BUILDING PARTNERSHIPS. DRIVING GROWTH. BRIDGING GAPS.

Annual Report 2019

2030
البحرين
BAHRAIN

BDB
مجموعة بنك البحرين للتنمية
Bahrain Development Bank Group

Contents

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View our Annual Report and other information about Bahrain Development Bank on www.bdb-bh.com

**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**

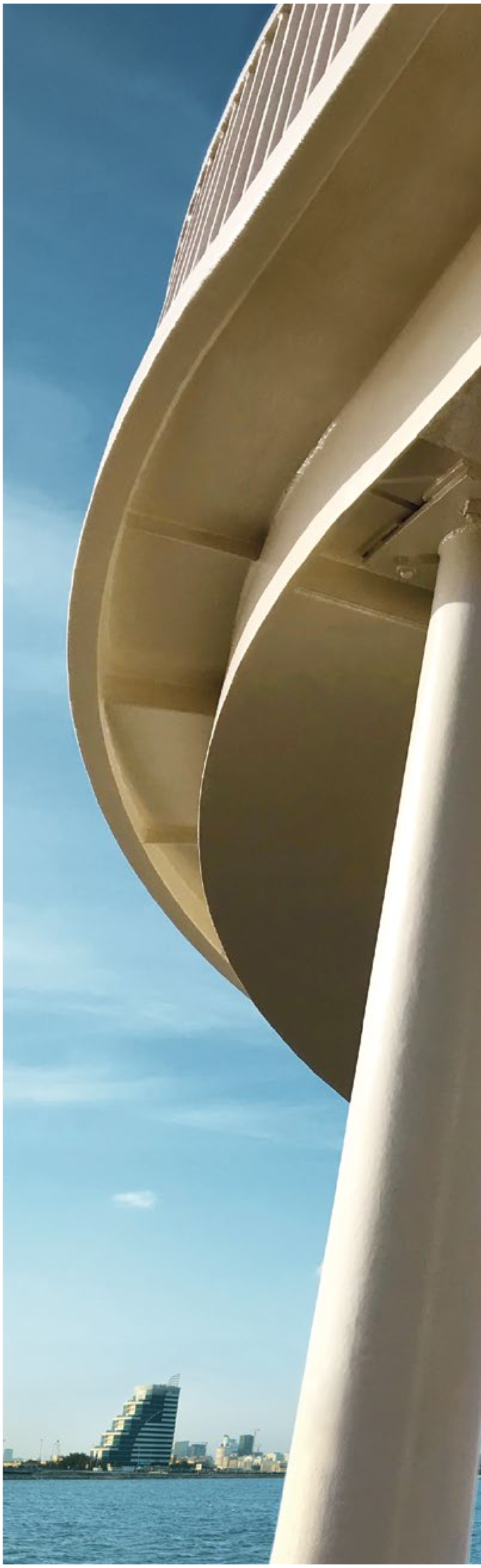
The King of the Kingdom
of Bahrain

**His Royal Highness
Prince Salman bin Hamad
Al Khalifa**

The Crown Prince,
Deputy Supreme Commander
and First Deputy Prime Minister

Overview

Bahrain Development Bank (BDB) provides a variety of financial services that are tailored to meet the needs of small and medium enterprises in Bahrain.



Bahrain Development Bank commenced its operations in 1992 as a specialist Bank. BDB's activities are focused on financing and developing small and medium enterprises in addition to encouraging and supporting the entrepreneurship activities in the Kingdom of Bahrain.

Working in-line with Bahrain Economic Vision 2030, BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing and developing small and medium enterprises.

This strategy is in line with the Bank's mission of being an active participant in national strategy by supporting this sector of the economy. BDB's role in this context is especially significant given the growing size and contribution of this important segment to domestic economic activity.

BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity.

Vision

To support projects that yield substantial economic, social and environmental benefits.

Mission

To promote entrepreneurship and innovation in the Kingdom, by encouraging Bahraini professionals, enterprising women and ambitious youth, who demonstrate strong business acumen and leadership qualities in promoting the growth and prosperity of Small and Medium Enterprises (SMEs) through financial support and advisory services.

Financial Highlights

	2019	2018	2017	2016	2015
Income Statement (BD Thousands)					
Net Islamic financing and interest income	**6,646**	6,398	6,701	7,996	6,113
Other income	**2,410**	3,788	3,115	2,201	4,351
Operating expenses	**7,642**	7,551	9,335	9,279	8,954
Expected credit losses / provision / impairment	**440**	4,074	8,152	1,971	477
Net profit (loss)	**1,037**	(1,326)	(7,671)	(1,053)	1,033
Dividend (percent)	**-**	-	-	-	-
Balance Sheet (BD Thousands)					
Total assets	**151,260**	158,205	176,170	211,333	198,140
Islamic financing and loans to customers	**76,731**	85,866	114,535	139,221	144,308
Investments (securities, properties, associates)	**53,296**	43,403	27,595	26,903	23,533
Total deposits	**34,918**	35,001	46,440	69,216	67,184
Customers' deposits	**29,451**	35,001	35,084	58,541	49,098
Total Equity	**69,326**	67,491	72,685	80,361	81,233
Profitability					
Return on average equity	**1.52%**	-1.89%	-10.02%	-1.30%	1.32%
Return on average assets	**0.67%**	-0.79%	-3.96%	-0.51%	0.55%
Earnings (Loss) per share (fils)	**16**	-20	-118	-16	16
Cost-to-income ratio	**84%**	74%	95%	91%	86%
Capital					
Equity/total assets	**46%**	43%	41%	38%	41%
Total deposits/equity (times)	**0.50**	0.52	0.64	0.86	0.83
Capital adequacy	**53.44%**	46.56%	39.80%	38.61%	37.98%
Business indicators					
Islamic financing and loans to customers/total assets	**51%**	54%	65%	66%	73%
Investments/total assets	**35%**	27%	16%	13%	12%
Islamic financing and loans to customers/customer deposits	**2.61**	2.45	3.26	2.38	2.94
Number of employees	**157**	166	182	188	203

Key Indicators

Net Islamic Financing and Interest Income (BD Millions)

6.65

2019	**6.65**
2018	6.40
2017	6.70
2016	8.00
2015	6.11

Total Assets (BD Millions)

151.26

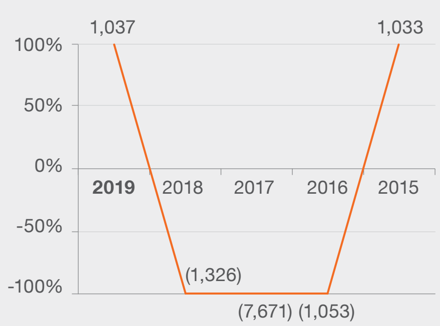
2019	**151.26**
2018	158.20
2017	176.17
2016	211.33
2015	198.14

Total Equity (BD Millions)

69.33

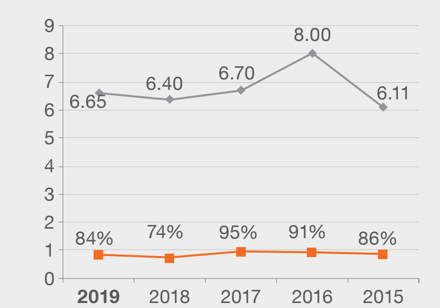
2019	**69.33**
2018	67.49
2017	72.69
2016	80.36
2015	81.23

Net Profit (loss) (BD Thousands)

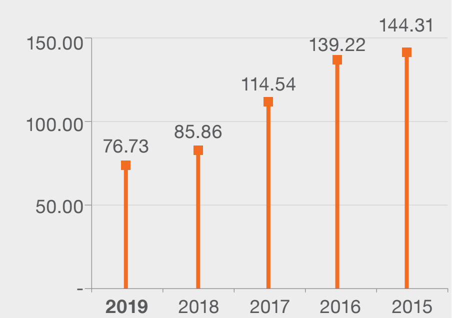


Net Islamic Financing and Interest Income (BD Millions)

Cost to Income Ratio



Islamic Financing and Loans to Customers (BD Millions)



Financial Review

During the financial year 2019, the Bank achieved turnaround from losses, and reported a Net Profit of BD 1.04 million against a net loss of BD 1.33 million in 2018.

Overview

During the financial year 2019, the Bank achieved turnaround from losses and reported a Net Profit of BD 1.04 million against a net loss BD 1.33 million for 2018. This was achieved, through enhancements in the standards for monitoring of the asset portfolio, focusing on deriving value from the impaired portfolio, control over costs and also prudent deployment of available surpluses. The above yielded results by way of improvement in the quality of the financing portfolio, higher recoveries from impaired portfolio which enabled substantial reduction in the allowance for expected credit Losses (ECL)/provisions by 89% and also higher income from surpluses.

Balance Sheet size as at the end of 2019 BD 151.26 million was lower by 4% (2018: BD 158.21 million) mainly on account of contractual repayments of Term Loans from Regional Financial Institutions.

Net Islamic Finance and Interest Income

Net Islamic finance and interest income BD 6.65 million was higher by 4% (2018: BD 6.40 million) mainly due to lower burden of interest on account of lower term loans.

1

Other Income

Total other income generated during the year BD 2.41 million was lower (2018: 3.79 million) mainly on account of adverse changes in the fair value of equity investments and lower rental income in the subsidiaries.

2

Operating Expenses

Operating expenses BD 7.64 million was marginally higher by 1% compared to the previous financial year (2018: 7.55 million). The increase was mainly in IT related expenses and promotions & development.

3

Expected credit losses / impairment

Aggregate charge towards allowance for expected credit losses/provisions and impairment BD 0.44 million for the year ended 31 December 2019 was substantially lower that of the previous financial year (2018: BD 4.07 million) on account of improvement in the quality of the financing portfolio/recovery from NPLs.

4

Equity

The equity attributable to the Bank's shareholders, at BD 69.33 million, was higher than that of the previous financial year (2018: BD 67.49 million) on account of profit earned and also favorable movement in the fair value of investments in Government securities.

5

Capital Adequacy Ratio

As against minimum capital adequacy ratio (CAR) of 12.5% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year end 2019 was 53.44% (2018: 46.56%). The ratio, based on guidelines issued by CBB, which are compatible with those of the Basel Committee on Banking Supervision, measures total qualifying capital held by an institution in relation to its risk weighted assets. The improvement in CAR was on account of the change in the Risk Profile of the Assets Portfolio and also the improvement in equity.

6

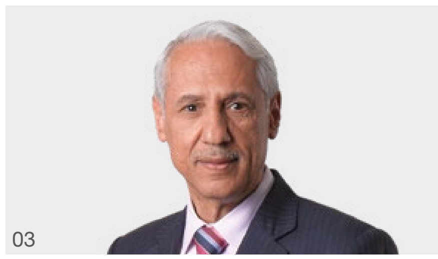
Board of Directors

01

Khalid Al Rumaihi
Chairman

02

Sabah Khalil Al Moayyed
Member



03

Saleh Hassan Ali Hussain
Member

04

Tariq Jaleel Al Saffar
Member

01. Khalid Al Rumaihi

Joined BDB Board: March 2016

Khalid Al Rumaihi was appointed as the Chief Executive Officer of Mumtalakat, with effect from September 2019. Prior to joining Mumtalakat, he served five years as the Chief Executive of the Bahrain Economic Development Board (EDB) where he was responsible for channelling inward investments into the country. He continues to play an active role as a Board member of the EDB.

Before heading the EDB, Mr. Al Rumaihi spent over 10 years at Investcorp as a Managing Director where he was also a member of the Management Committee and Head of the Institutional Placement Team covering Investcorp's clients in the Arabian Gulf. This was preceded by a nine-year term in J.P. Morgan as head of its private client group in the Gulf region.

He chairs the Boards of Bahrain Real Estate Investment (Edamah) and the Bahrain Development Bank. In addition, he also serves on the Boards of other companies such as the National Bank of Bahrain, Mumtalakat, McLaren Group, the National Oil and Gas Authority, Arcapita Investment Management and Al Sahel Resort.

With a Masters degree in Public Policy specialising in Economic Development from Harvard University, and a Bachelor of Science degree in Foreign Service from Georgetown University, Mr. Al Rumaihi has also chaired the Board of the Bahrain Airport Company (BAC) and has held Board positions at Gulf Air and Securities Investment Company.

02. Sabah Khalil Al Moayyed

Joined BDB Board: March 2016

Managing Partner of Intellect Resources Management W.L.L. She is holding the position of Board Member of L'azurde Company for Jewelry (publicly listed) in Saudi Arabia and Chair of the Audit Committee, Member of the Board and Audit Committee of Investcorp Financial Services, Chairperson of Flat6Labs Bahrain and Member and Chair of the Finance and Administrative Committee of the Board of Trustees of the Council for Higher Education Bahrain.

Mrs. Al Moayyed holds a Bachelor of Science degree in Economics and Business Administration from the American University of Beirut, Lebanon and Masters in Business Management Finance degree from University of De Paul, Chicago and has attended Advanced Executive Management programs at Wharton School and Darden College in the USA.

Mrs. Al Moayyed previously held the position of Chief Executive Officer at Eskan Bank Bahrain, Chief Executive Officer and member of the Board of Directors of Ahli United Bank Bahrain, Assistant General Manager, Corporate Banking/Financial Institution and Trade Finance of Bahrain National Bank, Vice President of United Gulf Bank Bahrain, Investment Division, financial and banking services and Manager at Citibank Bahrain, the retail division, financial and banking services.

03. Saleh Hassan Ali Hussain

Joined BDB Board: March 2016

Holds a Master's degree in Business Administration from Brunel University in United Kingdom with over 35 years of banking experience. He is the President of Saleh Hussain Consultancy and currently holds the following memberships: Board Member of Solidarity Holding Company, Bahrain, Head of Audit Committee of AlMajdouie Group, KSA and a Board Member and Head of Audit Committee of Haji Hassan Group, Bahrain.

04. Tariq Jaleel Al Saffar

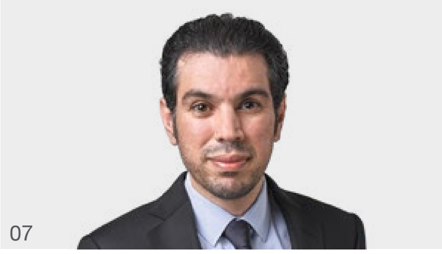
Joined BDB Board: March 2016

Graduated with a Bachelor of Business, Marketing and Entrepreneurship from Edith Cowan University in Perth, Australia, where he achieved distinctions in Enterprise and Creativity.

Mr. Al Saffar comes from a merchant family which focuses on FMCG products and food distribution. He has worked very closely with Multi-Nationals like P&G, Clorox, Gillette, Kellogg's, etc. He has a passion for technology; Mr. Al Saffar set up the first electronic payment platform that allows payment of utility bills and mobile top-ups. He has over 24 years of experience working with local & multi-national companies in the communications arena and is active in real estate, electronic payments, health care and distribution. He is a board member of Mohamed Ebrahim Al Saffar Company (MES), the Bahrain Economic Development Board (EDB), the Telecommunication Regulatory Authority (TRA), the Executive committee of Bahrain International Circuit (BIC), Chairman KKT Bahrain Clinic, Chairman KKT MENA Holding BSC (C), Chairman & CEO of Harbour Investment Holding Company (HIH), Chairman of Arabian Taxi and Chairman of Payment International Enterprise B.S.C (PIE).

Marwan Khalid Tabbara
Member

Tala Abdulrahman Fakhro
Member



Ghassan Ghaleb Abdulaal
Member

Maryam Adnan Al Ansari
Member

Marwa Khaled Al Saad
Member

05. Marwan Khalid Tabbara

Joined BDB Board: March 2016

A Co-Founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain, and represents distinguished experience in strategic, financial, and transaction advisory. He has advised the firm's clients on transactions both regionally and internationally and has supported the development and growth of a range of businesses. Previously, Mr. Tabbara worked for Citigroup in New York, London, and Bahrain. Apart from his board roles at Bahrain Development Bank B.S.C. (c), he also currently serves as Vice Chairman of the Board of Bahrain Bourse B.S.C. (c) (Bahrain's national stock exchange), and as Board Member, Risk Committee Chairman, and Nomination & Remuneration Committee Member of Bahrain Islamic Bank B.S.C., and as Board Member and Investment Committee Member of Bahrain Flour Mills Company B.S.C. (Al-Matahin). Mr. Tabbara holds a Master of Engineering Management and a Bachelor of Science in Electrical Engineering and Economics from Duke University, North Carolina, in the United States of America.

06. Tala Abdulrahman Fakhro

Joined BDB Board: March 2016

The Chief Projects Officer at the Economic Development Board. Ms. Fakhro is a seasoned government administrator, fixed income product specialist and legal professional with extensive experience of structuring and portfolio management at Morgan Stanley in London, Gulf International Bank, the Saudi National Commercial Bank and NCB Capital in Bahrain. She has a Bachelors in Economics from Smith College, Northampton, holds a Juris Doctor from the Georgetown University Law Center in Washington DC, and has passed the New York bar exam. Ms. Fakhro was appointed as a director of the board of Bahrain Development Bank in 2016. She is also a member of the Board of Directors of the Benefit Company.

07. Ghassan Ghaleb Abdulaal

Joined BDB Board: March 2016

Currently serves as the Gulf Chief of Staff within the Investor Relationship Management team at Investcorp. Mr. Abdulaal rejoined Investcorp in 2012 having previously spent six years with the firm from 2003-2009 In the intervening period between 2009 and 2012, he worked as an Investment Manager with Bahrain Mumtalakat Holding Company. Prior to joining Investcorp in 2003, Ghassan worked at KPMG Consulting where he was a Consultant within the Business Performance Improvement Group.

Mr. Abdulaal holds a BA (Hons) in Accounting and Finance from the University of Kent at Canterbury, UK, and an MSc in Analysis, Design and Management of Information Systems from the London School of Economics.

