,052	110,631
Non-trading investments	107,508	111,325	122,073	123,514	147,096	125,923
Investment properties	74,261	66,782	51,863	68,786	65,149	66,718
Development properties	6,290	6,448	17,781	49,021	59,262	65,891
Investment in associates	15,972	16,835	10,561	9,994	10,492	8,537
Other assets	45,182	34,530	64,276	75,924	341,552	22,814
Goodwill	25,971	25,971	25,971	25,971	25,971	-
Assets classified as held-for-sale	-	-	19,840	-	-	-
Placements from financial institutions	144,125	154,765	132,032	120,795	121,266	106,796
Placements from customers	705,924	602,784	723,439	842,570	1,034,052	584,365
Customer current accounts	251,842	283,886	279,609	224,366	226,648	70,532
Murabaha term financing	155,543	79,986	91,837	35,986	21,337	23,637
Other liabilities	48,293	45,089	49,260	50,573	195,039	30,979
Liabilities relating to assets classified as held-for-sale	-	-	11,421	-	-	-
Equity of Investment Accountholders (EOIA)	99,761	118,881	68,796	62,351	28,152	25,846

Capital	Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Capital adequacy (%)	20.6	21.4	21.6	20.1	18.7	21.4
Equity/total assets (%)	17.8	19.1	19.3	19.3	16.8	22.6
Total customer deposits/equity (times)	3.5x	3.3x	3.3x	3.5x	4.3x	2.8x

Liquidity and Other Ratios	Dec 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Islamic financing contracts/total assets (%)	48.3	46.9	39.7	39.0	31.3	36.8
Investments/total assets (%)	33.2	36.2	36.2	39.4	26.4	42.4
Liquid assets/total assets (%)	35.1	35.9	40.0	36.6	31.7	28.2
Liquid assets/Current and URIA deposits (%)	170.7	141.8	193.1	211.5	237.7	318.8
Customer Deposits / Total assets (%)	61.8	63.3	63.8	68.2	65.9	62.6
Due from banks and financial institutions / Total Assets (%)	9.5	8.9	10.9	6.2	9.3	10.9
Interbank Assets / Interbank Liabilities	113.3	91.3	138.2	85.6	150.2	110.7
Islamic financing contracts / customer deposits (%)	78.1	74.2	62.3	57.3	47.5	58.8
Number of employees	341.0	322.0	333.0	368.0	457.0	191.0

3 GROUP AND CAPITAL STRUCTURE

3.1 GROUP STRUCTURE

"The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2018."

The principal subsidiaries and associates as at 31 December 2018 and their treatment for capital adequacy purposes are as follows:

<table>
<tr><th>Subsidiary</th><th>Entity classification as per CA Module</th><th>Treatment by the Bank</th></tr>
<tr><td>Al Salam Bank Seychelles</td><td>Banking subsidiary</td><td>Aggregation of risk weighted assets approved by the CBB on 28 June 2016</td></tr>
<tr><td>Kenaz Al Kadam Real Estate Investment WLL(ii)</td><td>Commercial entity</td><td rowspan="5">Risk weighting of investment exposure</td></tr>
<tr><td>Kenaz Al Hamala Real Estate Investment WLL(ii)</td><td>Commercial entity</td></tr>
<tr><td>Wahat Al Muharraq Real Estate Investment WLL(ii)</td><td>Commercial entity</td></tr>
<tr><td>Burj Al Qurb(ii)</td><td>Commercial entity</td></tr>
<tr><td>ASB Biodiesel 1</td><td>Commercial entity</td></tr>
<tr><td>Associates</td><td></td><td></td></tr>
<tr><td>Al Salam Bank Algeria</td><td>Financial entity</td><td rowspan="2">Risk weighting of investment exposure</td></tr>
<tr><td>Gulf African Bank</td><td>Financial entity</td></tr>
<tr><td>CSQ 1 Property Unit Trust</td><td rowspan="7">Commercial entity</td><td rowspan="7">Risk weighting of investment exposure</td></tr>
<tr><td>Manara Development Company BSC (c)</td></tr>
<tr><td>NS Real Estate Company WLL(ii)</td></tr>
<tr><td>Burj Al Jewar(ii)</td></tr>
<tr><td>Darari Investment Co WLL(ii)</td></tr>
<tr><td>Burj Al Safwa(ii)</td></tr>
<tr><td>Al Salam Global REIT</td></tr>
</table>

3.2 CAPITAL STRUCTURE

The Group's total capital of BD 290,332 thousands comprises of CET 1, AT1 and Tier 2 capital which is detailed in the following table: (PD 1.3.11)

The issued and paid up share capital of the Group was BD 214,093 thousands at 31 December 2018, comprising of 2,140,931 thousand shares of BD 0.100 each. (PD 1.3.11)

The management believes that the current capital structure addresses the current and future activities of the Group.

Table 3.1 Breakdown of the Bank's Capital Base (PD 1.3.12, 13, 14, 15, 16)

	BD '000		
	CET1	***AT1***	***T2***
Issued and fully paid up ordinary shares	214,093		
Treasury shares	(3,855)		
Legal/statutory reserves	18,998		
Share premium	12,209		
Retained earnings	5,219		
Current interim cumulative net income / losses	18,499		
Unrealized gains and losses on available for sale financial instruments	199		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(3,195)		
Unrealized gains and losses arising from fair valuing equities	18,383		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	182		
Total CET1 capital prior to regulatory adjustments	**280,732**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**254,761**		
Instruments issued by banking subsidiaries to third parties		13	17
Asset revaluation reserve - Property, plant, and equipment			23,589
General financing loss provisions			11,952
Total Available AT1 & T2 Capital		**13**	**35,557**
Total Tier 1		**254,774**	
Total Capital (PD 1.3.20 a)			**290,332**

Table 3.2

	BD '000		
	Risk Weighted Exposures		
	Credit	*Operational*	*Market*
Risk Weighted Exposures (self-financed)	1,294,727	100,699	2,306
Risk Weighted Exposures (URIA)	6,886	-	-
Aggregation of Risk Weighted Exposures	2,878	644	-
Risk Weighted Exposures after Aggregation	**1,304,492**	**101,343**	**2,306**
Total Risk Weighted Exposures			**1,408,140**
	CET 1	*T1*	*Total Capital*
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**18.09%**	**18.09%**	**20.62%**
Minimum Required by CBB Regulations under Basel III (before CCB)	**6.50%**	**8.00%**	**10.00%**
Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**	**2.50%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

* Calculated in accordance with Capital Adequacy Module of Volume 2 issued by the CBB. ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

4 CAPITAL ADEQUACY RATIOS (CAR)

No impediments on the transfer of funds or reallocation of regulatory capital exist and the Group has adequate capital to support the current and future activities of the Group. (PD 1.3.6.c and PD 1.3.16)

4.1 CAPITAL MANAGEMENT

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Maximize return on capital and generate sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the year ended 31 December 2018.