08. Maryam Adnan Al Ansari

Joined BDB Board: March 2016

The Assistant Undersecretary for Follow up and Coordination at the Ministry of Finance and National Economy where she is responsible for monitoring the implementation of priority projects as set by Government Priorities Framework. Before that she held a few positions at the Office of the First Deputy Prime Minister where she was in charge of strategic Housing and Infrastructure projects. Prior to that, Ms. Al Ansari worked at the Economic Development Board as part of the Reform Projects department, where she contributed to revising the National Economic Strategy, and worked closely with the Ministry of Housing and the Ministry of Transportation and Telecommunication on key strategic projects. Ms. Al Ansari holds a degree in commerce from McGill University.

09. Marwa Khaled Al Saad

Joined BDB Board: November 2019

Currently the Vice President of Human Resources at Mumtalakat Bahrain Holding Company.

Ms. Al Saad brings over 10 years of experience in human resources management ranging from performance management, organizational development and effectiveness. She has both international and local experience working for blue-chip companies such as: General Mills Inc., Cummins Power Generation, KPMG, Tatweer Petroleum; and most recently YBA Kanoo Holdings WLL where she was heading the group HR function across the GCC.

She was the Chairman of the Nomination & Remuneration Committee for AXA Gulf.

Ms. Al Saad served as the Membership Chairman for the Society of Petroleum Engineers - Bahrain Section.

She holds a Master's Degree from Purdue University, Krannert School of Management – USA (2011) with a focus in Human Resources; she received her Bachelor of Science Degree from Purdue University – USA (2009) where she majored in Organizational Leadership and Supervision.

Shari’a Board

Sheikh Abdulnasser Almahmood

Sheikh Abdulnasser Almahmood is a member of the Islamic Supervisory Board of International Investment Bank, Ibdaa Bank, Eskan Bank and Bahrain Development Bank. Also, he works as an Executive Manager in the Sharia Coordination and Implementation department at Khaleeji Commercial Bank.

He holds a Master degree in Business Administration from the Gulf University and is working on a thesis in Sharia Control and Review in Islamic banks. He also holds a Bachelor’s degree in Sharia and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial Jurisprudence from Bahrain Institution of Banking and Finance.

Dr. Omar Abdulaziz Alaani

Dr. Omar Abdulaziz Alaani has obtained a Bachelor degree in 1984, Master in 1993 and his Ph.D. in 1997 in the Whole Islamic Economy field from the University of Baghdad.

He has taught Islamic Economy in many universities in Iraq, Russia, Yemen and Bahrain. He also participated globally in several conferences within his field. He has been working as an academic teacher in the University of Bahrain since 2000 in several fields, such as Financial transactions, insurance, Islamic Jurisprudence rules and retired in 2018.

Dr. Mohammed Burhan Arbouna

Dr. Mohammed Burhan Arbouna is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank Bahrain, he held the position of Shari'a Head in Seera Investment Bank BSC Bahrain and KFH–Bahrain. Dr. Arbouna worked as a Shari’a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)–Bahrain. He lectures on Islamic banking and finance and gives consultancy on professional programmes for several professional institutions.

Dr. Arbouna sits on Sharia Boards of several Islamic institutions including, Bahrain Development Bank, Gulf African Bank, Kenya, International Islamic Financial Market (IIFM) and Yasaar Consultancy, UK. He is a member of Editing Committee of International Islamic Financial Board (IFSB).

Dr. Arbouna obtained an MA in Comparative Laws and a Ph.D. in Laws from International Islamic University of Malaysia. His B.A. degree in Shari'a and a higher Diploma in Education was obtained from Islamic University, Medina.

Chairman's Statement

Total Value of Disbursement

BD 36.4 m

The Bank's loans and financing disbursement witnessed substantial growth in 2019 across all its financing programs reaching to BD 36.4 million

The year 2019 witnessed a significant turnaround for the Bank. This is seen in its encouraging financial performance and in the quality of funding and development activities provided to Small and Medium Enterprises (SMEs).

The Directors of Bahrain Development Bank Group, ("the Bank and its subsidiaries"), have pleasure in submitting their report accompanied by the consolidated financial statements for the year ended 31 December 2019.

In addition to the consolidated financial statements of the Group, the report covers the financing and development activities completed by the Bank and its subsidiaries during the year in accordance with the Group strategy.

The year 2019 witnessed a significant turnaround for the Bank. This is seen in its encouraging financial performance and in the quality of funding and development activities provided to Small and Medium Enterprises (SMEs).

The clearest sign of the turnaround is that for the first time since 2015, the Group achieved a net profit of over BD 1 million for 2019 compared to a net loss of BD 1.3 million for the previous year. Year-on-year, this is an improvement of around BD 2.3 million. Returning to profitability was a vital milestone for us and the results demonstrate a good level of progress and provide a solid foundation for the future.

The Bank's loans and financing disbursement witnessed substantial growth in 2019

Khalid Al Rumaihi
Chairman

across all its financing programs. The disbursement levels reached BD 36.4 million in 2019 registering a 37% increase compared to the previous year (2018: BD 26.5 million). Financing for small enterprises in particular grew with loans granted to these institutions more than doubling from 2018, reflecting the Bank's increased focus on supporting smaller businesses in Bahrain.

The total number of disbursements in 2019 was at 1057 comparing to 821 in 2018 reflecting an increase of 29%. I am pleased to report that 1473 beneficiaries benefitted from the Bank's development services and programs. These beneficiaries included both potential and existing entrepreneurs who took advantage of training, development, consulting, and entrepreneurship awareness programs, as well as specialized workshops and incubation and investment services for emerging projects. Through these initiatives and programs, the Bank aims to develop the entrepreneurial ecosystem by cultivating a culture of entrepreneurship, elevating youth capabilities, and advancing the SME sector.

In line with directives issued by His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and first Deputy Prime Minister during the 2019 Government Forum, the Bank participated in the launch of the BD 100 million Liquidity Support Fund. The Fund was launched in cooperation with a number of national banks and the Bahrain Chamber of Commerce. It is aimed at supporting private sector companies by facilitating access to funding, enabling them to contribute more to Bahrain's GDP. The facilities provided by the Fund were well received by Small and Medium Enterprises and the Bank actively implemented the initiative, in particular by receiving and following up on requests for funding.

We aim to be lean, efficient and fit-for-purpose in our operations. We are progressing towards implementing a fully cloud based IT environment in the Bank, with several systems already in place and more in the process of being implemented.

In 2019, Bahrain Development Bank became the first bank in the region to migrate its website to AWS Cloud (Amazon Web Services).

As we increase focus on development impact as the cornerstone and key metric of our success, the Bank remains dedicated to strengthening the role of SME's in the national economy. In particular, and in collaboration with relevant public and private entities and institutions, the Bank implemented initiatives designed to develop a strong entrepreneurship ecosystem as per Bahrain's Economic Vision 2030.

Against a challenging economic backdrop and dynamic local and global market, the Group will continue to march forward with its strategy to develop Bahrain's SME sector performance and provide financial support in alignment with National efforts and initiatives. The Group will leverage its extensive experience in the field to develop more programs and initiatives that create the foundation for a thriving entrepreneurial ecosystem in the Kingdom of Bahrain.

I would like to take this opportunity to extend my sincere thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, His Royal Highness Prince Khalifa bin Salman Al Khalifa, The Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa, The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, for their continued support and wise leadership.

I also express my appreciation to the members of the Board of Directors, the Group's working group and all partners and employees. We look forward to future collaboration towards our shared mission towards a sustainable economic future for the Kingdom of Bahrain.

Khalid Al Rumaihi
Chairman

BUILDING PARTNERSHIPS

Focusing on financing and developing of small and medium enterprises in addition to encouraging & supporting the entrepreneurship activities in the Kingdom of Bahrain.

Executive Management

01

Sanjeev Paul
Group Chief Executive Officer

02

Sh. Hesham Bin Mohamed Al-Khalifa
Chairman and Managing Director,
Bahrain Business Incubator Company

03

Raed Yousuf Bukannan
Deputy General Manager
Head of Banking

04

Khalid Yousif Meshkhas
Deputy General Manager
Head of Support Services

01. Sanjeev Paul

Group Chief Executive Officer

Sanjeev Paul took over as Group Chief Executive Officer of Bahrain Development Bank B.S.C (BDB) in May 2018.

He has over 30 years of international banking experience with Standard Chartered Bank (SCB) and was a member of SCB's global leadership team. Sanjeev was based in Singapore where he served as Managing Director and Regional Head of Commercial Banking for ASEAN and South Asia, heading the bank's commercial banking business across nine countries, including markets such as Singapore, India, Malaysia and Indonesia. Prior to that, he served as Global head for Local Corporates and Commodity Traders- a business spanning over 30 countries in SCB's global franchise. He has also headed SCB's structured trade finance business as Global Head of Structured Trade Finance and Financing Solutions. Earlier to that Sanjeev was responsible for setting up the Standard Chartered Bank's Middle Market Business in India and also served as a risk approver for Standard Chartered Bank for five years.

Sanjeev also served as the Chairman and Non-Executive Director on the Board of Directors for Standard Chartered Bank Vietnam Ltd. He is an NED on the Board of Ebdaa Bank for Microfinance since October 2018 and also serves as an advisor to the Board of Tenmou, Bahrain.

Sanjeev graduated with a Bachelor's degree in Engineering from Delhi College of Engineering and an MBA in Finance and Marketing from FMS, University of Delhi in India.

02. Sh. Hesham Bin Mohamed Al-Khalifa

Chairman and Managing Director, Bahrain Business Incubator Company

Joined Bahrain Development Bank in 2011.

Sh. Hesham is a leading industry specialist on entrepreneurship, MSME and economic development holding over 30 years of experience. Throughout his career, he has contributed to the development of numerous economic and social strategies and programs, namely the development and institutionalization of Bahrain-Arab Model for Enterprise Development and Investment Promotion in coordination with Bahrain Development Bank (BDB) and The United Nations Industrial Development Organization (Unido) and BDB's Rowad program, the development of Bahrain Business Incubator Centers, Riyadat (Women Incubator Center), Farmers Market Hoorat A'ali and various strategies in economic, social and entrepreneurship development.

Sh. Hesham serves as board member of various steering committees and societies in support of entrepreneurship and MSME Development.

He graduated with a Bachelor's degree in Economics from The American University in USA.

03. Raed Yousuf Bukannan

Deputy General Manager – Head of Banking

Joined Bahrain Development Bank in 2019.

With over 18 years of international and domestic exposure with renowned names including HSBC, Ahli United Bank, National Bank of Kuwait, Ernst & Young, and American Express Financial Advisors covering SMEs, Large Institutional Corporates, Multi-national Companies, Gov't & Gov't Related Entities, Financial & Non-banking Financial Institutions. Raed currently oversees the Banking Team and Remedial & Collection Team.

Raed graduated with a Bachelor's degree in Marketing from Nicholls State University, Louisiana, USA and a Master degree in Business Administration (MBA) from St. Edward's University, Texas, USA.

04. Khalid Yousif Meshkhas

Deputy General Manager – Head of Support Services

Joined Bahrain Development Bank in 2011.

Khalid has gained more than 29 years of combined banking experience from conventional and Islamic Banks. During his career he has worked with National Bank of Bahrain and Al Salam Bank in various Operation Departments such as Loans, Time Deposit, Money Transfer, Commercial Services, Customer Services and Treasury back office. He also worked in the marketing field which includes Retail and Commercial Banking.

He serves as board member of Bahrain Specialist Hospital BSC (C) and Estate Company for Health Services WLL.


05
Hasan Khalil Al-Binmohamed
Senior Vice President – Head of Human Resources and Corporate Communications


06
Areije Karim Al-Shakar
Senior Vice President
Head of Development Services


07
Maytham A. Hameed Abbas
Senior Vice President
Head of Business Development


08
Vijay Kumar T.
Senior Vice President
Chief Risk Officer

Khalid graduated with an Associate Diploma in Accounting from University of Bahrain and also holds Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF).

05. Hasan Khalil Al-Binmohamed

Senior Vice President – Head of Human Resources and Corporate Communications

Joined Bahrain Development Bank in 2005.

Hasan has 18 years of banking experience; his areas of expertise are Human Resources, PR and corporate communications. He joined KFH-Bahrain in January of 2003 in the formation phase of KFH-Bahrain. He holds a Bachelor's degree in Government from Eastern Washington University, USA; and a Diploma from Spokane Falls Community College, USA. Hasan has obtained his CIPD in 2012 and attended Harvard Business School's Executive Program in 2013.

06. Areije Karim Al-Shakar

Senior Vice President, Head of Development Services

Joined Bahrain Development Bank in 2010.

With over 16 years of experience in banking and entrepreneurship, currently Areije leads both the Development Services Division and the Fund Management team of the Al Waha Venture Capital Fund of Funds. Her role at the bank includes entrepreneur development, seed funding, and fund management. She has been involved in the development of several programs namely; BDB's Rowad Program, Seed Fuel-Rowad, and the launch of the Al Waha Fund platform. She also serves on the board for several startup companies and plays an active role in the development of the startup and entrepreneurship ecosystem regionally.

Areije has worked in reputable organizations including Investcorp, Citibank, BNP Paribas and Lehman Brothers.

She holds a Master's of Science in Public Policy and Management, School of Oriental and African Studies (SOAS), University of London, a Bachelor of Commerce in Finance, John Molson School of Business, Concordia University, and is a Certified Business Coach and Mentor, Chartered Management Institute, UK

07. Maitham A. Hameed Abbas

Senior Vice President – Head of Business Development

Joined Bahrain Development Bank in 2017.

He has 15 years of working experience. Before joining BDB, Maitham held a number of roles in Kuwait Finance House in corporate banking and credit risk management, as well as having held previous posts working on investment promotion and entrepreneurship with UNIDO and strategy consulting with BDO.

In his role, he leads the formation and implementation of the Bank's strategy, product development and digitization initiatives. He is also the Board Secretary of the Bahrain Development Bank.

Maitham is a graduate of McGill University in Economics and Physics, and holds professional qualifications in finance and risk management.

08. Vijay Kumar T.

Senior Vice President - Chief Risk Officer

Joined Bahrain Development Bank in 2016.

He has over 27 years of experience in banking and financial services industry and widely exposed to Financial Risk Management, IFRS 9 and Basel II/ III implementation. His areas of expertise include Enterprise Risk Management, Risk Management Policies and Procedures, IFRS 9 Expected Credit Loss models, Integrated Stress Testing, ICAAP, Liquidity Ratios, Risk Analytics, Credit Scoring/ Rating Models, Models Validation, Risk Appetite, Risk Strategy, Risk Governance, Risk Architecture, Risk Adjusted Return on Capital (RAROC), Risk Based Pricing, Risk Adjusted Performance Management (RAPM) and Economic Capital. Prior to joining BDB, Vijay was the Head of Risk Analytics for a commercial bank in UAE.

He has wide exposure to international best practices in Risk Management & Analytics and worked with several top notch banks within the GCC and across the globe. He has conducted several training programs and is a key note speaker at Risk Management events.

Holds an MBA in Finance from Osmania University, India.

Executive Management (continued)

Samuel Verghese
Vice President
Chief Financial Officer

Siddharth Chaudhary
Vice President
Head of Internal Audit

Isa Ahmed Al Doseri
Senior Manager
Head of Investment Division

Dana Abdulrahman Alsendi
Senior Manager
Head of Legal

Mariam Safdar Mohammed
Senior Manager
Head of Compliance / MLRO

09. Samuel Verghese

Vice President - Chief Financial Officer

Joined Bahrain Development Bank in 2007.

At his early years with BDB, Samuel was appointed as Financial Control Senior Manager and then promoted to be Head of Internal Audit from 2008 till April 2015. He was designated as CFO in 2015.

Samuel has experience of over 30 years of which 24 years has been in the banking sector. Before joining BDB he has worked with Remya Plastics as Finance and Accounts Manager, Steel Authority of India Ltd (SAIL) as Budget and MIS Junior Manager, The South Indian Bank Ltd as Corporate Financial Management Chief Manager, Kerala Financial Corporation as Finance General Manager and Oman Development Bank as Chief Accountant.

Holds a Bachelor of Commerce degree from University of Calicut, India; and FCA from Institute of Chartered Accounts of India.

10. Siddharth Chaudhary

Vice President- Head of Internal Audit

Joined Bahrain Development Bank in 2018.

Siddharth has over 16 years of experience in internal audits, assurance engagements and other financial advisory services. He worked with SICO, a leading Investment Bank in Bahrain for seven years in the Internal Audit Department. He began his career with Ernst and Young India, followed by holding a post with the Risk Consulting division of BDO Bahrain, where he led risk-based internal audits for various financial service companies, firms, and other entities.

Siddharth is a Chartered Accountant, a Certified Internal Auditor and a member of the Institute of Internal Auditors (USA). He holds a Masters of Commerce degree from Kanpur University in India.

11. Isa Ahmed Al Doseri

Senior Manager - Head of Investment Division

Joined Bahrain Development Bank in 2011.

Isa collectively has over 10 years of professional experience in venture capital, private equity, investments, retail, operations and financial control. Isa manages the bank's Investment portfolio amongst various other roles he occupies within Bahrain Development Bank.

He serves as a member of board of directors of Al Waha Venture Capital Fund Company, Bahrain Agriculture Foods Company, Bahrain Business Incubator Center, The Bahrain Business Angels Company - Tenmou, Food Corp WLL. and Al Dar Wood Furniture Manufacturing WLL amongst many others.

He is a BSc honors graduate majoring in Accounting and Finance from Ahlia University, a Certified Public Accountant from the State of Colorado, USA and a Series 79 investment banking certificate holder accredited by the Central Bank of Bahrain.

12. Dana Abdulrahman Alsendi

Senior Manager - Head of Legal

Joined Bahrain Development Bank in 2018.

Has gained more than 9 years working experience. She has commenced her professional career as an associate in Haya Rashed Al Khalifa Law Firm. She then joined the Legal and Corporate Affairs Department at Aluminum Bahrain (ALBA) as Legal Counsel and an Assistant to the Board Secretary. After that, Dana joined Gulf Air as an Assistant Legal Advisor and Board Secretary.

Dana is a qualified Bahraini lawyer who has obtained her Bachelors' Degree in Law (LLB) from the University of Leicester (UK) and her Masters' Degree (LLM) in International Corporate Governance and Financial Regulation from the University of Warwick (UK).

13. Mariam Safdar Mohammed

Head of Compliance / MLRO

Joined Bahrain Development Bank in 2010

Mariam has over 17 years of experience in Compliance and other areas of banking Risk Management, Credit Review & Analysis, etc. She worked with many prestigious financial institutions such as Al Baraka Islamic Bank, BMI Bank, Bahrain Credit and Bahrain National Holding.

Mariam is a holder of a Bachelor degree in Business Management from University of Bahrain, Masters' degree in Business Administration from NYIT in addition to Advanced Diploma in Islamic Banking and ICA International Diploma in Governance, Risk & Compliance.

Group CEO's Statement

Total Number of Disbursements

1057

Total number of disbursements in 2019 was higher at 1057 compared to 821 in the previous year.

BDB was one of the four banks mandated by the Ministry of Finance and National Economy to drive Liquidity Support Fund for SMEs. The facilities provided by the Fund were well received by the SMEs and the Bank actively implemented the initiative.

It is my pleasure to present to you the Annual Report of Bahrain Development Bank Group, (the Bank and its subsidiaries) for the year ended December 31, 2019. Despite the challenging economic environment, the bank has made significant progress in building strong foundations to focus on our strengths, invest and provide convenient solutions for start-ups, SMEs and corporates.

BDB delivered a strong set of financial results in 2019, recording a Group Net Profit of over BD 1 million compared to a net loss of BD 1.3 million in 2018, reflecting a year-on-year improvement of around BD 2.3 million. This was achieved through significantly increasing our speed of response and an enhancement of our products and services that support SMEs without compromising on our controls and risk management.

With SMEs being seen as the main focus of the national economy and the main engine for employment opportunities, BDB has been able to assist the SMEs to contribute to the promotion of sustainable economic development in the Kingdom of Bahrain.

The total number of disbursements in 2019 was higher at 1057 compared to 821 in the previous year reflecting an increase of 29%, while the value of disbursements reached BD 36.4 million in 2019 registering an increase of 37% compared to the year before (BD 26.5 million).

Sanjeev Paul
Group Chief Executive Officer

Financing for small enterprises in particular grew with loans granted to these institutions more than doubling from 2018, reflecting the Bank's increased focus on supporting smaller businesses in Bahrain.

Following the directives issued by HRH Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander, First Deputy Premier and EDB Chairman, the Bank participated in the launch of the BD 100 million Liquidity Support Fund by Ministry of Finance and National Economy in cooperation with the Ministry of Industry, Commerce and Tourism, Bahrain Chamber of Commerce and Industry and Tamkeen. The Fund is aimed at supporting SMEs in the private sector by facilitating access to funding and enabling them to increase their contribution in the national economy.

BDB was one of the four banks mandated by the Ministry of Finance and National Economy to drive Liquidity Support Fund for SMEs. The facilities provided by the Fund were well received by the SMEs and the Bank actively implemented the initiative.

Banking & Development Services

BDB has been actively involved in supporting the start-ups and SMEs in making sustainable business and continuing growth in the Kingdom of Bahrain. Some of the notable initiatives undertaken during 2019 are:

- The Bank has launched Point of Sale Assignment in collaboration with CrediMax, Ahli United Bank and Arab Financial Services to further support start-ups and SMEs.
- Bahrain Development Bank launched its first Call Centre to improve customer communication services.
- A total of 1473 beneficiaries benefited from the Bank's development services and programs. These beneficiaries included both potential and existing entrepreneurs who took advantage of training, development, consulting, and entrepreneurship awareness programs, as well as specialized workshops and incubation and investment services for emerging projects. Through these initiatives and programs, the Bank aims to develop the entrepreneurial ecosystem by cultivating a culture of entrepreneurship and advancing the SME sector.
- Active community participation through local festivals, events, forums and discussions.

Bahrain Business Incubator Company (BBIC)

In addition to offering financial support to start-ups by BDB, Bahrain Business Incubator Company (BBIC), a subsidiary of BDB provides start-ups with incubator space and infrastructure support during the initial phase of a start-up. During 2019, a total of 15 start-ups out of 21 have successfully graduated from BBIC reflecting a success rate of 72%.

Bahrain Women Incubator Centre (Riyadat)

Bahrain Women Incubator Centre (Riyadat) supports female entrepreneurs by providing the required infrastructure and other services at various stages of their business. In 2019, a total of eight female entrepreneurs graduated from Riyadat further cementing BDB Group's commitment to developing female entrepreneurship and enterprise.

Technology

We are investing in our digital capabilities to drive transformation within BDB Group. Some of the key initiatives undertaken by the bank during the year are:

- Bahrain Development Bank became the first bank in the region to migrate its website to AWS Cloud (Amazon Web Services).
- Selected material and non-material workloads have migrated to the Cloud in the first two phases in 2019 and more are in the pipeline for transition to Cloud
- The Bank has initiated a project to significantly upgrade the IT infrastructure to make customer interaction with the bank simpler and more efficient.
- The Bank has introduced Benefit Pay service for its clients.

As we advance our digital capabilities, we also remain committed to ensuring robust processes around business continuity & IT security. We believe that easy and immediate access to banking services, enabled by mobile banking will drive wealth and prosperity in the Kingdom of Bahrain, where we have an important role to play.

Risk, Compliance & Governance

- The risk grading process has been significantly upgraded with automation resulting in the total lending portfolio being risk graded for the first time and the new Credit Risk Evaluator system becoming operational.
- The Bank implemented the new VAT regime seamlessly and is geared to comply with the new PDPL regulations.

Our People

Our Human capital is fundamental to succeed in our vision and the Bank's transformation. Our commitment to be an employer of choice, foster a culture of learning and grooming leaders from within is a strategic priority of the management.

The Transformation Journey

We continue to build on the foundation that will deliver better performance over time. During 2019, we worked to make the bank a more efficient organisation, capable of sustainable growth by strengthening our performance culture, being customer centric and becoming simpler, faster and better.

Our refreshed strategic priorities build on our core vision of helping entrepreneurs to grow their businesses into successful regionally competitive enterprises.

We will…

- Embed a performance oriented culture which emphasises sustainability and accountability
- Streamline our operations to ensure we deliver on our social commitments and drive productivity
- Invest in digital initiatives to transform our business
- Support the SME & start-up ecosystem to drive a positive social and economic impact.

I would like to extend my sincere gratitude to the Government of the Kingdom of Bahrain as well as the Chairman and Board of Directors of the Bank for their continued support and guidance. My gratitude also goes to The Ministry of Finance and National Economy, The Economic Development Board, Bahrain Chamber of Commerce and Industry, The Ministry of Industry, Commerce and Tourism as well as our strategic partner Tamkeen, National Initiative for Agricultural Development and the Supreme Council for Women for their guidance.

I would also like to express my thanks and appreciation to the Executive Management Team and all the members of the Bahrain Development Bank Group who have spared no effort in order to achieve our development aspirations.

Sanjeev Paul
Group Chief Executive Officer

Working in-line with Bahrain Economic Vision 2030, BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing & advising small and medium enterprises.

DRIVING GROWTH

Management Review

BDB plays a vital role in the development of the SME sector in the Kingdom of Bahrain

Business Banking

The Government of the Kingdom of Bahrain provides a supportive and favorable landscape for SMEs and Bahrain Development Bank is a vital pivot in the development of SME sector in Bahrain. During the year, the Bank continued to meet the financial requirements of SMEs and start-up business ventures to encourage and motivate Bahraini youth and women to venture into the challenging landscape of entrepreneurship.

The Bank continues to fully back SMEs in Bahrain with the introduction of unique financing initiatives. Our specialized financing products such as BDB-Tamkeen Joint Finance Scheme remain favored and continues to be the much sought-after product by the SME segment. The Bank continued its thrust on lending to the SME sector under the scheme.

During the year 2019, the Bank made a total disbursement of 1057 loans with a total funding of BD 36.4 million. The financing made by the Bank is expected to create additional 1,663 jobs and contribute to incremental exports of BD 9.4 million, import substitution of BD 2.1 million and value addition of BD 14.5 million over the next two years.

The Bank has also participated in a number of key national initiatives during 2019 that includes:

BD100m Liquidity Support Fund

Bahrain Development Bank was mandated by Ministry of Finance and National Economy to process SME requests under the Liquidity Support Funds, where BD 30m out of the BD 100m was allocated to BDB.

Sport Clubs Fund

BDB was mandated to provide funding to Sport Clubs. The financial support provided was to cover some of the club's payables to their players, coaches, and administrators.

Moreover, the Bank continued its financial assistance to other primary sectors like fisheries and agriculture, as well as, professional services such as doctors,

Total Equity
(BD Millions)

69.33

Total Disbursement of Loans

1057

training and consultancy firms, etc. thereby enabling the clients to acquire gainful self-employment and earn their livelihood. The Bank also contributes towards enhancing the level of education of Bahraini youth through its Education Finance Scheme.

The Bank looks forward to participate more actively in providing financing solutions to the SME segment, and remains committed to render all possible assistance to SMEs in various stages of their business that are facing difficulties or challenges due to market conditions and enable them to overcome all difficulties and conduct business smoothly. Our strategy of supporting Bahraini youth and women to start their own entrepreneurship ventures shall continue with a strong focus and dedicated efforts.

Development Services Division

The Development Services Division at Bahrain Development Bank (BDB) plays a key effective role within the Bahrain entrepreneurial ecosystem, reaching out to the public in an effort to inspire and grow entrepreneurship and innovation. The division highlights the importance of developing a national economy driven by the SME sector through the organization's core objective and mandate of supporting entrepreneurs and enterprises in Bahrain. The product and service offer of the Development Services Division include the BDB Rowad Program, SeedFuel-Rowad, and the Invested Platform.

The Rowad Program offers solutions supporting the needs of entrepreneurs in all stages to help start or grow their business through 8 pillars which include Coaching, Training, Mentoring, Funding, Partners, Networking Events, and Rowad Tools.

Seed Fuel which is one of Bahrain's pioneer funding programs developed by the Bahrain Development Bank, providing startups at seed and early stages with coaching, mentoring, training, access to investors and networks, special startup services and perks, and up to BD 25,000 in equity investment funding.

Invested™ Platform provides investors access to tools and knowledge to support them through their startup investment journeys. Invested has a growing investor population that includes angels, VCs, and corporates.

Rowad Events plays an instrumental role in building and connecting the local and regional entrepreneur community. A suite of events are hosted throughout the year that include Rowad Majlis™, Rowad Talk™, Rowad Workshops™, The Speed™, Pitched™, and Invested™.

Looking Back at 2019

105
BDB Rowad program new entrants in 2019

50
BDB Rowad Coaching Sessions in 2019

72
BDB Rowad mentor network 2019

18
BDB Rowad partners network 2019

27
BDB Rowad events hosted 2019

1,368
BDB Rowad event attendees 2019

545
BDB Rowad Invested network 2019

3,245
BDB Rowad total network & community 2019

7
Seed Fuel-Rowad campaigns

61
Events supported by Rowad 2019

Management Review (continued)

The Bank has taken important steps in aligning its operations and streamlining its processes to achieve maximum impact towards a positive customer experience.

Investment Division

The Investment Division manages equity investment products and Venture Capital Funds. The equity investment's aim is to assist the entrepreneurs in achieving their goals. The Division is responsible for managing BDB's equity investments portfolio in line with its overall mission, where the Bank plays a significant role as sponsor and manager.

Investments contribute in creating a robust and diversified private sector in the Kingdom of Bahrain and supports industries and projects that provide food security, transportation, services, microfinance, healthcare, business incubators and others. The selection of investment is based on specific criteria depending on the needs and requirements of a company.

The Investment Division invests in startups, scale ups and SMEs in addition to other strategic investments. Bahrain Development Bank currently holds a diversified investment portfolio in 28 companies supporting industries such as food security, transportation and services, microfinance, healthcare, business incubators and others, with a total fair value of BD 7.3 million.

Support Services Division

Support Services Division provides support to business and assists in achieving the Bank's objectives by benchmarking and implementing efficient processes & procedures through Information Technology, Operations and Administration Departments.

Information Technology

Numerous milestones were achieved in 2019 that focused on using technology to build the business, offer better and faster services to the customers without compromising on risk, statutory and regulatory compliance and staying in line with the Bank's strategy of adopting innovative digital solutions. Some of the milestones achieved in 2019 were:

- Bahrain Development Bank became the first bank in the region to migrate its website to AWS Cloud (Amazon Web Services).
- Selected material and non-material workloads have migrated to the Cloud in the first two phases in 2019 and more are in the pipeline for transition to Cloud
- The Bank has initiated a project to significantly upgrade the IT infrastructure to make customer interaction with the bank simpler and more efficient.
- The Bank has introduced Benefit Pay service for its clients.

Information Security remained a key focus area and further measures were taken to strengthen the security of the Bank's IT system. On-going E-learning Security training and awareness on information security was also provided to employees to ensure customers' information and systems are highly secured and protected against cybercrime.

Disaster Recovery and Business Continuity Plan

BDB has in place a Disaster Recovery and Business Continuity Plan Policy which deals with policy initiatives to ensure that BDB continues its critical activities following a disastrous event. This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure. Disaster Recovery Sites has been set up within the Kingdom of Bahrain and the premises are well equipped with the required infrastructure. Also, DR and BCP Implementation Committee have been set up to oversee the testing and implementation of the Business Continuity Plan in BDB.

Operations

The Bank has taken important steps in aligning its operations and streamlining its processes to achieve maximum impact towards a positive customer experience through:

1. KYC review for due diligence to comply with the fields required for FATCA & CRS.
2. Updating the expired documents & the Account Opening form to comply with CBB guidance.
3. Introduction of new trading platform for better and efficient processing of Sharia compliant transactions.
4. Implementation of Direct Debit as security through EFTS.

Compliance

Know Your Customer

Appropriate due diligence is rigorously conducted to ensure that the financial activities of the BDB Group's customers are performed in accordance with the guidelines issued by the regulatory authorities. The Bank further enhanced monitoring by introducing the World Check Screening system and ongoing due diligence best practices including the upgrading of deposit / transfer slips, and amendment to account opening forms to ensure more transparency and the building of a solid customer profile.

Administration

Administration Department plays a key role in maintaining day-to-day services and ensuring successful completion of significant projects, to ensure safety & compliance with government guidelines such as upgrading security & communication infrastructure

The department constantly pursues innovative means for cost optimization while maintaining efficiency. The department maintains transparency toward all service providers, which includes a new Vendor Management Policy to achieve optimal support for all departments of the Bank.

Human Resources

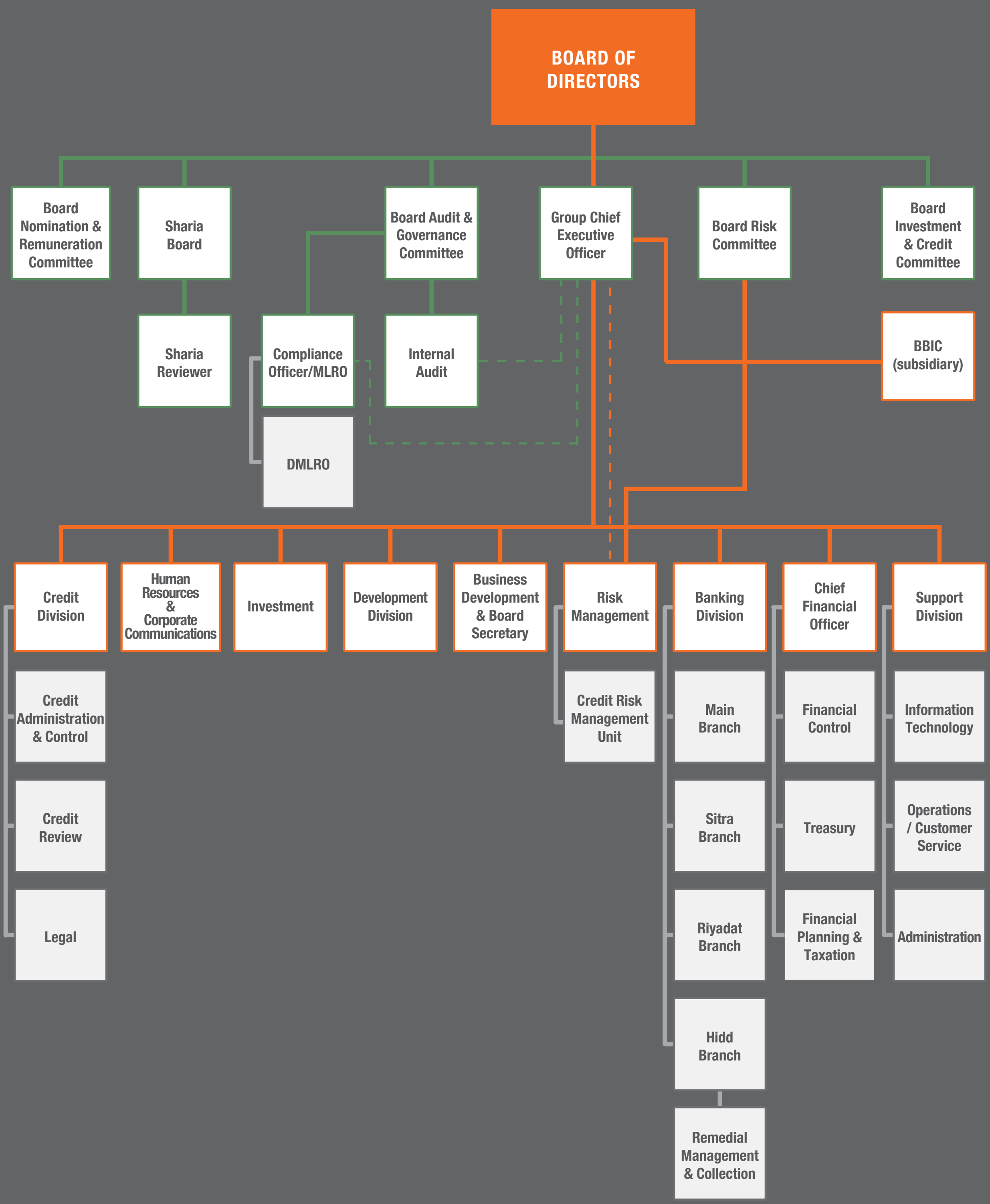
The Bank continued to significantly invest in staff welfare and provide necessary development and training opportunities to all employees. In 2019, all BDB employees have successfully participated and benefited from the training and development courses provided by the Bank which included in-house training courses, external training courses, professional programs, specialized workshops and conferences.