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk-weighted capital requirement for credit, market and operational risks are given below.

5.1 CREDIT RISK

Definition of exposure classes per Standard Portfolio (PD 1.3.21 a)

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel III capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are as follows:

a. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Claims on public sector entities (PSEs)

Bahrain PSEs are assigned 0% risk weight. Other sovereign PSE's, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than those mentioned above are risk weighted based on their credit ratings.

c. Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation. Significant investment in subordinated debt of banking, securities and financial entities are risk weighted at 250% and investments in excess of 15% of the Bank's CET1, then the excess amount will be deducted from the bank's capital.

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

e. Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due Islamic financing contracts), if it meets the criteria mentioned in the CBB's rule book.

f. Mortgages

Claims secured by mortgages on residential mortgage and commercial real estate are subject to a minimum of 35%, 75% and 100% risk weight respectively.

g. Past due receivables (PD 1.3.22 a)

The unsecured portion of the account receivables and lease payment receivables (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the facility.

(b) 100% risk weight when specific provisions are 20% or more of the outstanding amount of the facility.

h. Investment in securities and sukuk

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

i. Holding of real estate

All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

j. Other assets

These are risk weighted at 100%.

Table 5.1 Funded and Unfunded Exposures

BD '000

Contribution by Equity and Current Accounts					
Exposure type	***Gross Credit Exposure***	***CRM***	***Net Credit Exposure***	***Risk-Weighted Assets (RWA)***	***Minimum Capital Charge***
Cash and balances with banks and Central Bank	79,495	-	79,495	9,498	1,187
Sovereign Sukuk	352,934	-	352,934	4,945	618
Placements with financial institutions	63,250	-	63,250	40,374	5,047
Corporate Sukuk	9,242	-	9,242	9,242	1,155
Murabaha financing	169,868	44,036	125,832	94,219	11,777
Mudaraba financing	377,429	26,001	351,428	299,300	37,413
Musharaka	24,781	-	24,781	24,664	3,083
Credit Cards	3,399	-	3,399	2,836	354
Finance lease assets	259,282	108,419	150,863	111,229	13,904
Non-trading investments	108,970	-	108,970	420,826	52,603
Investment properties	74,261	-	74,261	148,523	18,565
Development properties	6,290	-	6,290	12,581	1,573
Investment in associates	16,938	-	16,938	51,289	6,411
Other assets	18,970	-	18,970	20,861	2,608
Total funded exposures	**1,565,108**	**178,456**	**1,386,653**	**1,250,385**	**156,298**
Contingent Liabilities & Commitments	56,915	-	56,915	44,343	5,543
Total unfunded exposures	**56,915**	**-**	**56,915**	**44,343**	**5,543**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	-	-	-	2,878	360
Total exposures	**1,622,024**	**178,456**	**1,443,568**	**1,297,606**	**162,201**

BD '000

Contribution by Equity of Investment Accountholders					
Exposure type	***Gross Credit Exposure***	***CRM***	***Net Credit Exposure***	***Risk-Weighted Assets (RWA)***	***Minimum Capital Charge***
Placements with financial institutions	99,691	-	99,691	6,886	861
Total funded exposures	**99,691**	**-**	**99,691**	**6,886**	**861**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**99,691**	**-**	**99,691**	**6,886**	**861**

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF); and

Note c: The unfunded exposure before (CCF) as of 31 December 2018 is BD 121,613 thousands.

Excessive risk concentration (PD 1.3.26 a)

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 country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Following is the Gross credit exposure by Islamic financing contracts which represents the exposure on accounts receivable and lease payments receivable which are covered by eligible collateral: (PD 1.3.17) (PD 1.3.25 b, c)

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

BD '000

				Eligible collaterals held (after appropriate haircuts)*				
Current Credit Exposure by Type of Islamic Financing Contracts	***Gross Positive Fair Value (Net of specific provision)***	***Netting Benefits***	***Netted Current Credit Exposures***	***Cash***	***Govt. Securities***	***Guarantees***	***Real Estate***	***Total***
Murabaha financing	169,868	-	169,868	21,229	38,613	-	-	59,843
Mudaraba financing	377,429	-	377,429	40,532	-	-	-	40,532
Finance lease assets (Ijarah Muntahia Bittamleek)	259,282	-	259,282	1,896	-	-	170,331	172,227
Musharaka	24,781	-	24,781	-	-	-	-	-
Credit Cards	3,399	-	3,399	-	-	-	-	-
Total	**834,759**	**-**	**834,759**	**63,656**	**38,613**	**-**	**170,331**	**272,601**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Credit risk concentrations and thresholds and portfolio management

The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer bank credit limits, set by the Risk Committee. Credit exposure to individual customers or customer banks is then controlled through a tiered hierarchy of delegated approval authorities.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties exceeding 15 percent of total capital.

As part of credit risk management, Bank manages the credit portfolio with the objective to limit concetrations, have proper liquidity and maximise its earnings.This activity is carried out in coordination with the business and support functions. Towards this end Risk Management reviews the limit structures with the objective to ensure maximum diversification of the portfolio.

As at 31 December 2018, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures were BHD nil thousands. (PD 1.3.23 f)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

BD '000

Contribution by Equity and Current Accounts		
Exposure Type	**Gross Credit Exposure**	**Average Gross Credit Exposure**
Cash and balances with banks and Central Bank	82,587	70,713
Sovereign Sukuk	354,215	360,548
Placements with financial institutions	63,544	57,303
Corporate Sukuk	9,222	9,000
Financing assets	568,905	541,772
Finance lease assets	256,892	235,973
Non-trading investments	107,508	109,648
Investment properties	74,261	74,749
Development properties	6,290	6,369
Investment in associates	15,972	16,624
Other assets	45,182	41,248
Goodwill	25,971	25,971
Total funded exposures	**1,610,549**	**1,549,917**
Contingent Liabilities & Commitments	98,883	119,393
Total unfunded exposures	**98,883**	**119,393**
Total exposures	**1,709,432**	**1,669,310**

BD '000

Contribution by Equity of Investment Accountholders

Exposure Type	**Gross Credit Exposure**	**Average Gross Credit Exposure***
Placements with financial institutions	99,761	99,939
Total funded exposures	**99,761**	**99,939**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**99,761**	**99,939**

* The Group has calculated the average gross credit exposures based on average quarterly balances.

Risk mitigation, collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from banks. As at 31 December 2018, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 272,601 thousands.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to Murabaha and Ijarah facilities. The Bank also makes use of master netting agreements with counterparties where relevant. (PD 1.3.25 a)

The main types of guarantors include rated banks and other financial institutions and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors/key management personnel of the borrower and other high net worth individuals.Guarantees taken by the Bank are irrevocable and unconditional. The financial position of the guarantor is reviewed to determine the commercial value of the guarantee.

The Group obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable Loan to Value (LTV) ratio of collateral. Also, where the customer is not in a position to provide additional collateral, the Group in consultation with its legal department evaluates the available legal and contractual options.

The Group ensures that at the inception of the facility, third party valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the third party. The third party valuator is approved by the Bank.

In case of default, the Group will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

5.1.1 GEOGRAPHICAL DISTRIBUTION OF EXPOSURES

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Country Risk Policy of the Bank provides the limtis for countries, the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-a-vis limits are submitted to the Board Audit and Risk Committee at quarterly intervals. The Geographical distribution of exposures by exposure type (including financing contracts, non trading investments, investments in real estate, development property and investment in associates) and funded or unfunded by is as follows:

Table 5.4 (PD 1.3.23 b)

BD '000

Contribution by Equity and Current Accounts							
Exposure Type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Cash and balances with banks and Central Bank	48,563	12	16,581	244	13,766	3,421	82,587
Sovereign Sukuk	347,991	-	-	2,665	-	3,559	354,215
Placements with financial institutions	59,663	-	-	-	3,516	365	63,544
Corporate Sukuk	7,310	-	-	1,912	-	-	9,222
Financing assets	510,355	40,250	6,558	1	6	11,735	568,905
Murabaha financing	109,885	40,246	6,557	-	-	11,008	167,696
Mudaraba financing	372,409	-	-	-	-	727	373,136
Musharaka	24,767	-	-	-	-	-	24,767
Credit Cards	3,294	4	1	1	6	-	3,306
Finance lease assets	256,555	-	-	-	-	337	256,892
Non-trading investments	101,867	-	-	-	358	5,283	107,508
Investment properties	74,261	-	-	-	-	-	74,261
Development properties	-	-	6,290	-	-	-	6,290
Investment in associates	-	6,546	5,963	-	-	3,463	15,972
Other assets	17,247	-	8	24,794	-	3,133	45,182
Goodwill	25,971	-	-	-	-	-	25,971
Total funded exposures	**1,449,783**	**46,808**	**35,400**	**29,616**	**17,646**	**31,296**	**1,610,549**
Contingent Liabilities & Commitments	91,015	7,099	34	736	-	-	98,883
Total unfunded exposures	**91,015**	**7,099**	**34**	**736**	**-**	**-**	**98,883**
Total exposures	**1,540,798**	**53,907**	**35,434**	**30,352**	**17,646**	**31,296**	**1,709,432**

Table 5.5 (PD 1.3.23 b)

BD '000

Contribution by Equity of investment account holders							
Exposure Type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Placements with financial institutions	99,761	-	-	-	-	-	99,761
Total funded exposures	**99,761**	**-**	**-**	**-**	**-**	**-**	**99,761**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**99,761**	**-**	**-**	**-**	**-**	**-**	**99,761**

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions (PD 1.3.23 i)

BD '000

Contribution by Equity and Current Accounts				
	Gross Past Due Financing Contracts	**12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
GCC Countries	92,658	(2,435)	74,157	(22,098)
Europe	-	-	4,217	(3,859)
Total	**92,658**	**(2,435)**	**78,374**	**(25,957)**

5.1.2 EXPOSURE BY INDUSTRY

Table 5.7 Exposure by type of credit exposure (PD 1.3.23 c)

BD '000

Contribution by Equity and Current Account								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	47,079	-	-	-	29,142	6,366	82,587
Sovereign Sukuk	-	-	-	-	-	354,215	-	354,215
Placements with financial institutions	-	40,542	-	-	-	23,002	-	63,544
Corporate Sukuk	-	5	1,715	-	-	4,094	3,408	9,222
Financing assets	57,319	90,016	126,035	-	129,059	68,886	97,591	568,905
Finance lease assets	18,549	-	72,476	-	119,849	1,332	44,685	256,892
Non-trading investments	-	85,177	-	1,308	-	-	21,022	107,508
Investment properties	-	-	74,261	-	-	-	-	74,261
Development properties	-	-	6,290	-	-	-	-	6,290
Investment in associates	-	15,972	-	-	-	-	-	15,972
Other assets	23,234	3,816	9,617	0	6,963	2	1,550	45,182
Goodwill	-	25,971	-	-	-	-	-	25,971
Total funded exposures	**99,103**	**308,578**	**290,394**	**1,308**	**255,870**	**480,673**	**174,622**	**1,610,549**
Contingent Liabilities & Commitments	18,708	10,338	35,433	-	13,185	7,325	13,894	98,883
Total unfunded exposures	**18,708**	**10,338**	**35,433**	**-**	**13,185**	**7,325**	**13,894**	**98,883**
Total exposures	**117,811**	**318,916**	**325,828**	**1,308**	**269,055**	**487,998**	**188,516**	**1,709,432**

Table 5.8 Exposure by type of credit exposure (PD 1.3.23 c)

BD '000

Contribution by Equity of Investment Accountholders								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Placements with financial institutions	-	99,761	-	-	-	-	-	99,761
Total funded exposures	**-**	**99,761**	**-**	**-**	**-**	**-**	**-**	**99,761**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**-**	**99,761**	**-**	**-**	**-**	**-**	**-**	**99,761**