Staff members were also trained on VAT Implementation, Personal Data Protection Law, Corporate Governance, Anti-Money Laundering, Islamic Financing, Complaints Handling Procedures, IFRS9, Credit Rating Scorecard, AWS, Information Security Awareness, Digital Transformation / Strategy, Credit Risk Analysis, Financial Advice Program, e-KYC, Digital SME Lending, Health & Wellness Session, Dynamic Team Building, Liquidity Risk Management, Customer Security Program & Swift Payments Landscape.

Promoting entrepreneurship & innovation in the Kingdom, by encouraging Bahraini professionals, enterprising women & ambitious youth, who demonstrate strong business acumen & leadership qualities.

BRIDGING GAPS

Organization Chart



Corporate Governance

(BDB) is committed to full compliance with the values and the best international practices/standards of personal and professional ethics. Fulfilling this commitment requires that everything done by the group, either collectively or individually, is consistent with the highest ethical and professional standards.

BDB's Board Directors have validated the Corporate Governance principles and practices in the policy documents, (1) Commitment by Board of Directors & Management of BDB Group to the Code of Conduct and (2) the Code of Ethics & Business Conduct, which are endorsed by BDB employees. The Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Bank has an Annual Declaration for employees and directors, whereby each member is responsible to disclose any material interest related to business transactions and agreements.

BDB has no individuals who are occupying controlled functions and who are relatives of any approved persons.

BDB's Board of Directors, nominated by a Royal Decree, presently comprises of eight non-executive directors, including the Chairman. On joining the Board, all Directors are provided with a Directors' Induction File which includes the Bank's Memorandum and Articles of Association, the Charters of the Board and its subcommittees, the latest annual report, the Corporate Governance and other key policies, and the Bank's strategy document. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on a broad overview of the Bank, its direction, challenges and opportunities and may be supplemented by sessions on the special characteristics of development banking and its role in economic development. Select meetings may then be arranged with members of the senior management on an as needed basis, as well as a tour of the Bank's facilities.

The Board is guided by its Charter framed in accordance with applicable regulations. The Board establishes the objectives of the bank, provides guidance & approves the strategy, budgets for achievement of the Bank's objectives, adopts and reviews the systems and controls framework, monitors the implementation of strategy by the management, overall group & management performance, ensures accurate preparation along with disclosure of the financial statements, monitors conflicts of interest in preventing improper related party transactions. The Board also assists in securing funding from government and semi-government institutions and continues to focus on long term strategic issues; growth and diversification of BDB group's activities, and the achievement of its vision and mission.

The Board of Directors is assisted by following Board Committees: (1) Nomination & Remuneration Committee, (2) Audit & Governance Committee, (3) Risk Committee, (4) Investment & Credit Committee, and (5) Sharia Supervisory Board. The members of Senior Management regularly attend Board & Committee meetings. The responsibilities of these committees for oversight are governed by their respective Charters, terms of reference and functions under its supervision that are reviewed and updated periodically. The NRC assists the Board in the implementation of sound remuneration and HR practices, the Audit & Governance Committee assists the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system; the adequacy of the Bank's internal control processes; the performance of independent auditors and internal audit function; the independent auditor's qualifications & independence and the Bank's compliance with legal obligations. The Board Risk Committee develops the Board's risk appetite statement and ensures an appropriate risk management and reporting framework is in place to allow implementation and monitoring of the Bank's risk profile and alignment of this to its risk appetite. The BRC is additionally responsible for the appointment and remuneration of the CRO and the development of the bank's business continuity and disaster recovery plans. The BICC reviews credit and investment proposals, exercises oversight of credit and investment related activities, reviews and recommends the Bank's business strategy and operational plan, reviews and approves appropriate asset allocation strategy and evaluates the investment and credit portfolio of the bank. The Sharia Supervisory Board comprising three Islamic scholars provides guidance, reviews and supervises the Bank's Islamic financing activities to ensure that they are in compliance with Islamic Sharia's rules and principles.

Also, the Nomination & Remuneration Committee, Investment & Credit Committee, Audit & Governance Committee and Risk Committee also assists the Board in conducting self-evaluation of the Board & Committees achieving a high level of involvement and understanding among Board members of its roles and responsibilities, with suggestions for further improvements.

Corporate Governance (continued)

BDB Disclosure on HC Module

Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and the CBB. The Bank has not complied with certain guidance under HC-4 pertaining to the appointment of the Board of Directors. This is due to the fact that the members of Board of Directors of the Bank were appointed as per the Royal Decree resolution No. 5 for 2019, issued in 28th November 2019.

The section HC-5.3 states that members of the remuneration committee must have independence of any risk taking function or committees. The Bank is not complying with this requirement as two (2) Remuneration & Governance Committee members Mr. Tariq Al Saffar and Ms. Tala Fakhro are also represented on the Investment & Credit Committee of the Board. This has been permitted by CBB in view of the fact that the Board members are limited to eight (8) who were appointed through a Royal Decree resolution and to meet independency more members should be appointed which is not deemed practical given the current Board structure which is commensurate with the Bank's size and activities.

Board & Board Committee Meetings and Attendance

Details of meetings held during 2019 and attendance of directors are as follows:

Board of Directors

No.	Name	24 Feb	12 May	12 Sept	24 Nov	19 Dec
1.	Khalid Al Rumaihi (Chairman)	✓	✓	✓	✓	✓
2.	Sabah Khalil Al Moayyed	✓	✓	✓	✓	✓
3.	Saleh Hassan Ali Hussain*	✓	✓	✓	✓	
4.	Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓
5.	Marwan Khalid Tabbara	✓	✓	✓	✓	✓
6.	Tala Abdulrahman Fakhro	✓	✓	✓	✓	×
7.	Ghassan Ghaleb Abdulaal	✓	✓	×	✓	✓
8.	Maryam Adnan Al Ansari	✓	✓	✓	×	×
9.	Marwa Khaled AlSaad*					✓

* As per the decree issued in the official gazette dated 28th November 2019, the board was reconstituted with two changes, Mr. Saleh Hussain completed his tenor with the board and Ms. Marwa AlSaad joined the board.

Board Audit & Governance Committee (BAGC)

No.	Name of the Director	17 Feb	30 Apr	31 Jul	4 Nov
1.	Saleh Hassan Ali Hussain (Chairman)	✓	✓	✓	✓
2.	Ghassan Ghaleb Abdulaal	✓	✓	✓	✓
3.	Maryam Adnan Al Ansari	✓	✓	✓	×

Board Risk Committee

No.	Name of the Director	11 Feb	29 Apr	30 Jun	03 Sep	06 Nov
1.	Marwan Khalid Tabbara (Chairman)	✓	✓	✓	✓	✓
2.	Ghassan Ghaleb Abdulaal	✓	✓	×	×	✓
3.	Maryam Adnan Al Ansari	✓	✓	✓	✓	×

Board Investment & Credit Committee

No.	Name of the Director	28 Jan	22 Apr	27 May	02 Jul	02 Sept	07 Oct	06 Nov	15 Dec
1.	Sabah Khalil Al Moayyed (Chairperson)	✓	✓	✓	✓	✓	✓	✓	✓
2.	Marwan Khalid Tabbara	✓	✓	✓	✓	✓	✓	✓	✓
3.	Tariq Jaleel Al Saffar	✓	✓	✓	✓	✓	✓	✓	✓
4.	Tala Abdulrahman Fakhro	×	✓	✓	×	✓	✓	✓	×

Board Nominations and Remuneration Committee

No.	Name of the Director	26 March	25 June	10 Oct	12 Dec
1.	Khalid Al Rumaihi (Chairman)	✓	✓	✓	✓
2.	Tala Abdulrahman Fakhro	✓	×	✓	✓
3.	Tariq Jaleel Al Saffar	✓	✓	✓	✓
4.	Marwa Khaled AlSaad				✓

Shari'a Board Meetings and Attendance

No.	Name of the Director	23 Jan	26 Feb	21 April	14 July	22 Sep
1.	Sh. A.Nasser AlMahmood (Chairman)	✓	✓	✓	✓	✓
2.	Dr. Mohammed Burhan Arbouna	✓	✓	✓	✓	✓
3.	Dr. Omar Abdulaziz Alaani	✓	✓	✓	✓	✓

Corporate Governance (continued)

Remuneration Report

BDB follows a total compensation approach to remuneration for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talents. It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. The Bank, therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who perform their role in the long-term interests of its shareholders. Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting. Unlike commercial banks, BDB is a "not-for-profit" development banking institution, with a core objective of supporting the economic development of Bahrain in line with Bahrain 2030 Vision. Bank's remuneration policy has no variable components as per the contractual obligation and the performance bonus will be paid at the discretion of the Board of Directors. There is no separate policy for business and controlling staff of the Bank. As such, the need to "defer" variable remuneration does not apply in the case of BDB. Consequently, there are no "claw-back" or "malus" stipulations as well. The exceptions were approved by the Central Bank of Bahrain. The Remuneration Policy for all staff (including the approved persons) consists of fixed and variable remunerations in the form of cash only. Bonus entitlement including approved persons are aligned to the Bank's performance, department and individual performance, but in all cases, it shall be made at Bank's sole discretion.

Details of Remuneration Paid for the Financial Year Ended 2019

		Fixed Remuneration (BD)			Variable Remuneration (BD)	
Categories	No.	Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	Total (BD)
1. Members of the Board	11		* 73,450	0	0	0
2. Approved Persons (not including in 1,3, to 7)	7	416,367	121,562	537,929	135,550	673,479
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	6	191,580	80,973	272,553	58,750	331,303
4. Employees Engaged in Risk taking activities (Business Areas)	41	549,621	118,728	668,349	131,138	799,487
5. Employees other than approved persons engaged in functions under 3	23	255,670	56,890	312,560	58,322	370,882
6. Other Employees	80	988,086	222,387	1,210,473	227,962	1,438,435
7. Outsourced Empl. /Service providers (engaged in risk taking activities)						
Total	**168**	**2,401,324**	**600,540**	**3,001,864**	**611,722**	**3,613,586**

* The amount paid to the Board Nomination & Remuneration Committee during the year 2019 was BD 12,800/-.

The details of remuneration paid to auditors for audit and other assignments are available at the BDB corporate office.

Details of Remuneration Paid for the Financial Year Ended 2018

Categories	No.	Fixed Remuneration (BD)			Variable Remuneration (BD)	Total (BD)
		Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in cash)	
1. Members of the Board	11		* 69,000	69,000	0	69,000
2. Approved Persons (not including in 1,3 to 7)	5	331,209	91,530	422,739	84,350	507,089
3. Approved Persons in Risk Management, Internal Audit, Operations, Financial Control, AML, Compliance Functions	5	191,140	88,623	279,763	39,450	319,213
4. Employees Engaged in Risk taking activities (Business Areas)	37	983,756	102,306	1,086,061	88,678	1,174,740
5. Employees other than approved persons engaged in functions under 3	23	277,112	57,243	334,354	48,357	382,711
6. Other Employees	97	1,198,193	247,823	1,446,016	188,750	1,634,767
7. Outsourced Empl. /Service providers (engaged in risk taking activities)						
Total	**178**	**2,981,410**	**656.525**	**3,637,934**	**449,585**	**4,087,520**

* The amount paid to the Board Nomination & Remuneration Committee during the year 2018 was BD 4,750.

Deposit Protection Scheme:

Deposits held with the Bank's Bahrain operations are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

Financial Statements 2019

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Corporate Information

Commercial Registration No.	26226 obtained on 20 January 1992
Directors	Mr. Khalid Al Rumaihi – Chairman Ms. Sabah Khalil Al Moayyed – Board Member Mr. Tariq Jaleel Al Saffar – Board Member Mr. Marwan Khalid Tabbara – Board Member Ms. Tala Abdulrahman Fakhro – Board Member Mr. Ghassan Ghaleb Abdulaal – Board Member Ms. Maryam Adnan Al Ansari – Board Member Ms. Marwa Khaled Al Saad – Board Member
Registered Office	Building 170 Road 1703 Diplomatic Area P.O. Box: 20501 Manama Kingdom of Bahrain
External Auditors	Ernst & Young P.O. Box: 140 Manama Kingdom of Bahrain

Independent Auditors' Report to the Shareholders

**Bahrain Development Bank B.S.C.(c),
Manama, Kingdom of Bahrain**

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

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

Other information

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Independent Auditors' Report to the Shareholders (Continued)

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

Auditor's Responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

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

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

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Ernst + Young

Partner's registration no. 45
24 February 2020
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 BD '000	2018 BD '000
ASSETS			
Cash and balances with Central Bank of Bahrain	7	**1,976**	2,218
Placement with banks and other financial institutions	7	**14,850**	21,917
Islamic financing and loans to customers	8	**76,731**	85,866
Investment securities	9	**41,447**	31,144
Investment in associates	10	**322**	259
Investment properties	11	**11,527**	12,000
Property and equipment	12	**1,991**	1,155
Other assets	13	**2,416**	3,646
TOTAL ASSETS		**151,260**	158,205
LIABILITIES AND EQUITY			
Liabilities			
Term loans	14	**42,293**	50,607
Deposits	15	**34,918**	35,001
Other liabilities		**4,723**	5,106
Total liabilities		**81,934**	90,714
Equity			
Share capital	16	**65,000**	65,000
Statutory reserve	17	**1,186**	1,186
Other capital contribution	18	**4,048**	4,048
Other reserves		**654**	(150)
Accumulated losses		**(1,544)**	(2,580)
Equity attributable to owners of the Bank		**69,344**	67,504
Non-controlling interest		**(18)**	(13)
Total equity		**69,326**	67,491
TOTAL LIABILITIES AND EQUITY		**151,260**	158,205

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss
As at 31 December 2019

	Note	2019 BD '000	2018 BD '000
Income			
Islamic financing and interest income	19	8,234	8,268
Islamic financing and interest expense	20	(1,588)	(1,870)
Net islamic financing and interest income		6,646	6,398
Fee and commission income	21	357	231
Investment income	22	(288)	379
Rental income		1,706	2,007
Other income	23	635	1,171
Total operating income		9,056	10,186
Expenses			
Staff costs		(4,170)	(4,324)
Other operating expenses		(3,472)	(3,227)
Total operating expenses		(7,642)	(7,551)
Allowance for expected credit losses / provision - net	24	(440)	(3,982)
Impairment on investment in associates	10	-	(92)
Total expected credit losses / impairment		(440)	(4,074)
Net operating income / (losses)		974	(1,439)
Share of profit from associates	10	63	113
Net profit / (loss) for the year		1,037	(1,326)
Net profit / (loss) for the year attributable to:			
- Owners of the Bank		1,036	(1,323)
- Non-controlling interest		1	(3)
		1,037	(1,326)

Khalid Al Rumaihi
Chairman

Ghassan Ghaleb Abdulaal
Director

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 BD '000	2018 BD '000
Net income / (loss) for the year		**1,037**	(1,326)
Other comprehensive income:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value through other comprehensive income reserve (equity instruments)		**(25)**	1
Items that will be reclassified to profit or loss in subsequent periods:			
Changes in fair value of investments classified as fair value through other comprehensive income (debt instru ments)		**829**	(312)
Total comprehensive income / (loss) for the year		**1,841**	(1,637)
Total comprehensive income / (loss) attributable to:			
- Owners of the Bank		**1,840**	(1,634)
- Non-controlling interest		**1**	(3)
		1,841	(1,637)

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2019	65,000	1,186	4,048	(150)	(2,580)	67,504	(13)	67,491
Total comprehensive income for the year	-	-	-	804	1,036	1,840	1	1,841
Minority interest movement	-	-	-	-	-	-	(6)	(6)
As at 31 December 2019	**65,000**	**1,186**	**4,048**	**654**	**(1,544)**	**69,344**	**(18)**	**69,326**

	Equity attributable to owners of the Bank							
	Share capital BD '000	Statutory reserve BD '000	Other capital contribution BD '000	Other reserves BD '000	Accumulated losses BD '000	Total BD '000	Non - controlling interest BD '000	Total equity BD '000
As at 1 January 2018	65,000	1,186	4,048	161	(1,257)	69,138	(10)	69,128
Total comprehensive loss for the year	-	-	-	(311)		(311)		(1,637)
As at 31 December 2018	65,000	1,186	4,048	(150)	(2,580)	67,504	(13)	67,491

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 BD '000	2018 BD '000
OPERATING ACTIVITIES			
Profit / loss for the year		1,037	(1,326)
Adjustments for:			
Depreciation		854	893
Allowance for expected credit losses / provision - net	24	440	3,982
Impairment on investment in associates	10	-	92
Changes in fair value of investments classified as fair value through profit or loss	22	348	(84)
Dividend income	22	(77)	(90)
Share of profit from associates	10	(63)	(113)
Loss on foreign currency translation		17	76
Operating profit before changes in operating assets and liabilities		2,556	3,430
Changes in operating assets and liabilities:			
Placement with banks and other financial institutions having original maturity of more than 90 days		2,272	1,841
Islamic financing and loans to customers		9,908	22,114
Other assets		277	(1,630)
Deposits		(83)	(11,439)
Other liabilities		(618)	(265)
Net cash from operating activities		14,312	14,051
INVESTING ACTIVITIES			
Additions to property and equipment	12	(1,217)	(364)
Purchase of investment securities		(54,830)	(32,065)
Proceeds from sale of investment securities		44,970	16,019
Addition to investment properties *	11	-	(435)
Dividend income received	22	77	90
Liquidation of Investment Securities		8	-
Net cash used in investing activities		(10,992)	(16,755)
FINANCING ACTIVITIES			
Repayment of term loans	14	(8,314)	(5,780)
Loan drawn down	14	-	4,713
Net cash used in financing activities		(8,314)	(1,067)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,994)	(3,771)
Cash and cash equivalents at beginning of the year		12,753	16,524
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	7,759	12,753
Additional information:			
Islamic financing and interest received		8,038	7,840
Islamic financing and interest paid		1,667	1,872

*The addition to property and equipment and other liabilities of BD 741 thousand is a non-cash item.