Table 5.9 The exposure by industry including impaired assets and the related impairment is as follows: (PD 1.3.23 h)

BD '000

Contribution by Equity and Current Account				
Exposure Type	**Gross Past Due Financing Contracts**	**12 month ECL and Lifetime ECL not impaired (Stage 2 & 1)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
Trading and Manufacturing	12,149	(430)	20,185	(10,048)
Banks and Financial Institutions	-	-	26,039	(3,507)
Real Estate	56,488	(828)	12,304	(5,891)
Individuals	20,977	(1,034)	14,559	(3,663)
Government	-	-	-	-
Others	3,044	(144)	5,288	(2,849)
Total	**92,658**	**(2,435)**	**78,374**	**(25,957)**

All credit exposures are classified as Past Due and Impaired when any amount due is past due for 90 days or more. Such accounts are classified under Stage 3 as Sub-Standard, Doubtful and Loss assets. Appropriate provisions are provided for such assets. In respect of General Provisions Bank has adopted the FAS 30 standards for calculating the Expected Credit Losses (ECL).

Table - 5.10 Movement In Net Allowance For Credit Losses / Impairment - (PD 1.3.24 d)

The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets.

BD '000

Exposure Type	**Stage 1: 12-month ECL**	**Stage 2: Lifetime ECL not credit-impaired**	**Stage 3: Lifetime ECL credit-impaired**	**Total ECL**
Balance at the beginning of the year	**7,982**	**16,052**	**65,559**	**89,593**
- 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 written off during the year	-	-	(8,678)	(8,678)
Elimination on consolidation	-	-	(52,045)	(52,045)
Balance at the end of the year	**5,614**	**5,384**	**28,427**	**39,425**

Table 5.11 Ageing Analysis - (PD 1.3.24 b (i))

BD '000

Exposure Type	Gross Impaired and Past Due Contracts: Up to 1 Year	Over 1 year up to 3 years	Over 3 years	Expected Credit Losses (ECL) / Specific Provisions	Net Outstanding	Market Value of Collateral
Trading and Manufacturing	21,482	3,794	7,058	(10,477)	21,856	50,647
Banks and Financial Institutions	26,039	-	-	(3,507)	22,532	1,777
Real Estate	57,754	1,393	9,645	(6,718)	62,073	119,722
Individuals	27,189	993	7,353	(4,696)	30,840	54,879
Government	-	-	-	-	-	-
Others	6,576	974	785	(2,993)	5,341	11,369
Total	**139,040**	**7,153**	**24,841**	**(28,392)**	**142,642**	**238,395**

5.1.3 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies such as Standard & Poor›s, Fitch, Moody›s and Capital Intelligence (accredited External Credit Assessment Institutions – ECAI). The lowest of the ratings based on information available to public is used as an input in computing rated exposures. (PD 1.3.22 c, d, e)

BD '000

	*Gross Credit Exposure**	*Rated Exposure*	*Unrated Exposure*
Cash	6,470	-	6,470
Claims on sovereigns	458,575	-	458,575
Claims on banks	254,794	183,762	71,032
Claims on corporate portfolio	191,347	-	191,347
Regulatory retail portfolio	60,017	-	60,017
Mortgages	407,360	-	407,360
Past due receivables over 90 days	55,624	-	55,624
Investments in Securities and Sukuk	12,660	-	12,660
Holding of Real Estate	194,176	-	194,176
Other assets and Specialized financing	80,692	-	80,692
Total	**1,721,715**	**183,762**	**1,537,953**

* Gross credit exposure above have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through the internal risk rating system. As such, the Group uses internal risk ratings that are supported by a variety of financial analytics, combined with processed market information, to provide main inputs for measurement of counterparty credit risk. All internal ratings are tailored to various categories and are derived in accordance with the Group's credit policy and are assessed and updated on a regular basis. (PD 1.3.22 e)

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, the above amounts have been extracted from the workings prepared based on the Form PIRI submitted to the CBB by the Bank.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF);
- risk weighting of excess amount over maximum permitted large exposure limit at 800%.

5.1.4 Maturity Analysis of Exposures

The table below summarizes the notional principal amounts and the relative exposure before applying credit risk mitigation:

Table 5.13

BD '000

	Notional Principal	*Credit Exposure **
Contingent liabilities on behalf of customers	37,499	20,523
Irrevocable unutilised commitments	61,384	13,661
Forward foreign exchange contracts	22,730	22,730
Operating lease commitments	3,015	-
Total	**124,628**	**56,915**

* Credit exposure is after applying CCF.

Table 5.14 Contractual maturity analysis by major type of credit exposure - Funded (PD 1.3.23 g) (PD 1.3.24 a)

BD '000

	Up to 3 months	*3 months to 1 year*	*Total within 12 months*	*5 – 1 years*	*10 - 5 years*	*20 - 10 years*	*Over 20 years*	*Total Over 12 months*	*Total*
Cash and balances with banks and Central Bank	82,587	-	82,587	-	-	-	-	-	82,587
Sovereign Sukuk	7,777	44,670	52,447	149,314	137,572	-	14,882	301,768	354,215
Placements with financial institutions	163,305	-	163,305	-	0	-	-	0	163,305
Corporate Sukuk	-	1,936	1,936	7,286	0	-	-	7,286	9,222
Financing assets and finance lease assets	112,369	222,409	334,778	284,815	147,153	44,519	14,532	491,019	825,797
Non-trading investments	-	-	-	107,508	-	-	-	107,508	107,508
Investment properties	-	-	-	74,261	-	-	-	74,261	74,261
Development properties	-	-	-	6,290	-	-	-	6,290	6,290
Investment in associates	-	-	-	15,972	-	-	-	15,972	15,972
Other assets	9,293	1,092	10,385	8,339	24,307	2,101	50	34,797	45,182
Goodwill	-	-	-	-	25,971	-	-	25,971	25,971
Total	**375,331**	**270,107**	**645,438**	**653,785**	**335,003**	**46,620**	**29,464**	**1,064,873**	**1,710,311**

Table 5.14 (a) Contractual maturity analysis by major type of credit exposure - Unfunded

BD '000

	Up to 3 months	*3 months to 1 year*	*Total within 12 months*	*5 – 1 years*	*10 - 5 years*	*20 - 10 years*	*Over 20 years*	*Total Over 12 months*	*Total*
Unutilised commitments	26,597	34,738	61,335	49	-	-	-	49	61,384
Contingent liabilities	17,444	15,132	32,576	4,923	-	-	-	4,923	37,499
Operating lease commitments	-	1,275	1,275	1,740	-	-	-	1,740	3,015
Forward foreign exchange contracts	17,093	5,638	22,730	-	-	-	-	-	22,730
Total	**61,133**	**56,783**	**117,916**	**6,713**	**-**	**-**	**-**	**6,713**	**124,629**

The above contractual maturity analysis is based on consolidated statement of financial position classification.

5.1.5 (a) Maturity analysis of funding

BD '000

	Up to 3 months	*3 months to 1 year*	*Total within 12 months*	*5 – 1 years*	*10 - 5 years*	*20 - 10 years*	*Over 20 years*	*Total Over 12 months*	*Total*
Placements from financial institutions	115,752	24,497	140,249	3,876	-	-	-	3,876	144,125
Placements from customers	294,577	373,955	668,532	37,392	-	-	-	37,392	705,924
Customer current accounts	251,842	-	251,842	-	-	-	-	-	251,842
Murabaha term financing	77,471	28,380	105,851	47,481	2,211	-	-	49,692	155,543
Other liabilities	20,540	-	20,540	27,711	42	-	-	27,753	48,293
Equity of Investment Accountholders	99,761	-	99,761	-	-	-	-	-	99,761
Total	**859,943**	**426,832**	**1,286,775**	**116,460**	**2,253**	**-**	**-**	**118,713**	**1,405,488**

5.2 Market Risk

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board of Directors has set limits on the risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee. (PD 1.3.27 a)

Market risk is measured and monitored by the adoption of methodologies: Forex NOP, Earnings at Risk, Economic Value and Rate Sensitive Assets/Liabilities Gaps. All new products/process are reviewed from a market risk perspective.

Table 5.16 The Group's capital charge in respect of market risk in accordance with the standardized methodology is as follows:

BD '000

	Risk Weighted Asset	*Capital Requirement*	*Period End Capital Charge*	*Capital Requirement –Minimum**	*Capital Requirement –Maximum**
Foreign exchange risk	2,306	288	184	184	230
Total market risk	**2,306**	**288**	**184**	**184**	**230**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a quarterly basis during the year ended 31 December 2018.

Foreign exchange positions constitute a major component of the market risk capital charge. The Group maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Group's banking book positions. The open positions were taken in order of running the Group's day to day operations that include funding for the Group's investment portfolio. The Group monitors and manages these open positions on a daily basis. (PD 1.3.27 a)

5.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Group has developed an operational risk framework which encompasses identification, measurement, management and monitoring of risk through risk control and mitigation. A variety of underlying processes are being deployed across the Group including risk and control self assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans. (PD 1.3.21 c)

The Group's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Legal, Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which the Group is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. (PD 1.3.28) (PD 1.3.29)

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. All changes to such policies are subject to agreement by all respective business units and approval of the Board of Directors following management review. Procedures are reviewed by the respective business or support unit and approved at the management level. (PD 1.3.28) (PD 1.3.29)

The Group has a well established Business Continuity Policy and Disaster Recovery Program, and has documented updated procedures covering all activities necessary for business continuity in case of a business disrupting event. Internal Audit also provides an independent assessment to evaluate the program's effectiveness.

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 12,587 thousands. This capital charge was computed by categorizing the Group's activities into its specific business lines (as defined by the Basel III framework) and multiplying the business line›s average gross income for the last three financial years by a predefined beta factor. (PD 1.3.19)

Table 5.17

	BD '000
	Dec-2018
Average gross income	53,706
Risk weighted exposures	100,699
Minimum capital charge	12,587

The Group uses the Temenos T24 core system developed by Globus, for obtaining the data needed for analysis of events and data related to credit, market and operational risk assessment.

Non-Shari'a compliant income for the year ended 31 December 2018 amounted to BD 297 thousands. This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. No Sharia violations were identified during the year. (PD 1.3.30 a, b)

Information Security

Bank has in place an Information Security and Compliance function within RMD to identify and mange disruptions to the Information Technology systems as it will impact the operations of the Bank. Towards this end it is ensured that appropriate systems, policies and procedures are in place to manage the Information Security in the Bank. At the Management level an Information Security Steering Committee is in place. The Bank is PCI-DSS certified. On-going awareness on information security is provided to the employees in the Bank. All Information Security incidents are reviewed in detail and finding thereof escalated to the Information Security Committee. The Information Security function in the Bank is actively involved in the review of all new Information Technology initiatives and their observations are addressed before the implementation of the new initiatives.

5.4 Rate of Return Risk (PD 1.3.39)

Rate of return risk arises from the possibility that changes in return rates will affect future profitability or the fair values of financial instruments. The Group is exposed to rate of return risk as a result of mismatches of return rate repricing of assets and liabilities. In addition, rate of return risk can also affect the Group through market wide rate changes that are brought on by changes in the economy. The effect of the market rates is reflected and can be seen in the Group's pricing of contracts as they carry competitive pricing that follows the market. When risks are high, the market tends to place a higher rate of return to maintain the risk/return profile. Accordingly, the market reduces the rate of return when it identifies a decrease in the market wide risk that would be reflected by banks decreasing their rate of return pricing.