The accompanying notes 1 to 38 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2019

1. INCORPORATION AND ACTIVITIES

Bahrain Development Bank B.S.C. (c) ("the Bank" or "BDB") was established as a Bahraini closed shareholding company by Legislative Decree number 19 dated 11 December 1991 and commenced operations on 20 January 1992. The Bank is registered with the Ministry of Industry, Commerce and Tourism (MOICT) under commercial registration (CR) number 26226. The Bank's registered office is in the Kingdom of Bahrain. The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB").

The core activities of the Bank consist of advancing loans for project finance, working capital, premises and equipment for developing industries and service sectors such as Tourism, Health and Education in the Kingdom of Bahrain, and also invests in the share capital of such entities. As part of this activity, the Bank also renders management consultancy services and subscribes to ordinary and preference shares in locally incorporated companies. Additionally, loans are advanced for Agriculture, Fisheries and Higher Education purposes. Other activities of the Bank comprise making a direct contribution towards the economic development of the Kingdom of Bahrain.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 24 February 2020.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, and the terms of the Bank's memorandum and articles of association.

2.2 Accounting convention

These consolidated financial statements are prepared on a historical cost basis, except for certain investment securities carried at fair value through profit or loss, or through other comprehensive income, that have been measured at fair value.

These consolidated financial statements are prepared in Bahraini Dinars which is the functional and presentation currency of the Bank.

2.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end and are incorporated in the Kingdom of Bahrain. The Bank has the following principal subsidiaries:

	Ownership Interest		
Name	2019	2018	Principal Activity
Bahrain Business Incubator Centre S.P.C.	100%	100%	Development and assistance to emerging Bahraini entrepreneurs
Bahrain Export Development Center S.P.C.*	100%	100%	Management consultancy activities
Al-Waha Venture Capital Fund Company	99%	99%	Trusts, Funds and Similar Financial Entities - Fund Company
Middle East Corner Consultancy Co. W.L.L. (MECC) **	28.60%	28.60%	Consultancy to small and medium enterprises

* BEDC is in the process of liquidation.

** The Bank is exposed, or has rights, to variable returns from its involvement with MECC; and has the ability to affect those returns through its power over MECC and thus is deemed as a subsidiary of the Bank. The bank's petition for forced liquidation is pending with the court.

Notes to the Consolidated Financial Statements (Continued)
As at 31 December 2019

2. BASIS OF PREPARATION (Continued)

2.3 Basis of Consolidation (Continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b) Exposure, or rights, to variable returns from its involvement with the investee; and
c) The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) The contractual arrangement with the other vote holders of the investee;
b) Rights arising from other contractual arrangements; and
c) The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interests;
c) Derecognises the cumulative translation differences recorded in equity;
d) Recognises the fair value of the consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in profit or loss; and
g) Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is applied to establish fair values. These judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (Continued)

Business model in classifying financial instruments

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

a) Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
b) Management's evaluation of the performance of the portfolio; and
c) Management's strategy in terms of earning contractual interest revenues or generating capital gains.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL).

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behavior (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

a) The Group calculates PiT PD estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario;
b) Determining criteria for significant increase in credit risk;
c) Choosing appropriate models and assumptions for the measurement of ECL;
d) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
e) Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
f) Establishing segments of similar financial assets for the purposes of measuring ECL; and
g) Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

4. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS.

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). These amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The Group is currently assessing the impact of this standard and will apply from the effective date.

The Group does not expect any significant impact on the Groups' financial position and results for the standards that are not yet adopted.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

5. NEW STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 Leases (IFRS 16);
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment; and
- Amendments to IFRS 9 Prepayment features with negative compensation.

Annual improvements 2015-2017 cycle (issued in December 2017)

- IFRS 3 Business combinations;
- IAS 12 Income taxes; and
- IAS 23 Borrowing costs.

The above new standards, interpretations and amendments to IFRSs which are effective for annual accounting periods starting from 1 January 2019, did not have any material impact on the accounting policies, financial position or performance of the Group, except for the adoption of IFRS 16, which is explained below.

5.1 IFRS 16 - Leases (IFRS 16)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact on leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted for and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to BD 741 thousand, with no impact on retained earnings. When measuring lease liabilities, the Group reassessed its outstanding lease arrangements as at 31 December 2018 and discounted future lease payments using the BIBOR of 2% at 1 January 2019. Lease costs for the year ended 31 December 2019 relating to lease liabilities and depreciation relating to right-of-use assets were included under other expenses and depreciation lines in the statement of profit or loss.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, in this case BIBOR. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the statement of financial position.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment in associates

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost.

The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is charged to the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

6.2 Property and equipment

All items of property and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

6.2.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated Impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in the consolidated statement of profit or loss.

6.2.2 Subsequent measurement

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

6.2.3 Depreciation

Depreciation is calculated to write off the cost of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in the consolidated statement of profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of significant items of property and equipment are as follows:

Buildings on freehold premises	15 - 30 years
Furniture, fixtures, vehicles, computers and office equipment	3 - 5 years

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

6.2.4 Reclassification to investment property

When the use of a property changes from owner occupied to investment property, the property is classified to investment property and carried at cost in line with the accounting policy as per note 6.3.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.3 Investment property

Investment properties are those which are held by the Group to earn rental income or for capital appreciation or both. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on cost using the straight-line method at annual rates which are intended to write off the cost of the investment property over their estimated useful lives. Any gain or loss on disposal of the investment property (calculated as the difference between the net process form the disposal and the carrying amount of the item) is recognized in the consolidated statement of profit or loss.

6.4 Accounts receivable

Accounts receivable are stated at original invoice amount net of discounts and provisions for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

6.5 Term loans

Term loans are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

6.6 Deposits

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

6.7 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

6.8 Employees' end of service benefits

Pension rights (and other social benefits) for Bahraini employees are covered by the General Organisation for Social Insurance scheme to which employees and employers contribute monthly on a fixed-percentage-of salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under IAS 19 - Employees Benefits, is recognised as an expense in the consolidated statement of profit or loss.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour law for the Private Sector 2012, based on length of service and final remuneration. Provision for this which is unfunded has been made by calculating the notional liability had all employees left at the reporting date. These charges are recognised as an expense in the consolidated statement of profit or loss.

6.9 Income recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest ratio is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period to the carrying amount of the financial asset or financial liability). When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or financial liability.

6.10 Dividend income

Dividend income is recognised when the right to receive income is established.

6.11 Fee and commission income

Fee and commission income and related expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fee and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the service is received.

6.12 Rental income

Rental income from investment property is recognised as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.13 Other capital contribution

This represents a non-reciprocal contribution, has no interest and no repayment terms and will only be repaid on liquidation of the Bank and accordingly, it has been classified as equity.

6.14 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in the consolidated statement of profit or loss.

6.15 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

6.16 Derivatives

In the ordinary course of business, the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payment is dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forward exchange contracts.

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

6.17 Financial assets and financial liabilities

The Bank’s key accounting policies in compliance with IFRS 9 are summarised below:

6.17.1 Impairment of financial assets

Impairment of financial assets are determined using an “expected credit loss’ model (“ECL”) as required under IFRS 9. This is impairment model is also applied to certain loan commitments and financial guarantees. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under the previous standard.

6.17.2 Expected credit loss (ECL)

The Bank recognises ECL on the following financial assets that are not measured at fair value through profit or loss:

a) Debt investments;
b) Placements with banks and other financial institutions;
c) Islamic financing and loans to customers;
d) Letters of credit and bank guarantees; and
e) Irrevocable undrawn commitments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the other financial assets on which credit risk has not increased significantly since their initial recognition, for which ECL is measured as 12-month ECL. 12-month ECL are the portion of ECL that result from default events on a financial asset that is possible within the 12 months after the reporting date.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.17.3 Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

a) financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and

b) where a financial instrument includes both a drawn and an undrawn component (as in the case of overdraft, letter of credit / bank guarantee limits etc.), the Bank presents a loss allowance for the approved limit of the facility in 'other liabilities'.

6.17.4 Write-offs

The Bank's accounting policy for write-offs under IFRS 9 remains the same. Financial assets are written off either partially or in their entirety only when the Bank has thoroughly explored most avenues of recovery and it is recognized thereafter that the outstanding amount of the debt is clearly not recoverable. However, in all written-off cases, the Bank's efforts towards the recovery of the outstanding amount continues and periodic updates are provided to the Board of Directors. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'other income'.

7. CASH AND CASH EQUIVALENTS

	2019 BD '000	2018 BD '000
Cash and balances with Central Bank of Bahrain	1,976	2,218
Placement with banks and other financial institutions	14,850	21,917
	16,826	24,135
Less: reserve with Central Bank of Bahrain	(1,494)	(1,530)
Less: placements with banks and other financial institutions having original maturity of more than 90 days	(7,660)	(9,913)
Add: allowance for expected credit losses	87	61
Cash and cash equivalents at end of the year	7,759	12,753

	2019 BD '000	2018 BD '000
Cash and balances with Central Bank of Bahrain (excluding reserves)	482	688
Placements with banks and other financial institutions having original maturity of 90 days or less	7,277	12,065
	7,759	12,753

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS

	2019 BD '000	2018 BD '000
Project finance - Islamic	73,418	89,689
Project finance - conventional	19,965	15,360
Fisheries and agriculture	3,905	4,228
Other loans	1,549	1,159
	98,837	110,436
Less: allowance for expected credit losses / provision *	(22,106)	(24,570)
	76,731	85,866

* This includes credit losses of BD 13,591 thousand (31 December 2018: BD 15,573 thousand) against Islamic financing to customers.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

8. ISLAMIC FINANCING AND LOANS TO CUSTOMERS (Continued)

Below is the movement for expected credit losses on Islamic financing and loans to customers:

	2019			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at 1st January	742	998	22,830	24,570
Changed due to financial assets recognised in opening balances that have:				
- transferred to 12-month ECL	577	(491)	(86)	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(24)	150	(126)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(22)	(277)	299	-
Net re-measurement of loss allowance	233	112	1,468	1,813
Recoveries / write-backs	(864)	(289)	(1,433)	(2,586)
Allowance for expected credit losses - net	(100)	(795)	122	(773)
Write offs during the year	-	(7)	(1,684)	(1,691)
Balance at 31 December	642	196	21,268	22,106

	2018			
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit-impaired BD '000	Total BD '000
Balance as at 1 January	754	186	18,096	19,036
Transition adjustment	112	996	2,118	3,226
Opening balance as at 1				
Balance at 1st January	866	1,182	20,214	22,262
Changed due to financial assets recognised in opening balances that have:				
- transferred to 12-month ECL	323	(87)	(236)	-
- transferred to Stage 2 (lifetime ECL not credit-impaired)	(38)	329	(291)	-
- transferred to Stage 3 (lifetime ECL credit-impaired)	(59)	(528)	587	-
Net re-measurement of loss allowance	147	521	3,976	4,644
Recoveries / write-backs	(495)	(416)	(523)	(1,434)
Allowance for expected credit losses - net	(122)	(181)	3,513	3,210
Write offs during the year	(2)	(3)	(897)	(902)
Balance at 31 December	742	998	22,830	24,570

At 31 December 2019, interest in suspense on past due loans that are credit impaired amounted to BD3,800 thousand (31 December 2018: BD 2,109 thousand) and are treated as a memorandum account.

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2019 amounts to BD 13,594 thousand (31 December 2018: BD 9,011 thousand).

The contractual amount outstanding on financing assets written off by the Group as at 31 December 2019 and that are still subject to enforcement activity was BD 5,876 thousand (31 December 2018: BD 4,536 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

9. INVESTMENT SECURITIES

	2019 BD '000	2018 BD '000
At fair value through profit or loss:		
Conventional equities	5,245	4,612
Islamic equities	355	676
	5,600	5,288
At fair value through other comprehensive income:		
Conventional equities	181	184
Conventional debt securities*	17,521	6,504
Sukuk*	6,498	6,093
	24,200	12,781
At amortized cost:		
Conventional debt securities*	11,647	13,075
	41,447	31,144

*These exposures to the home country sovereign i.e. Kingdom of Bahrain are considered to be low risk and fully recoverable and hence, ECL assumed to be insignificant.

10. INVESTMENT IN ASSOCIATES

	Ownership interest		Principal activity
	2019	2018	
Arabian Taxi Company ("ATC")	20%	20%	Operating and managing taxi services
EBDA Bank ("EBDB")	21.13%	21.13%	Providing microfinance and related advisory services.

Associates are incorporated in Bahrain and accounted for using the equity method in these consolidated financial statements.

	2019 BD '000	2018 BD '000
Carrying amount of investment in associated companies		
At 1 January	259	419
Share of profit from associates	63	113
Changes in statement of changes in equity	-	(181)
Impairment on investment in associates	-	(92)
At 31 December	322	259

Notes to the Consolidated Financial Statements (Continued)
As at 31 December 2019

11. INVESTMENT PROPERTIES

	2019 BD '000	2018 BD '000
At 1 January	12,000	12,033
Transfer from property and equipment	-	435
Depreciation charge for the year	(473)	(468)
At 31 December	11,527	12,000

As of 31 December 2019, investment properties include 4 buildings (2018: 4 buildings) with a fair value of BD 15,047 thousand (2018: BD 17,498 thousand) as determined by the management.

The fair value measurement of the investment properties has been categorized as a Level 3 fair value based on the inputs to the valuation technique used. The discounted cash flows model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discounted rates. Among other factors, the discount rate estimation considers quality of a building and its location, tenant credit quality and lease terms.

12. PROPERTY AND EQUIPMENT

	Freehold land BD '000	Right of Use BD '000	Freehold premises BD '000	Furniture, fixtures, vehicles and office equipment BD '000	Total BD '000
Cost:					
At 1 January 2019	293	-	1,659	1,917	3,869
Additions	-	741	-	476	1,217
Disposals / write offs	-	-	-	(4)	(4)
At 31 December 2019	293	741	1,659	2,389	5,082
Depreciation:					
At 1 January 2019	-	-	1,297	1,417	2,714
Charge for the year	-	34	55	292	381
Disposals	-	-	-	(4)	(4)
At 31 December 2019		34	1,352	1,705	3,091
Net book values:					
At 31 December 2019	293	707	307	684	1,991
At 31 December 2018	293	-	362	500	1,155

13. OTHER ASSETS

	2019 BD '000	2018 BD '000
Rent and other account receivables - net	394	1,450
Receivable related to Sitra Mall	-	1,159
Interest receivable	1,326	566
Receivable from Ministry of Finance	418	222
Prepayments and other assets	278	249
	2,416	3,646

As at 31 December 2019, the ECL on other assets amounted BD 2,490 thousand (31 December 2018: BD 1,942 thousand).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

14. TERM LOANS

	2019 BD '000	2018 BD '000
Kuwait Fund for Arab Economic Development	-	1,327
Saudi Fund for Development	8,023	8,526
Arab Fund for Economic and Social Development	34,270	40,754
	42,293	50,607

The movement of the term loans during the year is as follows:

	2019 BD '000	2018 BD '000
At 1 January 2019	50,607	51,674
Loan drawn down	-	4,713
Repayment of loans	(8,314)	(5,780)
At 31 December 2019	42,293	50,607

Kuwait Fund for Arab Economic Development

The Bank had obtained a loan from Kuwait Fund for Arab Economic Development (KFAED) in 1998. The entire facility has been drawn down and was repayable in thirty equal half yearly instalments, which commenced from 15 May 2005. This bears an interest and management fees of 1.5% and 0.5% respectively. The Ministry of Finance is a guarantor to the loan.

The loan proceeds were utilised by the Bank to advance loans to customers. One of the covenants of KFAED's loan agreement requires the Bank to repay KFAED any margin earned in excess of a spread of 4% ("interest differentials") on such loans to customers. The interest differentials are deposited into KFAED's bank account maintained by the Bank in a fiduciary capacity. The balance at year end was BD 2 thousand (2018: the same). This account can be used only for development activities such as training, feasibility studies and technical assistance to borrowers agreed by both the parties. During 2019, no amount was utilised for such purposes (2018: same).

Saudi Fund for Development

During 2012, the Bank obtained a loan of SAR 100 million from Saudi Fund for Development. The facility has been fully availed and is repayable semi-annually in 25 years (5 years grace period for principal) at an interest rate of 2.0%. The Ministry of Finance is a guarantor to the loan.