This risk is minimized as the Group›s rate sensitive assets and liabilities are mostly for short tenures. In addition, the Group's cautious asset liability strategy avoids funding short term lending facilities from long term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The below tables provides the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2018. (PD 1.3.27 c)

Table 5.18

BD '000

ASSETS	Total	Upto 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	> 2 years	Profit insensitive
Cash and balances with banks and Central Bank	82,587	-	-	-	-	-	-	82,587
Sovereign Sukuk	354,215	4,097	3,681	19,670	25,000	20,178	281,590	-
Placements with financial institutions	163,305	163,305	-	-	-	-	-	-
Corporate Sukuk	9,222	288	-	1,940	35	3,861	3,098	-
Financing assets	568,905	23,786	79,924	67,758	101,481	62,217	233,739	-
Finance lease assets	256,892	3,340	5,321	4,824	48,346	22,488	172,573	-
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	45,182	9,211	139	1,048	44	744	31,220	2,776
Goodwill	25,971	-	-	-	-	-	-	25,971
Total Assets (A)	**1,710,310**	**204,025**	**89,065**	**95,239**	**174,906**	**109,489**	**738,193**	**299,393**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

BD '000

LIABILITIES	*Total*	*Upto 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 2 years*	*> 2 years*	*Profit insensitive*
Placements from financial institutions	144,125	96,668	17,200	10,825	15,556	3,876	0	-
Placements from customers	705,924	136,517	158,059	144,112	229,843	25,271	12,121	-
Customer current accounts	251,842	-	-	-	-	-	-	251,842
Murabaha term financing	155,543	-	77,470	31	28,349	15,854	33,838	-
Other liabilities	48,293	20,538	-	-	0	-	27,754	-
Equity of investment accountholders	99,761		-	-	-	-	-	99,761
Total Liabilities	**1,405,487**	**253,723**	**252,730**	**154,969**	**273,749**	**45,000**	**73,713**	**351,603**
Shareholders funds	**304,823**	**-**	**-**	**-**	**-**	**-**	**-**	**304,823**
Total Liabilities & Shareholders Funds	**1,710,310**	**253,723**	**252,730**	**154,969**	**273,749**	**45,000**	**73,713**	**656,426**
Off-Balance Sheet Liabilities	**98,883**	**11,882**	**12,097**	**23,764**	**16,422**	**34,717**	**-**	**-**
Total liabilities with Off-Balance Sheet Items (B)	**1,809,193**	**265,606**	**264,827**	**178,733**	**290,171**	**79,717**	**73,713**	**656,426**
Gap (A - B)		(61,580)	(175,762)	(83,494)	(115,264)	29,771	664,479	(357,032)
Cumulative Gap		**(61,580)**	**(237,343)**	**(320,837)**	**(436,101)**	**(406,330)**	**258,149**	**(98,883)**

Table 5.18 (a)

		BD '000
Profit rate risk in the Banking Book		
200bp Profit Rate Shocks		
Rate shock	***Currency***	***Effect on net profit at 31 December 2018***
Upward rate shocks:	USD	627
	BHD	269
Downward rate shocks:	USD	(627)
	BHD	(269)

5.5 Equity Position Risk (PD 1.3.21 d) (PD 1.3.31)

Equity position risk arises from the possibility of changes in the price of equities or equity indices and the corresponding effect they will have on future profitability or the fair values of financial instruments. The Group is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

Executive and Investment Committee Oversight
The Board of Director's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit and market risks, strategy review and recommendations to the Board. The Investment Committee reviews and approves all transactions related to corporate and real estate investments, as well as 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.

Internal Controls
With regard to internal controls, the investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, separation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Investment Department are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent due diligence review by Investment Middle Office. Responsibility for all deployments and receipt of redemption proceeds vests with the Investment Administration Department. The Investment Department ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the Investment Middle Office operates as an independent department that is responsible for undergoing the due diligence for investments proposed by the Investments Department. This way, the Investment Department can specialize in sourcing deals and performing the initial analysis, whereas the Investment Middle Office will focus on preparing the detailed due diligence analysis at the start of an investment. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investment company and preparing performance reports along with other required documentation. This set-up helps streamline processes as each group will focus on a specific set of duties that results in time savings as well as having independence controls.

Table 5.19 Equity positions in the Banking Book

	BD '000
	Gross Credit Exposure
Quoted Equities	3,576
Unquoted Equities	105,003
Investment in associates - equity accounted	15,972
Net realized loss during the year	(106)
Net unrealized loss during the year	(1,788)

			BD '000
Asset Categories for Credit Risk	***Gross Credit Exposure***	***Risk-Weighted Assets (RWA)***	***Minimum Capital Charge***
Equity Investments - Unlisted	1,644	2,466	308
Significant investment in the common shares of financial entities >10%	10,975	27,438	3,430
Investment in listed real estate companies	8,858	26,573	3,322
Investment in unlisted real estate companies	103,304	413,216	51,652

The Group's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after considering the Board's risk appetite and the Board's approved liquidity, market risk and capital management policies. In line with the Board's approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced Commercial Risk (PD 1.3.41 a) (PD 1.3.21 f) (PD 1.3.32 i)

The Group is exposed to displaced commercial risk in the event of having Equity of investment accounts (EOIA) profit rates that are lower than market rates, thus putting the Group in risk of paying EOIA account holders from shareholders funds to cover the profit volatility risk. ASBB has mitigated this risk through regular monitoring of liquidity gaps, deposit rates and concentrations in terms of the funding requirements by the Asset Liability Committee (ALCO). The ALCO reviews and monitors peer review analysis which includes average deposit rates paid by its peers in order to realign the deposit rates with the current market.

5.7 Liquidity Risk (PD 1.3.36) (PD 1.3.37)

The Group monitors in an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Group's liquidity indicators through which the Group's liquidity profile can be assessed. In addition, the Group further mitigates its liquidity risk by establishing multiple funding sources to decrease it's correlation to an individual funding counterparty. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts. The liquidity coverage ratio as of 31 December 2018 was 244%.

5.8 Other Risks

The Group has an investment in a foreign banking subsidiary wherein the transactions are denominated in US Dollars (USD) and since the USD is pegged to BHD, there is no foreign exchange translaction effect on the investment. (PD 1.3.42).

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accounts ("EOIA") [previously known as Unrestricted Investment Accounts] are investors' funds held by the Group to be invested as appropriate without restriction as to where, how and for what purpose the funds are invested. EOIA funds are invested in short term placements with financial institutions using specific limits assigned for each institution. Savings accounts and call accounts comprise the EOIA, payable on demand and the account holder has the right to withdraw or transfer funds without penalty.
This allocation of assets has not changed since the last financial year. The funds are invested and managed in accordance with Shari'a principles. (PD 1.3.32 b)

Equity of investment account holders' funds are commingled with the Group's funds and invested mostly in short term placements with financial institutions. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. (PD 1.3.32 c, j, k)

Profit paid to the EOIA holders is based on the rate of return earned by the pool of profit bearing assets in which the EOIA have participated. The account holder participates in 45% of the profits earned in full after netting off the Mudarib fee as above. As a result, the share of profits earned by the EOIA holders for their Mudaraba accounts is equal to the share of profits paid to them. All equity of investment accounts are carried at cost plus accrued profits less amounts repaid. Income to Equity of investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances. The profits paid to EOIA and the rate of return earned over the previous years are disclosed in the below table. (PD 1.3.32 d, l, h)

The Risk weighted assets of the Group include the contribution from EOIA which are subject to the 30% risk weight.