Arab Fund for Economic and Social Development

During 2013, the Bank had obtained a loan of USD 30 million from Arab Fund for Economic and Social Development (AFESD). The facility has been fully availed and is repayable semi-annually in 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2014, the Bank had obtained a second loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually in 10 years (3 years grace period for principal) at an interest rate of 3.0%. During 2016, the Bank had obtained a third loan of USD 50 million from AFESD. The facility has been fully availed and is repayable semi-annually in 10 years (3 years grace period for principal) at an interest rate of 3.0%.

15. DEPOSITS

	2019 BD '000	2018 BD '000
Deposits from banks (note a)	5,467	-
Deposits from customers (note b)	29,451	35,001
	34,918	35,001

Note a: Deposits from banks BD 5,467 thousand (31 December 2018: BD nil thousand) is from Islamic banks placed with BDB on a Wakala basis.

Note b: Deposits from customers include BD 15,432 thousand (31 December 2018: BD 1,250 thousand) kept as margin deposits against financings provided.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

16. SHARE CAPITAL

	2019 BD '000	2018 BD '000
Authorized:		
100 million (2018: 100 million) shares of BD 1 each	100,000	100,000
Issued and fully paid-up:		
65 million (2018: 65 million) shares of BD 1 each	65,000	65,000

17. STATUTORY RESERVE

In accordance with the provisions of the Bahrain Commercial Companies Law and the Bank's articles of association, an amount equivalent to 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. This reserve is not distributable, but can be utilised for the purposes of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. No such transfers have been made during the year ended 31 December 2019 and 2018, as the Bank is having accumulated losses.

18. OTHER CAPITAL CONTRIBUTION

Other capital contribution mainly includes a contribution by a majority shareholder for a non-monetary asset in the form of a commercial property to the Bank. The property has been classified as an investment property (refer note 11) that was recognised at its fair value on the date of transfer and as a capital contribution in the statement of changes in equity of BD 3,623 thousand.

19. ISLAMIC FINANCING AND INTEREST INCOME

	2019 BD '000	2018 BD '000
Profit on Islamic financing	4,969	6,267
Interest on conventional loans	1,133	631
Profit and interest on securities	1,740	873
Profit and interest on placements	392	497
	8,234	8,268

20. ISLAMIC FINANCING AND INTEREST EXPENSE

	2019 BD '000	2018 BD '000
Interest on term loans	1,305	1,422
Interest on deposits from customers	260	388
Profit on deposits from Islamic banks	17	34
Interest on deposits from conventional banks	6	26
	1,588	1,870

21. FEE AND COMMISSION INCOME

	2019 BD '000	2018 BD '000
On Islamic financing and loans to customers	311	212
On contingent liabilities	46	19
	357	231

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

22. INVESTMENT INCOME

	2019 BD '000	2018 BD '000
(Loss) / gain on sale of FVTPL investments	(17)	205
Changes in fair value of investments classified as FVTPL	(348)	84
Dividend income	77	90
	(288)	379

23. OTHER INCOME

This mainly includes recovery of written-off non-performing loans amounting to BD 441 thousand (2018: BD 955 thousand).

24. ALLOWANCE FOR EXPECTED CREDIT LOSSES / PROVISION - NET

	2019 BD '000	2018 BD '000
Placement with banks and other financial institutions	26	(16)
Islamic financing and loans to customers	(773)	3,210
Other assets	953	925
Off-balance sheet exposures	234	(137)
	440	3,982

25. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank issues letters of credit and guarantees to its existing customers. These instruments commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import of goods.

Irrevocable commitments to extend credit are the Islamic financing and loans, which have been approved by the Bank but have not been disbursed as of the reporting date.

Details of contingent liabilities and commitments are given below:

	2019 BD '000	2018 BD '000
Contingent liabilities:		
Letters of credit *	46	34
Letters of guarantee *	1,461	1,439
	1,507	1,473
Commitments:		
Irrevocable commitments to extend credit *	3,557	1,323
Commitment to invest in equity **	2,752	3,485
	6,309	4,808
	7,816	6,281

* The Bank carries an allowance of ECL of BD 352 thousand (31 December 2018: 117 thousand) against these off-balance sheet items which is classified under other liabilities.

** This represents the Bank's commitment to invest a 10% equity portion in Al-Waha Venture Capital Fund established with a total value of USD 100 million (equivalent BD 37.7 million). During the year, the Bank paid BD 739 thousand (2018: 285 thousand) toward this commitment.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

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.

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

Term loans obtained by the Bank are from Development Funds in Kuwait and the Kingdom of Saudi Arabia. There is no secondary market for such loans which are at lower than market rates due to the nature of these loans. The Bank has estimated that its financing rates and terms are comparable to that of the objectives of other similar development banks in the region and accordingly believes the carrying value of term loans obtained are a close approximation of their fair values.

The fair value of deposits approximates the carrying value as at the reporting date given their short term nature.

There is no change in the valuation techniques used for valuation of investments during the period as compared to the year ended 31 December 2019.

The valuation technique for Level 2 financial assets is arrived on the basis of the market multiples approach and discounted cash flows. The key inputs used include a range of weighted average cost of capital used for discounting cash flows, discount for lack of marketability, control premium etc.

The bank uses various valuation techniques such as discounted cash flows, market multiples and adjusted net assets value to arrive at the fair value of Level 3 financial assets. The key inputs used are discount rate and growth rate, price earning multiple and net assets value. The reasonable potential shift in any of the above mentioned inputs will not have any significant effect on the consolidated statement of profit and loss.

The table below analyses financial instruments, measured at fair value as at both reporting dates, in the fair value hierarchy into which the fair value measurement is categorised. The fair values of financial assets and financial liabilities carried at amortised cost approximate their carrying values as at the reporting dates.

Financial assets measured at fair value:	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total fair value BD '000	Total carrying value BD '000
31 December 2019					
Investment securities - equity	1	354	5,426	5,781	5,781
Investment securities - debt	24,019	-	-	24,019	24,019
31 December 2018					
Investment securities - equity	96	580	4,796	5,472	5,472
Investment securities - debt	12,597	-	-	12,597	12,597

The Bank has outstanding forward forex contracts to buy USD from Central Bank of Bahrain ("CBB") with a nominal value of BD 27,808 thousand (2018: BD 35,114 thousand) with tenors of less than one year. Given that BD is currently pegged against the USD and the interest differential between BD and USD is not being marginal, the Bank deems the fair value of these contracts to be insignificant.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Below is the reconciliation of Level 3 financial assets carried at fair value:

	2019 BD '000	2018 BD '000
At beginning of the year	4,796	5,508
Changes in fair value recognised in the statement of profit or loss	(84)	137
Additions during the year	739	336
Sales made during the year	-	(1,185)
Written off during the year	(25)	-
At end of the year	5,426	4,796

Sensitivity analysis

FVTPL investments comprises investments in private equity entities and funds. The main principles, estimates and assumptions adopted to arrive at fair value include estimated future cash flows which have been provided by the management of the investee companies but have been reviewed for reasonableness by the Group and the external valuer. Cash flows have been projected for an initial period of five years or over the project life in certain cases and then a terminal value has been estimated at a growth rate of 2% to 3%.

The potential effect of using reasonable possible alternative assumptions for fair valuing the investments at FVTPL are summarised below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2019 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	3,054	+/- 0.5%	(61) / 67
	Growth rate		+/- 0.5%	42 / (38)
Market Multiples	P/E Multiple	354	+/- 5%	20 / (20)
Adjusted Net Assets Value	NAV	2,367	+/- 5%	71 / (31)

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2018 BD '000	Reasonable possible shift +/- (in any input)	Impact on profit or loss BD '000
Discounted cash flow	Discount rate	4,082	+/- 0.5%	(78) / 84
	Growth rate		+/- 0.5%	51 / (47)
Market Multiples	P/E Multiple	580	+/- 5%	29 / (29)
Adjusted Net Assets Value	NAV	530	+/- 5%	66 / (66)

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

27. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties which comprise major shareholders, associates, directors, senior management and entities controlled jointly or significantly influenced by such related parties in the ordinary course of business at agreed rates. Amounts due from related parties are unsecured.

The year end balances in respect of related parties included in the consolidated statement of financial position are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2019			
Islamic financing and loans to customers	455	114	569
Investment in associates	-	322	322
Other assets	-	418	418
Deposits	4	3,721	3,725

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
31 December 2018			
Islamic financing and loans to customers	295	12	307
Investment in associates	-	283	283
Other assets	-	222	222
Deposits	152	7,638	7,790

The transactions with related parties included in the consolidated statement of profit or loss are as follows:

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2019			
Islamic financing and interest income	15	9	24
Islamic financing and interest expense	-	57	57
Share of profit for associates	-	63	63

	Directors and key management personnel BD '000	Shareholders and related companies BD '000	Total BD '000
2018			
Islamic financing and interest income	10	11	21
Islamic financing and interest expense	-	55	55
Share of profit for associates	-	113	113
Other expenses	-	27	27

Compensation of key management personnel is as follows:

	2019 BD '000	2018 BD '000
Board remuneration	178	80
Salary and short-term employee benefits	908	779
Termination benefits	87	148
	1,173	1,007

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

28. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. In the course of its regular business, the Bank is exposed to multiple risks notably credit risk, liquidity risk, market risk, operational risk and other risks like compliance risk, strategic risks and reputational risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. The Bank's risk governance is manifested in a set of established policies, procedures and controls through which the existing organizational structure meets its strategic targets. This philosophy revolves around the knowledge of various risks and their willingness to accept the same commensurating with their risk appetite and strategic plan approved by the Board of Directors.

a) Organizational structure

A cohesive organizational structure is established within the Bank in order to identify, assess, monitor, and mitigate risks.

b) Board of Directors

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Bank. Oversight of the day-to-day management of the Bank is conducted by the BOD committees, the Chairman and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises eight members.

c) Audit & Governance Committee of the board

The Audit & Governance Committee ("AGC") comprises three members of the Board and the Head of Internal Audit is the AGC's Secretary. This AC is principally responsible for reviewing the internal audit program and assist the Board in carrying out its duties regarding the integrity of the Bank's financial reporting system, adequacy of the Bank's internal control and risk management processes, to oversee the external and internal audit functions, and the Bank's compliance with legal and regulatory requirements.

d) Nomination & Remuneration Committee of the board

The Nomination & Remuneration Committee ("NRC") comprises three members of the BOD (including the Chairman) and the Head of Human Resources & Corporate Communications is the committee's Secretary. NRC has the overall responsibility of setting the criteria and processes for identification of candidates for the Board level committees and senior management. The Committee also assists the Board of Directors in establishing a fair and transparent process for the remuneration of directors, other Board Committees and the Chief Executive Officer and of the Executive Management. The Committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance as well as with any legal or regulatory requirements. NRC also overseas the Bank's HR policies and rewards policy framework, corporate governance practices.

e) Investment & Credit Committee of the Board

The Investment & Credit Committee ("ICC") comprises four members of the BOD. The Committee has overall responsibility of setting the criteria for managing credit and investment risks and oversee the investment and credit strategies and objectives of the Bank. The Committee assists the Board of Directors in managing credit risk and reviews internal credit policies, grants approvals for credit and investment facilities in addition to reviewing the quality and performance of the Bank's lending portfolio and investment in line with the agreed risk appetite and best credit risk management practices.

f) Risk Committee of the Board

The Risk Committee ("RC") comprises three members of the BOD. The Committee has overall responsibility of overseeing the Bank's enterprise risk management framework, approach and pertinent policies. The Committee recommends to the Board, guidelines in relation to the Bank's current and potential future risk exposures and risk strategy, determination of risk appetite including risk limits and tolerance levels as well as the Bank's capital and liquidity strategy.

g) Executive Management

Executive Management is responsible for the day to day operations towards achieving the strategic goals within the pre-defined risk appetite and approved strategy as a whole.

h) Management Executive Committee

The Management Executive Committee ("MEC") is a senior management level committee that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategic plan as approved by the BOD. The responsibilities of MEC include approving and monitoring of the Bank's various business activities in accordance with the strategic plan approved by the Board.

In order to fulfil its responsibilities, the Committee has appointed other Sub-Committees and delegated specific tasks and adequate powers and authorities for effectively and efficiently carrying out the responsibilities assigned to them. The composition, guiding principles and detailed roles and responsibilities of MEC are covered in the MEC's charter.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

28. RISK MANAGEMENT (Continued)

i) Risk Executive Committee

The Risk Executive Committee ("REC") has the primary responsibility of overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk and other risks. REC has to ensure that the Bank has adequate risk management framework, policies, procedures and processes in place in order to identify, measure, monitor, mitigate and manage risks across all of its operations.

j) Asset and Liability Committee

The Assets and Liabilities Committee ("ALCO") is mainly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. ALCO monitors the Bank's liquidity and market risks and the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk / reward guidelines approved by the Delegated Approval Authority / Board.

k) Credit Committee

The Credit Committee ("CC") has the responsibility to grant / approve credit facilities as within their Delegated Authority and also makes decisions relating to the execution of investments in line with the Banks investment strategy and management of credit and concentration risks. Proposals exceeding their Delegated Authority are escalated to the ICC for consideration.

l) Risk management

Risk Management Department is an independent function responsible for the preparation, implementation and updating the policies and procedures within the framework of the Bank's strategy and in line with the guidelines of the CBB. They are also responsible for the identification and continuous evaluation of all significant risks, design and implementation of appropriate internal controls to mitigate the risks and the processes involved in the remedial function. The risk management department is overseen by the Chief Risk Officer.

m) Legal Department

The Bank has engaged a panel of external legal counsels to handle all legal cases initiated for recovery of difficult loan cases. The progress and outcomes on such cases are monitored by the Head of Legal.

n) Internal Audit Department

Risk Management processes are audited periodically by Internal Audit, which examines the adequacy of the controls in place in addition to compliance with the policies by the respective departments. The findings of internal audit results are discussed with the relevant Department Heads and the CEO and are presented to the Audit & Governance Committee of the Board.

o) Treasury Department

The Treasury Department is responsible for the day to day operations necessary to fund banking activities and implement ALCO's strategies in managing / optimizing interest rate and liquidity risks.

p) Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on the approved limits and the strong internal control structures established by the Board. The limits reflect the business strategy and the market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept.

Strict assessment processes are factored during the review and approval processes. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Quarterly updates are provided to the BOD and on a monthly basis to all other members of the management on the utilization of market limits, proprietary investments, liquidity and other developments.

q) Risk Mitigation

Significant risk mitigation activities are focused in the credit area. The risk mitigation process comprises of an appropriate and adequate structure for the credit facilities at the initial stage followed by ongoing and regular monitoring, enforceable documentation and collateral.

The various risks to which the Group is exposed and how the Group manages them is discussed in the notes below.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and Islamic financing to customers, placements and debt securities.

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit Risk Management Unit under policies approved by the Board of Directors. The Credit Risk Management Unit identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, and price risk.

29.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), deposits held with other banks and investments made in debt type instruments. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to the purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend the credit. Credit risk monitoring and control is performed by the Credit Risk Management Unit (CRMU) which sets parameters and thresholds for the Bank's financing activities.

29.2 Significant Increase In Credit Risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such an increase and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank monitors the effectiveness of the criterion used to identify SICR by regular reviews and validations.

The Bank classifies its financial instruments into Stage 1, Stage 2 and Stage 3, based on the applied methodology, as described below:

Stage 1: for financial instruments where there has not been a SICR since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination are classified as Stage 1.

Stage 2: for financial instruments where there has been a SICR since initial recognition but are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings and loans categorised in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. A customer is classified under Stage 3 based on a default identification process i.e. Days Past Due (DPD) of 90 days or more.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK (Continued)

29.3 Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

Type of financial instrument	Measurement basis
a) Financial assets that are not credit-impaired at the reporting date	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 Bank expects to receive).
b) Financial assets that are credit-impaired at the reporting date	As the difference between the gross carrying amount and the present value of estimated future cash flows.
c) Irrevocable undrawn commitments	As the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
d) Letters of credit and bank guarantees	As the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, Probability of Default (PD), Loss Given Default (LGD), Credit Conversation Factor (CCF) and discount rate.

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

a) Probability of Default (PD);
b) Loss Given Default (LGD); and
c) Exposure At Default (EAD).

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

Linear Regression has been used to develop macroeconomic models specific to portfolios of the bank. Department variable has been the default rate specific to portfolios and independent variables considered are Macro variables.

The Modelling methodology adopted by the Bank involved a systematic approach with statistically rigorous analyses' to arrive at the final model for each of the portfolios. The underlying development process involved steps of data transformation, variable reduction, model performance, check for variable collinearity etc.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For facilities that include both a drawn and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and / or turning the outstanding balance into a loan with fixed repayment terms.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK (Continued)

29.4 Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime 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 macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: gross domestic product / economic growth, interest rates, unemployment rates and inflation.

Based on consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

For the financing portfolio, through the yearly review of the corporate portfolio, the Bank observes yearly performances to compute a count based PD over the one year horizon for the past 5 years.

PDs for each segment are measured using observed default estimation and PD is calculated based on a DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

29.5 Restructured financial assets

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

In project finance, there could be delays in implementation of the project and in some cases, the projects may take a longer time to generate surplus. The Bank has in such cases, where there is a genuine need and commitment from the customer, approved a restructuring.

Maximum tenor of the facility post restructuring does not exceed 15 years from the first disbursement of the facility. As has been prescribed by the CBB, restructured accounts are transferred to Stage 2 directly for a minimum period of 12 months.

29.6 Credit-impaired financial assets

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

29.7 Definition of 'Default' and 'Cure'

The Bank's definition of default is aligned with regulatory guidelines and internal Credit Risk Management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence a relevant financial asset or a group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the expected credit losses as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset. The following are certain indicators to identify the impairment of assets (indicators are not necessarily to be observed on an individual basis):

a) significant financial difficulty of the issuer or the obligor;
b) material breach of facility covenants, conditions and contract (subject to management discretion);
c) grant to the borrower a concession that the lender would not otherwise consider except for economic or legal reasons relating to the borrower's financial difficulty;
d) imminent bankruptcy or other financial reorganization of the borrower;
e) significant downgrading in credit rating by an external credit rating agency;
f) disappearance of an active market because of financial difficulties;
g) presence of past due contractual payments of either principal or profit; or / and
h) deterioration in the value of security and likelihood of successfully realising it.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK (Continued)

29.7 Definition of 'Default' and 'Cure' (Continued)

In general, counterparties with facilities exceeding 90 days past dues are considered in default.

A financial instrument is considered as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit review, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

29.8 Incorporation of forward looking assumptions

The Bank incorporates forward-looking assumptions into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank annually sources macro-economic forecast data for various variables from many databases including the International Monetary Fund (IMF) database for Bahrain, Bloomberg, Reuters and World Bank.

Macro-economic variables are checked for correlation with the PD for the past five years and only those variables for which the movement can be explained are used. Management judgment is exercised when assessing the macroeconomic variables.

i) Limits and concentrations

Limits are assigned for each individual counterparty group and for each industrial segment. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties to the transactions. In addition, the Bank obtains security, where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

ii) Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk as at the reporting date.

	2019 BD '000	2018 BD '000
Balances with Central Bank of Bahrain	1,709	1,991
Placement with banks and other financial institutions	14,850	21,917
Islamic financing and loans to customers	76,731	85,866
Investment securities	35,666	25,672
Other assets	2,148	3,397
	131,104	138,843
Contingent liabilities	1,507	1,473
Commitments	3,557	1,323
	5,064	2,796
Maximum credit risk exposure	136,168	141,639

iii) External credit assessment

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK (Continued)

iv) Concentration of credit risk

Since the Group's operations are restricted only to the Kingdom of Bahrain, it is primarily effected by the changes in the economic and other conditions prevailing in the Kingdom of Bahrain.

	2019 BD '000	2018 BD '000
Industry sector		
Banks and financial institutions	52,225	49,580
Trading and manufacturing	48,688	49,856
Education and health	6,777	6,488
Hospitality, media and transportation	8,392	7,894
Fisheries, agriculture and dairy	6,216	5,457
Food processing	1,587	2,836
Others	12,283	19,528
	136,168	141,639

v) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the facility structure and the associated credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash margin, bank guarantees and real estate title deeds.

Market value of collateral is closely monitored by the Bank in addition to requesting additional collateral in accordance with the underlying agreement and evaluation of the adequacy of the allowance for impairment / ECL.

It is the Bank's policy to normally dispose off repossessed collateral in an orderly fashion after due notice has been provided to the defaulting customer. The proceeds are used to reduce or settle the outstanding claim. The Bank did not occupy repossessed properties for its own business use, as at the reporting date.

The Group holds collateral and other credit enhancements against certain of its credit exposures.The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to miitgate potential losses are shown below:

	2019				
	Gross Exposures	Expected Credit Loss	Carrying Amount	FV of Collateral Held	Guarantee Available
	BD 000	BD 000	BD 000	BD 000	BD 000
Project finance - Islamic	19,372	12,817	6,555	6,057	5,791
Project finance - conventional	15,642	7,490	8,152	10,977	-
Fisheries and agriculture	1,733	41	1,692	-	1,692
Other loans	921	919	2	-	-
Total	37,668	21,268	16,400	17,034	7,483

	2018				
	Gross exposure	Expected Credit Loss	Carrying Amount	FV of Collateral Held	Guarantee Available
	BD 000	BD 000	BD 000	BD 000	BD 000
Project finance - Islamic	23,036	13,956	9,080	5,074	6,482
Project finance - conventional	12,803	7,612	5,191	9,441	-
Fisheries and agriculture	1,439	-	1,439	-	1,439
Other loans	1,151	1,262	(111)	-	-
Total	38,428	22,830	15,598	14,515	7,920

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

29. CREDIT RISK (Continued)

vi) Carrying amount per class of financial assets whose terms have been renegotiated

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. The table below shows the carrying amount for renegotiated financial assets during the year.

	2019 BD '000	2018 BD '000
Islamic financing and loans to customers	417	89

vii) Credit quality per class of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2019				2018
	Stage 1 12-months ECL BD '000	Stage 2 Life time ECL not credit impaired BD '000	Stage 3 Lifetime ECL credit impaired BD '000	Total BD '000	Total BD '000
Placement with banks and other financial institutions	14,937	-	-	14,937	21,978
Less: Allowance for ECL	(87)	-	-	(87)	(61)
	14,850	-	-	14,850	21,917
Islamic financing and loans to customers					
Corporate	30,852	575	23,891	55,318	60,083
SME	12,757	893	5,987	19,637	23,794
Small business	11,811	717	4,234	16,762	19,723
Taxi loans	-	-	59	59	135
Education loans	355	28	1,229	1,612	1,720
Overdrafts	580	-	535	1,115	755
Others	2,395	206	1,733	4,334	4,226
	58,750	2,419	37,668	98,837	110,436
Less: Allowance for ECL	(642)	(196)	(21,268)	(22,106)	(24,570)
	58,108	2,223	16,400	76,731	85,866
Off-balance sheet exposures					
Letters of credit and bank guarantees	1,456	-	51	1,507	1,473
Undrawn commitments	3,557	-		3,557	1,323
Less: Allowance for ECL	(301)	-	(51)	(352)	(117)
	4,712	-	-	4,712	2,679
Other assets	12	26	3,098	3,136	2,322
Less: Allowance for ECL	(1)	(6)	(3,040)	(3,047)	(2,232)
	11	20	58	89	90

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

30. MARKET RISK

Market risk is the risk of loss attributable to adverse changes in the values of financial instruments, whether on or off-balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or price.

i) Interest rate risk

Interest rate risk arises from the possibility that changes to the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risk due to mismatches of interest rate repricing of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits.

The Bank primarily deals with 4 currencies, namely Bahraini Dinars, Kuwaiti Dinars, Saudi Riyals and United States Dollars, in which the Bank's interest sensitive financial instruments are denominated predominantly. The following table demonstrates the Bank's sensitivity to a reasonable possible change in interest rates, with all other variables held constant.

	Change in basis points	Impact of change on net interest Income		Change in basis points	Impact of change on net interest Income	
		2019 BD '000	2018 BD '000		2019 BD '000	2018 BD '000
Bahraini Dinars	+100	1,074	1,031	-100	(1,074)	(1,031)
Kuwaiti Dinars	+100	1	-	-100	(1)	-
Saudi Riyals	+100	(1)	(4)	-100	1	4
United States Dollars	+100	(327)	(405)	-100	327	405

ii) Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Net open positions are monitored on a daily basis to ensure compliance within the established limits.

The Bank views the Bahraini Dinar as its functional currency. In the opinion of the Bank's management, the currency risk for any position held in US dollar is insignificant since the Bahraini Dinar is pegged to the US dollar. The Bank had the following significant net open exposures denominated in foreign currencies as of 31 December 2019 and 2018:

	Equivalent long / (short)	
	2019	2018
Kuwaiti Dinars	65	71
US Dollars	(78)	340
Euro	6	1
GBP	7	5
Saudi Riyals	57	(17)
UAE Dirhams	4	5

31. EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.The effect on profit or loss (as a result of a change in the fair value of equity instruments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Trading Equities		Effect on Profit or Loss		
	2019 BD '000	2018 BD '000	% change in Index	Total 2019 BD '000	Total 2018 BD '000
Bahrain Bourse	1	96	± 15%	0	14

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities as at 31 December 2019 and 2018 based on expected maturities.

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2019								
Assets								
Cash and balances with Central Bank of Bahrain	1,976	-	-	-	-	-	1,976	1,976
Placements with banks and other financial institutions	7,274	5,125	-	2,451	-	-	14,850	14,850
Islamic financing and loans to customers	3,582	7,428	9,506	14,566	45,258	19,357	99,696	76,731
Investment securities	18,146	-	-	-	-	23,301	41,447	41,447
Investment in associates	-	-	-	-	-	322	322	322
Investment properties	-	-	-	-	-	11,527	11,527	11,527
Property and equipment	-	-	-	-	-	1,991	1,991	1,991
Other assets	-	-	2,416	-	-	-	2,416	2,416
Total assets	30,978	12,553	11,921	17,017	45,258	56,498	174,225	151,260
Liabilities								
Term loans	-	251	3,242	3,493	13,972	21,335	42,293	42,293
Deposits	11,466	7,933	3,464	524	36	11,495	34,918	34,918
Other liabilities	-	-	4,723	-	-	-	4,723	4,723
Total liabilities	11,466	8,184	11,429	4,017	14,008	32,830	81,934	81,934
Net liquidity gap	19,512	4,369	492	13,000	31,250	23,668		
Cumulative liquidity gap	19,512	23,881	24,374	37,374	68,624	92,291		

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000	Carrying amount BD '000
31 December 2018								
Assets								
Cash and balances with Central Bank of Bahrain	2,218	-	-	-	-	-	2,218	2,218
Placements with banks and other financial institutions	13,029	-	618	8,270	-	-	21,917	21,917
Islamic financing and loans to customers	3,640	7,949	10,808	18,687	53,890	18,320	113,294	85,866
Investment securities	19,264	-	-	-	-	11,880	31,144	31,144
Investment in associates	-	-	-	-	-	259	259	259
Investment properties	-	-	-	-	-	12,000	12,000	12,000
Property, plant and equipment	-	-	-	-	-	1,155	1,155	1,155
Other assets	-	-	3,646	-	-	-	3,646	3,646
Total assets	38,151	7,949	15,072	26,957	53,890	43,614	185,633	158,205
Liabilities								
Term loans	-	-	4,157	4,157	13,972	28,322	50,607	50,607
Deposits	13,880	2,397	7,445	1,279	-	10,000	35,001	35,001
Other liabilities	-	-	5,106	-	-	-	5,106	5,106
Total liabilities	13,880	2,397	16,708	5,436	13,972	38,322	90,714	90,714
Net liquidity gap	24,271	5,552	(1,636)	21,522	39,918	5,292		
Cumulative liquidity gap	24,271	29,823	28,188	49,709	89,627	94,919		

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

33. LIQUIDITY RISK

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2019 and 2018 based on the contractual undiscounted repayment obligations. See note 33 for the expected maturities of these liabilities.

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2019								
Term loans	-	-	332	8,785	8,997	34,795	27,599	80,508
Deposits	11,435	31	7,933	3,464	524	36	11,495	34,918
Other liabilities	-	-	-	4,723	-	-	-	4,723
Total liabilities	11,435	31	8,265	16,972	9,521	34,831	39,094	120,149

	On demand BD '000	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
31 December 2018								
Term loans	-	-	-	9,944	9,879	14,279	73,656	107,758
Deposits	-	13,880	2,397	7,445	1,279	-	10,000	35,001
Other liabilities	-	-	5,106	-	-	-	-	5,106
Total liabilities	-	13,880	7,503	17,389	11,158	14,279	83,656	147,865

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
31 December 2019					
Contingent liabilities	337	195	330	645	1,507
Commitments	3,557	-	2,752	-	6,309
Total	3,894	195	3,082	645	7,816
31 December 2018					
Contingent liabilities	382	122	701	268	1,473
Commitments	1,323	-	3,557	291	5,171
Total	1,705	122	4,258	559	6,644

	2019	2018
Liquidity Coverage Ratio	420%	190%
	2019	2018
NSFR	139%	173%

The Bank expects that not all of the commitments will be drawn before expiry of the commitments.

Notes to the Consolidated Financial Statements (Continued)
As at 31 December 2019

34. OPERATIONAL AND LEGAL RISK

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, if any will not be material.

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has computer systems that enable it to run operations with speed and accuracy. The operational risk management unit operates independently from other units of the Bank and reports to the Chief Risk Officer. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately. The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") team. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions. The Bank is conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / CBB guidelines.

35. DERIVATIVES

A derivative is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into forex forward contracts. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates. The Group has entered into forex forward contracts with the Central Bank of Bahrain with a nominal value of BD 27,808 thousand (31 December 2018: BD 35,114 thousand).

36. CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the CBB, for the Bank is as follows:

	2019 BD '000	2018 BD '000
Capital base		
Tier 1 capital	69,344	68,820
Tier 2 capital	1,233	1,884
Total capital base (a)	70,577	70,704
Risk-weighted assets (b)	134,416	148,451
Capital adequacy ratio (a/b*100)	52.51%	46.56%
Minimum requirement	12.5%	12.5%

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements, the CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The capital adequacy regulations of the CBB are based on the principles of Basel III of the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, includes CET1 and AT1.

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

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

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

36. CAPITAL ADEQUACY (Continued)

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

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

Capital management

The primary objectives of the Bank's capital management are i) to ensure that the Bank complies with externally imposed capital requirements ii) maintain healthy capital ratios in order to support its business and iii) to maximise shareholders' value. The Bank manages its capital structure and makes adjustments to it in the light of changes in business conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities.

37. CLASSIFICATION OF ASSETS AND LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Designated as at FVTPL BD '000	FVOCI – sukuk/debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	1,976	1,976
Placements with banks and other financial institutions	-	-	-	14,850	14,850
Islamic financing and loans to customers	-	-	-	76,731	76,731
Investment securities	5,600	24,019	181	11,647	41,447
Investment in associates	-	-	-	322	322
Investment properties	-	-	-	11,527	11,527
Property and equipment	-	-	-	1,991	1,991
Other assets	-	-	-	2,416	2,416
Total assets	5,600	24,019	181	121,460	151,260
Liabilities					
Term loans	-	-	-	42,293	42,293
Deposits	-	-	-	34,918	34,918
Other liabilities	-	-	-	4,723	4,723
Total liabilities	-	-	-	81,934	81,934

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2019

37. CLASSIFICATION OF ASSETS AND LIABILITIES (Continued)

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Designated as at FVTPL BD '000	FVOCI – debt instruments BD '000	FVOCI – equity instruments BD '000	Amortised cost / others BD '000	Total BD '000
31 December 2018					
Assets					
Cash and balances with Central Bank of Bahrain	-	-	-	2,218	2,218
Placements with banks and other financial institutions	-	-	-	21,917	21,917
Islamic financing and loans to customers	-	-	-	85,866	85,866
Investment securities	5,288	12,597	184	13,075	31,144
Investment in associates	-	-	-	259	259
Investment properties	-	-	-	12,000	12,000
Property and equipment	-	-	-	1,155	1,155
Other assets	-	-	-	3,646	3,646
Total assets	5,288	12,597	184	140,136	158,205
Liabilities					
Term loans	-	-	-	50,607	50,607
Deposits	-	-	-	35,001	35,001
Other liabilities	-	-	-	5,106	5,106
Total liabilities	-	-	-	90,714	90,714

38. COMPARATIVE FIGURES

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

Risk and Capital Management Disclosures

For the year ended 31 December 2019

1. EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar 3 disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as "CBB". The report has been designed to provide BDB Group's stakeholders with detailed information on the Bank's approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB's Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

BDB has adopted the Standardized Approach for Credit Risk, Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31st December 2019 presented in accordance with the International Financial Reporting Standards (IFRS).

2. INTRODUCTION TO THE Basel III FRAMEWORK

The CBB's capital adequecy framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar 1: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: rules for the disclosure of risk management and capital adequacy information.

CBB CAPITAL ADEQUACY RULES:

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, the capital conversation buffer is newly introduced limits and minima by the CBB, such as minimum Common Equity Tier 1 Capital Ratio "CET1" of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB).

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB's capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

i) Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The bank has a robust credit risk management architecture which is explained in greater detail in Note 2 of the consolidated financial statements.

The Bank does not use any external credit assessment institutions and the risk rating for the exposures are based on the internal credit framework and policy guidelines of the Bank.

For regulatory reporting purposes, BDB is using the Standardised Approach for credit risk.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

2. INTRODUCTION TO THE Basel III FRAMEWORK (Continued)

ii) Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of financial instruments as a result of changes in market rates (such as interest rates and foreign exchange rates).

For the regulatory market risk capital requirement, BDB is using the Standardised Approach for the calculation of regulatory market risk capital.

iii) Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations and activities.

For the regulatory operational risk capital requirement, BDB is using the Basic Indicator Approach for the calculation of regulatory operational risk capital.

Regulatory Reforms

The Bank is operating as a retail bank with special waivers under a license issued by the Central Bank of Bahrain ("CBB"), with headquarters and branches in Bahrain. The Bank's capital adequacy requirements are computed on a consolidated basis.

3. GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. As at 31st December 2019, the Group consists of the Bank and its following subsidiaries:

Name	Country of incorporation
Bahrain Business Incubator Centre (S.P.C.)	Kingdom of Bahrain
Bahrain Export Development Center S.P.C	Kingdom of Bahrain
Al-Waha Venture Capital Fund Company	Kingdom of Bahrain
Middle East Corner Consultancy CO. WLL*	Kingdom of Bahrain

* The Bank is exposed, or has rights, to variable returns from its involvement with Middle East Corner Consultancy Co. WLL; and has the ability to affect those returns through its power over Middle East Corner Consultancy Co. WLL and thus is deemed as subsidiary of the Bank.

Restrictions on capital and transfer of funds within the Group

Since the Bank's subsidiaries are not regulated financial institutions, there is no regulatory impediment to the transfer of retained earnings to the Bank. However, as a separate legally incorporated entity, the transfer of paid in capital and mandatory reserves would require shareholder action. As the major shareholder (either direct or indirect) in the entity, the Bank has the power to undertake the legal processes for the transfer of such capital. The Bank's subsidiaries are registered and domiciled in Bahrain and there are no exchange controls or other restrictions on the transfer of funds.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

4. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's regulatory capital base comprises of (a) CET 1 capital which includes share capital, reserves and retained earnings. (b) Tier 2 capital which consist of general loan loss provisions.