The EOIA holders and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. (PD 1.3.32 f, g)

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the year end 31 December 2018 and years ended 31 December 2017, 2016,2015, 2014 and 2013 are as follows: (PD 1.3.33 e, l, m, n)

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

Table 6.1

BD '000

	Dec 2018	*Dec 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*	*Dec 2013*
Shareholders	246	119	119	155	215	148
EOIA (before smoothing)	492	230	216	282	391	279
Profit earned for EOIA before smoothing	492	230	216	282	391	279
Profit paid for EOIA after smoothing	246	119	119	155	215	148
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	N/A	7	7	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA) - Profit earned	0.49%	0.19%	0.31%	0.45%	1.39%	1.08%
Annual Rate of Return (EOIA) - Profit paid	0.25%	0.10%	0.17%	0.25%	0.76%	0.60%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	7	7	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	492	230	216	282	391	279
Mudarib fees	(246)	(111)	(97)	(127)	(176)	(131)
Profit credited to EOIA accounts	**246**	**119**	**119**	**155**	**215**	**148**
IRR movements	-	-	-	-	-	-
Profit on EOIA	**246**	**119**	**119**	**155**	**215**	**148**
Mudarib fee as a percentage of total investment profit	50%	48%	45%	45%	45%	47%
EOIA Balance	99,761	118,881	68,796	62,351	28,152	25,846
RWA as per PIRI Report	22,954	62,424	13,759	6,506	4,387	4,394

Table 6.2

BD '000

	Dec 2018	*Dec 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*	*Dec 2013*
Rate of Return	0.25%	0.10%	0.17%	0.25%	0.76%	0.60%
Return on average EOIA assets (ROAA)	0.49%	0.26%	0.32%	0.42%	1.28%	1.11%
Return on average equity (Total Owner's Equity) (ROAE)	0.16%	0.14%	0.07%	0.09%	0.13%	0.13%

Table 6.3 Equity of investment accountholders by Counterparty Type and Islamic Product Murabaha (PD 1.3.33 i)

Murabaha and Wakala receivables from banks				BD '000
Counterparty	*Total Exposures*	*Funded by EOIA*	*Funded by Self & Call Accounts*	*% of EOIA to Total*
Financial Institutions	163,305	99,761	-	61%
Total	**163,305**	**99,761**	**-**	**61%**

Table 6.4 The changes in asset allocation ratio are as follows: (PD 1.3.32 d)

BD '000

	Murabaha and Wakala receivables from banks		*Corporate Sukuk*		*Murabaha and Mudaraba financing*	
	EOIA	*Self & Call Accounts*	*EOIA*	*Self & Call Accounts*	*EOIA*	*Self & Call Accounts*
Asset Allocation as on 31 December 2018	99,761	63,544	-	-	-	-
Asset Allocation as on 31 December 2017	118,881	24,922	-	-	-	-
Asset Allocation as on 31 December 2016	68,796	113,656	-	-	-	-
Asset Allocation as on 31 December 2015	62,351	40,994	-	-	-	-
Asset Allocation as on 31 December 2014	24,281	157,829	3,871	135,433	-	460,029
Asset Allocation as on 31 December 2013	21,969	96,258	3,877	87,229	-	261,700
Asset Allocation as on 31 December 2012	18,276	85,014	-	-	-	227,109

There are no off-balance sheet exposures arising from investment decisions attributable to the EOIA holders because EOIA are used for short term Islamic financing contracts.

7 OTHER DISCLOSURES

7.1 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.

7.2 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's Senior Management. For further details refer Note 31 titled Related Party Transactions in the consolidated financial statements for the year ended 31 December 2018. The intra-group and related party transactions are made at arms length basis during the year. All related party transactions are approved by the Board. Where applicable, persons who have interest in the transaction under discussion abstain from voting on the approval of the proposed related party transaction. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 31 December 2018, the balance of the renegotiated financing facilities to individuals and corporate was BD 7,720 thousands. Most of the renegotiated facilities are performing and are fully secured. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package.The above restructuring did not have any significant impact on present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the year ended 31 December 2018. (PD 1.3.23 k)

7.5 Legal Risk and Claims

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. (PD 1.3.30 c)

7.6 Deposit Protection Scheme

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (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 Group under this scheme. (PD 4.4.2)

7.7 Exposure to highly-leveraged and other high-risk counterparties

"The bank has no exposure to highly-leverged and other high-risk counterparties as per the definition provided in the CBB rulebook PD-1.3.24 (PD 1.3.23 e)"

7.8 Exposures in excess of regulatory limits

The CBB has set a single exposure limit of 15% of the bank's total Capital Base on exposures to individuals and a combined exposure limit of 25% of the total Capital Base of closely-connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk-weighted at 800% unless it is an exempt exposure in accordance with the requirements in the CBB rulebook.

The bank has no exposures that are in excess of individual obligor limit of 15% of the bank's Capital Base as of 31 December 2018 (PD 1.3.23 f)

7.9 CBB Penalties (PD 1.3.44)

"During 2018 an amount of BD 1,200 was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements relating to:

As per HC-7.2.3A, Bahraini Islamic bank licensees must provide to the CBB, for its review and comment, at least 5 business days prior to communicating with the shareholders or publishing in the press, the draft agenda for any shareholders' meetings; the same was provided to CBB 2 business days before publication. The bank however received approval on the agenda and published it before the required time."