Capital structure, minimum capital and capital adequacy
The Bank's paid up capital consists only of ordinary shares and does not have any other type of capital instruments.

The Bank's regulatory capital base is as detailed below:

	As at 31 December 2019
Common Equity Tier 1 (CET1)	
Issued and full paid ordinary shares	65,000
Legal / Statutory reserve	1,186
Retained earnings	(2,580)
Other reserves	4,048
Current period Profit	1,036
Cumulative fair value changes on FVOCI investments (Debt)	654
Total Common Equity Tier 1 (CET1) (A)	69,344
Additional Tier 1 (AT1)	-
Total Tier 1 (T1)	69,344
Tier 2 Capital (T2)	
Expected Credit Losses (ECL)	1,233
Total Tier 2 (T2) (B)	1,233
Total Capital Base (Tier 1 + Tier 2) (C=A+B)	70,577

Capital Requirement for Risk Weighted Exposure

	Credit Exposure before credit risk mitigant	Eligible financial collateral	Credit Exposure after risk mitigant	Risk weighted exposure	Capital Requirement at 12.5%
As at 31 December 2019					
Cash items	267	-	267	-	-
Sovereigns	73,143	-	73,143	-	-
Banks	8,038	-	8,038	3,992	499
Corporates	65,248	3,397	60,621	60,621	7,578
Past due exposures	16,400	6,536	9,864	14,763	1,845
Investment in securities	4,949	-	4,949	7,745	968
Holding of Real Estate	13,988	-	13,988	26,669	3,334
Others assets	2,140	-	2,140	2,140	268
Total Credit Risk Exposure	184,173	9,933	173,010	115,930	14,491
Market Risk				88	11
Operational Risk				18,399	2,300
Total Risk Weighted Assets (D)				134,417	16,802
Capital Adequacy Ratio (B)/(D)				52.51%	
CET1 Capital Adequacy Ratio (A)/(D)				51.59%	

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

5. CREDIT RISK – PILLAR 3 DISCLOSURES

This section describes BDB's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar 3 disclosure requirements.

Definition of exposure classes

The Bank has a diversified funded and unfunded credit exposure. These exposures are classified as standard portfolio per CBB's capital adequacy requirements.

Brief description of applicable standard portfolio 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. Investment in securities and sukuk:

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

c. Claims on banks:

Claims on banks are risk weighted based on external rating agencies (S&P, Moody's, Fitch, and Capital intelligence). Short-term claims on locally incorporated banks are 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 Dollar.

Preferential risk weighting that is one category more favourable than the standard risk weighting is 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 weight 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.

d. Claims on corporates:

Claims on corporates are risk weighted based on credit ratings. Risk weighting for unrated (corporate) claims are assigned at 100%.

e. Impairment of assets:

The Bank assesses at each reporting date whether there is any objective evidence that a specific financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'impairment event') and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

f. Restructured financing facilities:

Where possible, the Bank seeks to restructure facilities. This may involve extending the payment arrangements and the agreement of new financing facility conditions. Management continuously reviews renegotiated financing facilities to ensure that all criteria are met and that future payments are likely to occur. The financing facilities continue to be subject to impairment assessment, calculated using the facility's original effective interest rate.

g. Past due exposures:

This includes claims, for which the repayment is overdue for more than 90 days. The risk weighting for such loans is either 100% or 150% is applied depending on the level of provisions maintained against the assets.

h. Equity Portfolio:

Investment in securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 10% of the eligible capital of investee entity, in which case they are deducted from the Bank's capital.

i. Other assets:

These are risk weighted at 100%.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

5. CREDIT RISK – PILLAR 3 DISCLOSURES (Continued)

j. 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%.

k. Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank. Such related parties in the ordinary course of business at commercial interest and commission rates (Refer note 28 of the consolidated financial statements).

Amounts due from related parties are unsecured.

l. Highly leveraged counterparties:

The Bank does not lend to highly leveraged and other high risk counterparties as defined in PD-1-3-24(e).

6. FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

	Total funded credit exposure	Total un-funded credit exposure	Average quarterly credit exposure
Sovereigns	44,187	27,808	74,919
Banks	8,038	-	8,549
Corporates	60,331	5,064	65,379
Past due exposures	16,400	-	16,507
Other assets and Cash items	2,148	-	1,858
Total credit risk	131,104	32,872	167,211

7. CONCENTRATION OF CREDIT RISK BY INDUSTRY & REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	2019			
	Country	Funded	Unfunded	Total
Government & public sector	Bahrain	44,187	27,808	71,995
Banks and financial institutions	Bahrain	8,038	-	8,038
Trading and Manufacturing	Bahrain	48,688	1,037	49,725
Educational Institutions & Healthcare	Bahrain	6,777	1,535	8,312
Hospitality, media and transportation	Bahrain	8,392	150	8,542
Fisheries, agriculture & dairy	Bahrain	6,216	-	6,216
Food processing	Bahrain	1,587	79	1,666
Others	Bahrain	7,218	2,263	9,481
TOTAL		131,104	32,872	163,976

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

8. CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit	2019
Sovereigns	73,143

9. SEGMENT WISE BREAKDOWN OF NON PERFORMING LOANS AND IMPAIRMENT PROVISION

	Impaired loans (net of provision)	Stage 3: Lifetime ECL credit impaired	Charge for the period	Write off
Project finance	14,688	21,268	122	1,684
Fisheries and Agriculture	1,712	-	-	-
	16,400	21,268	122	1,684

10. RESIDUAL CONTRACTUAL MATURITY

Maturity analysis of assets

The table below summarises the residual contractual maturity profile of the Group's assets as at 31st December 2019

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
2019										
Assets										
Cash and balances with Central Bank of Bahrain	1,709	-	-	-	-	-	-	-	-	1,709
Placements with banks and other financial institutions	7,274	5,125	-	2,451	-	-	-	-	-	14,850
Islamic financing and loans to customers	2,121	1,734	2,741	4,925	33,284	19,406	10,106	2,414	-	76,731
Investment securities	35,666	-	-	-	-	-	-	-	-	35,666
Investment in associates	-	-	-	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	2,148	-	-	-	-	-	-	2,148
Total funded credit exposures	46,770	6,859	4,889	7,376	33,284	19,406	10,106	2,414	-	131,104
Unfunded credti exposures	1,204	303	4,565	26,155	645	-	-	-	-	32,872
Total credit risk	47,974	7,162	9,454	33,531	33,929	19,406	10,106	2,414	-	163,976

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

11. PAST DUE AND IMPAIRED LOANS (NET) - AGE ANALYSIS

i) By Geographical area

	2019			
	Three months to one year	One to three years	Over three years	Total
Bahrain	17,629	4,362	677	22,668
TOTAL	17,629	4,362	677	22,668

ii) By Segment wise

	2019			
	Three months to one year	One to three years	Over three years	Total
Project finance	16,702	3,490	426	20,618
Fisheries and Agriculture	927	872	251	2,050
TOTAL	17,629	4,362	677	22,668

12. GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

The Bank and its subsidiaries operate and grant loans/financing facilities locally to Bahrain entities and persons only.

	2019
Bahrain	
Specific impairment provision - Stage 3	21,268
TOTAL	21,268

13. RECONCILIATION OF CHANGES IN EXPECTED CREDIT LOSSES

	2019		
	Stage 3: Lifetime ECL credit impaired	Stage 1: 12-month ECL and stage 2 : Lifetime ECL not credit- impaired	Total
Balance at 1 January 2018	22,830	1,740	24,570
Amounts written off during the year	(1,684)	(7)	(1,691)
Charge for the year	1,555	258	1,813
Recoveries during the year	(1,433)	(1,153)	(2,586)
At 31 December 2019	21,268	838	22,106

Restructured Credit Facilities

The Bank has restructured credit facilities amounting to BD 417 thousands during the year ended 31 December 2019. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrower's revised cash flow projections.

The above restructurings did not have a significant impact on the present or future earnings and were primarily extensions of the loan/financing tenor.

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

14. CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation. The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, residential / commercial property mortgage, investment securities, counter-guarantees from other banks, tamkeen guarantees etc. However, for purposes of capital adequacy computation, only eligible collateral recognized under Basel III is taken into consideration.

15. ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

Eligible financial collateral, and guarantees, presented by standard portfolio are as under:

	Gross credit exposure	Financial collateral	Credit exposure after credit risk mitigant
As at 31 December 2019			
Sovereigns	73,143	-	73,143
Banks	8,038	-	8,038
Corporates	65,248	3,397	61,851
Past due exposures	16,400	6,536	9,864
Investments in equities/funds	4,949	-	4,949
Holding of real estate	13,988	-	13,988
Other assets and cash items	2,407	-	2,407
	184,173	9,933	174,240

Tamkeen guarantees a percentage of the outstanding balance of islamic financing in accordance with the agreement between the Bank and Tamkeen. Moreover, agriculture and fisheries loans are guaranteed by the Government of Bahrain.

16. SENSITIVITY ANALYSIS - INTEREST RATE RISK (IRRBB)

Impact on net interest income for the period ended 31 December 2019

	2019
Bahraini Dinar	
Assets	168,634
Liabilities	140,887
(+) 200 basis points	555
(-) 200 basis points	(555)
US Dollar	
Assets	36,152
Liabilities	46,665
(+) 200 basis points	(210)
(-) 200 basis points	210
Kuwaiti Dinar	
Assets	80
Liabilities	-
(+) 200 basis points	2
(-) 200 basis points	(2)
Saudi Riyals	
Assets	8,097
Liabilities	8,091
(+) 200 basis points	0
(-) 200 basis points	(0)

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

17. MARKET RISK, INTEREST RATE GAP

Market risk

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity prices and commodity prices, market indices as well as volatilities and correlations between markets. As its primary tool, the Bank measures its market risk exposure using the Standardised Approach under Basel III.

The Bank uses the Standardised Approach for calculating market risk capital charges for the following market risk components:

- Equity exposure risk
- Interest rate exposure risk
- Foreign currency exposure risk
- Commodity risk

The Bank's market risk capital charge is largely composed of foreign currency risk arising from the Bank's foreign exchange exposure on investments denominated mainly in Kuwaiti dinars, Saudi riyals and USD, and interest rate risk arising on the bond portfolio. The capital requirement for market risk using the Standardised Approach as at 31 December 2019 was as follows:

	Capital Requirements			
	2019	Maximum	Minimum	Average
Risk Type				
Equity risk capital	-	-	-	-
Foreign exchange risk capital	7	13	7	9.75
Interest rate risk capital	-	-	-	-
Commodity risk capital	-	-	-	-

Interest rate risk

Interest rate risk arises from the possibility that changes the interest rates will affect future profitability or the fair values of the financial instruments. The Bank is exposed to interest rate risks due to mismatches of interest rate repricing on maturity of assets and liabilities. Positions are monitored periodically to ensure that this is maintained within the established limits. The Banks assets and liabilities reprice only on maturity.

The Bank's interest rate sensitivity position is based on the maturity dates, as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
2019								
Assets								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	1,709	1,709
Placements with banks and other financial institutions	7,274	5,125	-	2,451	-	-	-	14,850
Islamic financing and loans to customers	2,121	1,734	2,741	4,925	52,690	12,520	-	76,731
Other assets	35,666	-	-	-	-	-	2,148	37,814
Total assets	45,061	6,859	2,741	7,376	52,690	12,520	3,857	131,104
Liabilities								
Term loans	-	251	3,242	3,493	27,944	7,363	-	42,293
Deposits	16,933	2,466	3,464	524	36	11,495	-	34,918
Other liabilities	-	-	-	-	-	-	4,723	4,723
Total liabilities	16,933	2,717	6,706	4,017	27,980	18,858	4,723	81,934
Net liquidity gap	28,128	4,142	(3,965)	3,359	24,710	(6,338)	(866)	

Risk and Capital Management Disclosures (Continued)

For the year ended 31 December 2019

18. EQUITY POSITION IN THE BANKING BOOK

	2019	
	Net exposure	Capital requirement
Publicly traded	1	0
Privately held	5,599	700
TOTAL	5,600	700

19. GAINS ON EQUITY INVESTMENTS

	2019
(i) Realised Gains/ Losses in the statement of profit or loss	-
(ii) Realised Gains/ Losses in retained earnings	-
(iii) Unrealised Gains/ Losses in CET1 Capital	5

The Bank does not have any equity investments subject to supervisory transition or grandfathering provisions.

20. DERIVATIVES

	Foreign exchange contracts
Notional – Banking book	27,808

21. OPERATIONAL AND LEGAL RISKS

Operational risk is the risk of loss arising from errors that can be made in instructing payments or settling transactions, breakdown in technology and internal control systems. The Bank uses the Basic Indicator Approach under the capital adequacy framework for measuring and managing its operational risk. Currently, the Bank conducts its business from a single location. BDB is a retail bank with some restrictions and accordingly, the number of client relationships and volume of transactions at BDB are moderate on average.

"BDB's operations are conducted according to well-defined procedures. These procedures include a comprehensive system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. The Bank also engages in subsequent monitoring of accounting records, daily reconciliation of cash and securities accounts and other checks to enable it detect any erroneous or improper transactions which may have occurred. Specific limits are set up to mitigate and monitor the Bank's exposure.

Operational risk is managed by the Operational risk management unit in the Risk department. The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. Products and services are reviewed by the Internal Audit department and assessed for operational risks. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Bank's ICAAP limit of 16% has been fixed to absorb any unforeseen event as compared to regulatory capital requirement of 12.5%."

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 not be material.

22. FINES & PENALTY

	Amount in BHD Actual 2019
Penalty paid to Central Bank of Bahrain	-

23. LIQUIDITY COVERAGE RATIO (LCR)

According to LM-11.1.2 under the "Liquidity Risk Management Module" in the CBB Rulebook, The Bank has calculated the Liquidity Coverage Ratio, which is at 420% as on 31st December 2019.

24. LEVERAGE RATIO (LR)

According to CA-15.5.1 under the "Leverage Ratio & Gearing Requirements" Module in the CBB Rulebook, The Bank has calculated the Leverage Ratio, which is at 43.2% as on 31st December, 2019.

Composition of Capital Disclosure Requirements

For the year ended 31 December 2019

PD 2 : Reconciliation of regulatory capital

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

This step in not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

PD 2 : Reconciliation of regulatory capital (Continued)

Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	Balance sheet as in published financial statements	Consolidated PIR data
Assets		
Cash and balances at central banks	1,976	1,976
Placements with banks and other financial institutions	14,850	14,937
Investment securities	41,447	41,447
Investments in associates	322	322
Total Investment	**41,769**	**41,769**
of which:		
Significant investments in capital of financials insitutions exceeds the 10% of CET1		
Amount in excess of 10% of CET1 to be deducted		
Amount in excess of 10% of CET1 to be deducted in year 1		
Investment property	11,527	11,527
Loans and advances	76,731	77,569
of which: General loan loss provision which qualify as capital	1,226	-
Prepayments, accrued income and other assets	2,416	2,423
Property, plant and equipment	1,991	1,991
Total assets	**151,260**	**152,192**
Liabilities		
Deposits from banks and other financial institutions	5,467	5,467
Customer accounts	29,451	29,451
Term Loans	42,293	42,293
Repurchase agreements and other similar secured borrowing		
Derivative financial instruments		
Accruals, deferred income and other liabilities	4,723	4,422
Total liabilities	**81,934**	**81,633**
Shareholders' Equity		
Paid-in share capital	65,000	65,000
Shares under employee share incentive scheme		
Total share capital	**65,000**	**65,000**
of which amount eligible for CET1	-	65,000
of which amount eligible for AT1	-	-
Retained earnings	(1,544)	(1,544)
Statutory reserve	1,186	1,186
Other Reserve	4,048	4,048
General reserve		
Share premium		
Donations and charity reserve		
General loan loss provision which qualify as capital		1,233
Available for sale revaluation reserve	654	654
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital		
Minority interest in subsidiaries' share capital	(18)	(18)
Total shareholders' equity	**69,326**	**70,559**
Total liabilities & Shareholders' Equity	**151,260**	**152,192**

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

PD 3 : Main features of regulatory capital instruments

1	Issuer	Bahrain Development Bank BSC
2	Unique identifier (Bahrain Bourse ticker)	BDB
3	Governing law 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	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	BD65,000
9	Par Value of instrument	BD1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Not Applicable
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	Not Applicable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Not Applicable
17	Fixed or floating dividend/coupon	Not Applicable
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
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	Not Applicable
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	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

PD 4: Capital composition disclosure template

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2019)		Amounts subject to pre-2015 treatment	Reference
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	65,000		
2	Retained earnings	(1,544)		
3	Accumulated other comprehensive income (and other reserves)	5,888		
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-		
6	**Common Equity Tier 1 capital before regulatory adjustments**	**69,344**		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	-		
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	-		

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2019)		Amounts subject to pre-2015 treatment	Reference
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 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**	**69,344**		
29	**Common Equity Tier 1 capital (CET1)**	-		
	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)	-		
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	-		
	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 PRE-2015 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)**	-		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**69,344**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
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)	-		
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	1,233		
51	**Tier 2 capital before regulatory adjustments**	**1,233**		
	Tier 2 capital: regulatory adjustments			

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2019)		Amounts subject to pre-2015 treatment	Reference
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 thatare 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 PRE-2015 TREATMENT	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**1,233**		
59	**Total capital (TC = T1 + T2)**	**70,577**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
60	**Total risk weighted assets**	**134,417**		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	51.59%		
62	Tier 1 (as a percentage of risk weighted assets)	51.59%		
63	Total capital (as a percentage of risk weighted assets)	52.51%		
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)	51.59%		
	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%		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	1,373		
73	Significant investments in the common stock of financials	322		
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			

Composition of Capital Disclosure Requirements (Continued)

For the year ended 31 December 2019

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 30 June 2015 to 31 December 2019)		Amounts subject to pre-2015 treatment	Reference
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,233		
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	1,449		
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	-		