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, with both following line by line consolidation approach using consistent account policies without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financing facilities and investments have been grossed up with collective impairment provision, as presented below:

	BD '000
Balance sheet as per published financial statements	**1,710,309**
Collective provision impairment	11,952
Less: Provision related to Contingent Liabilities and Commitments	(611)
Balance sheet as in Regulatory Return	**1,721,651**

Step 2: Reconcilation of Published Financial Balance Sheet to Regulatory Reporting as at 31 December 2018

BD '000

ASSETS	"Balance sheet as in published financial statements"	"Consolidated PIRI data"	Reference
Cash and balances with banks and Central Bank	82,587	82,587	
Placements with banks and similar financial institutions	163,305	163,306	
of which Self financed	-	63,545	
of which financed by URIA	-	99,761	
Held-to-maturity investments	363,437	363,456	
of which Sovereign Sukuk	354,215	-	
of which Corporate Sukuk	9,222	-	
Financing assets	568,905	847,678	
Finance lease assets	256,892	-	
Assets under conversion - Loans and Advances	11,559	-	
Available-for-sale investments	1,658	1,658	
Investment properties	80,551	80,551	
of which Investments in real estate	74,261	-	
of which Development properties	6,290	-	
Investment in associates	15,972	16,938	
Property, plant, and equipment (PPE)	20,112	20,112	
Other Assets	145,332	145,364	
Non Trading investment	105,850	-	
Other receivables and prepayments	13,512	-	
Goodwill	25,971	-	G
Total Assets	**1,710,309**	**1,721,651**	

BD '000

	"Balance sheet as in published financial statements"	"Consolidated PIRI data"	Reference
Liabilities			
Current accounts for non-banks	251,842	251,842	
Balances of banks and similar institutions	144,125	144,125	
Funding Liabilities (eg. reverse commodity murabaha, etc.)	861,467	861,467	
of which Wakala payables to non-banks	705,924	-	
of whichTerm financing	155,543	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	48,292	47,682	
of which Other liabilities	42,287	41,677	
of which Dividends payable	6,005	6,005	
Unrestricted Investment Accounts	99,761	99,761	
Total Liabilities	**1,405,487**	**1,404,877**	

Owners' Equity			
Total share capital	210,238	210,238	A
Share capital	214,093	214,093	
Treasury stock	(3,855)	(3,855)	
Reserves and retained earnings	**93,901**	**93,901**	
Share premium	12,209	12,209	C-1
Statutory reserve	18,998	18,998	C-2
Retained earnings (excluding profit for the year)	23,602	23,602	B-1
Net profit for the year	18,499	18,499	B-2
Fx translation adjustment	(3,195)	(3,195)	C-3
Changes in fair value - amount eligible for CET1	199	199	C-4
Real estate fair value reserve - amount eligible for T2	23,589	23,589	D
Minority interest in subsidiaries' share capital	683	683	
of which amount not eligible for regulatory capital	-	471	
of which amount eligible for CET1	-	182	E-1
of which amount eligible for AT1	-	13	E-2
of which amount eligible for T2	-	17	E-3
Expected credit losses (Stages 2 & 1)		11,952	F
Total Owners' Equity	**304,822**	**316,774**	
Total Liabilities + Owners' Equity	**1,710,309**	**1,721,651**	

* Appendix PD 1 to be used post 1 January 2019

Appendix PD-2 & PD-4: Reconciliation requirements & Template during the transitional period

Step 3: Composition of Capital Common Template (transition) as at 31 December 2018

BD '000

Composition of Capital and Mapping to Regulatory Reports		Component of Regulatory Capital	Reference Numbers of Balance Sheet under the Regulatory Scope of Consolidation from Step 2	Amount subject to pre-2015 treatment
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	210,238	A	
2	Retained earnings	42,101	B+1B2	
3	Accumulated other comprehensive income (and other reserves)	28,211	*C1+C2+C3+C4*	
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	182	E1	108
6	Common Equity Tier 1 capital before regulatory adjustments	280,732		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	25,971	G	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		
11	Cash-flow hedge reserve	-		
12	Shortfall of provisions to expected losses	-		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-		
17	Reciprocal cross-holdings in common equity	-		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued share capital (amount above %10 threshold)	-		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above %10 threshold)	-		
20	Mortgage servicing rights (amount above 10% threshold)	-		
21	Deferred tax assets arising from temporary differences (amount above %10 threshold, net of related tax liability)	-		
22	Amount exceeding the %15 threshold	-		
23	of which: significant investments in the common stock of financials	-		
24	of which: mortgage servicing rights	-		
25	of which: deferred tax assets arising from temporary differences	-		
26	National specific regulatory adjustments	-		

BD '000

	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE2015- TREATMENT			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	Total regulatory adjustments to Common equity Tier 1	25,971		
29	**Common Equity Tier 1 capital (CET1)**	**254,761**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	13	E-2	(3)
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	13		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above %10 threshold)	-		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
41	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE2015- TREATMENT			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	**Additional Tier 1 capital (AT1)**	13		
45	**Tier 1 capital (T1 = CET1 + AT1)**	254,774		

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

				BD '000
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	23,589	D	
47	Directly issued capital instruments subject to phase out from Tier 2	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	17	E-3	(4)
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	11,952	F	
51	**Tier 2 capital before regulatory adjustments**	35,558		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above the %10 threshold)	-		
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		
56	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE2015- TREATMENT			
57	Total regulatory adjustments to Tier 2 capital	-		
58	**Tier 2 capital (T2)**	35,558		
59	**Total capital (TC = T1 + T2)**	290,332		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE2015- TREATMENT			
60	**Total risk weighted assets**	1,408,140		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	%18.09		
62	Tier 1 (as a percentage of risk weighted assets)	%18.09		
63	Total capital (as a percentage of risk weighted assets)	%20.62		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	%9.00		
65	of which: capital conservation buffer requirement	%2.50		
66	of which: bank specific countercyclical buffer requirement (N/A)	%0.00		
67	of which: D-SIB buffer requirement (N/A)	%0.00		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	%18.09		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	%9.00		
70	CBB Tier 1 minimum ratio	%10.50		
71	CBB total capital minimum ratio	%12.50		

		BD '000
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	**-**
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	11,952
77	Cap on inclusion of provisions in Tier 2 under standardised approach (%1.25 of risk weighted assets)	16,306
78	N/A	
79	N/A	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)	-
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Features of Regulatory Capital For the period ended 31 December 2018		
1	Issuer	Al Salam Bank, Bahrain
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SALAM
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo / group / group & solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	2,141 Million
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	-13Apr06-
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable