Global Banking Corporation B.S.C. (c)

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

31 DECEMBER 2019

GLOBAL BANKING CORPORATION B.S.C. (c)

BOARD OF DIRECTORS REPORT
for the year ended 31st December 2019

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammad

On behalf of the Board of Directors of Global Banking Corporation B.S.C. (c) (GBCORP), I am pleased to present to you the financial statements of GBCORP for the Financial Year Ended 31st December 2019.

GBCORP's total operating income for the Financial Year Ended 31st December 2019 was US$ 6.78 million. A total expense amounted to US$ 5.31 million and a provision for investment securities is written back, as the amount, US$ 4.09 million, was recovered. Thus the net profit of GBCORP is US$ 5.55 million for the year ended as on 31st December 2019 as compared to net loss of US$ 0.16 million in 2018. GBCORP's total assets decreased to US$ 125.25 million compared to US$ 128.03 million in 2018.

In line with Article 188 of the Bahraini Commercial Companies Law No. (21) for the Year 2001 and the Rulebook of the Central Bank of Bahrain, the Board of Directors sitting fees and expenses relating to the financial year ended 31st December 2019 are as follows:

Board of Directors Sitting Fees:	USD 58,000.00
Accommodation, Travel and other expenses:	USD 5,466.00
Total:	USD 63,466.00

GBCORP continues to operate with a small cost base consisting of minimum staff number and controlled expenses. During 2019, no new business activity was undertaken; however, USD 6 million received from a legal case improved the liquidity position of GBCORP.GBCORP's shareholders had resolved to change GBCORP's license from an Islamic Wholesale Bank to a Category 1 Investment Business Firm. In November 2019, the CBB has approved the GBCORP's application for change of license and to operate under the name GBCorp B.S.C. (c) subject to completion of certain legal formalities including amendments to the Memorandum and Articles of Association and changing the legal status of registration with the MOICT, which are currently in progress.

In the EGM held on 3 December 2019, the GBCORP's shareholders resolved to reduce GBCORP's paid-up share capital from US$ 200 million to US$ 13.1 million and authorized share capital from USD 500 million to USD 50 million. As of the date of approval of these financial statements, legal and regulatory formalities in connection with the proposed reduction of share capital is ongoing. Accordingly, the accounting effect to the proposed reduction in share capital will be made when such formalities are completed.

The Board would like to take this opportunity to express its sincere appreciation to our shareholders, clients and strategic partners for their continued support, trust and faith in our management and staff during this time of uncertainty. The Board also wishes to thank our Shari'a Supervisory Board and the Central Bank of Bahrain, for their constructive assistance and advice. This is immensely encouraging in helping us building towards long- term success.

Hesham Ahmed Al Rayes
Chairman

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GLOBAL BANKING CORPORATION B.S.C. (c)

Report on the Consolidated Financial Statements

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

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

Opinion

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

Emphasis of matter

We draw attention to note 6.1 to the consolidated financial statements, which discloses an ongoing legal case relating to the Bank's investment in one of its investee companies. Our opinion is not modified in respect of this matter.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GLOBAL BANKING CORPORATION B.S.C. (c) (continued)

Report on Other Legal and Regulatory Requirements

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

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

b) the financial information contained in the directors' report is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (the "CBB") and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association having occurred during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst + Young

Auditor's Registration No: 212
25 February 2020
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	**2019** US $ 000	2018 US $ 000
ASSETS			
Cash and bank balances and placements with financial institutions	5	**32,856**	27,581
Investment securities	6	**41,524**	41,524
Investment property	7	**46,716**	48,028
Property and equipment	8	**2,709**	2,801
Receivables and prepayments	9	**1,440**	8,096
TOTAL ASSETS		**125,245**	128,030
LIABILITIES AND EQUITY			
Liabilities			
Accruals and other liabilities	10	**1,101**	9,438
Total liabilities		**1,101**	9,438
Equity			
Share capital	11	**200,000**	200,000
Statutory reserve		**7,284**	7,284
Accumulated losses		**(83,140)**	(88,692)
Total equity		**124,144**	118,592
TOTAL LIABILITIES AND EQUITY		**125,245**	128,030

Hesham Ahmed Al Rayes
Chairman

Isa Abdulla Zainal
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	2019 US$ 000	2018 US$ 000
Income			
Income from investment property	12	**3,758**	3,970
Income from placements with financial institutions		**1,073**	727
Investment and other income	10.3	**1,944**	8
Total income		**6,775**	4,705
Expenses			
Depreciation	7,8	**1,671**	1,717
Premises costs		**1,395**	1,163
Staff costs	13	**951**	853
Legal and professional expenses		**529**	471
Other operating expenses	14	**765**	793
Total expenses		**5,311**	4,997
Income / (loss) for the year before recovery of impairment loss		**1,464**	(292)
Recovery of impairment loss	9.2, 10.3	**4,088**	133
Net income / (loss) for the year		**5,552**	(159)

Hesham Ahmed Al Rayes
Chairman

Isa Abdulla Zainal
Vice Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the shareholders				*Non-controlling interest*	*Total equity*
	Share capital	*Statutory reserve*	*Accumulated losses*	*Total*		
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Balance at 1 January 2019	200,000	7,284	(88,692)	118,592	-	118,592
Net income for the year	-	-	5,552	5,552	-	5,552
Balance at 31 December 2019	**200,000**	**7,284**	**(83,140)**	**124,144**	**-**	**124,144**
Balance at 1 January 2018	200,000	7,284	(88,480)	118,804	147	118,951
Net loss for the year	-	-	(159)	(159)	-	(159)
Acquisition of non-controlling interest (note 2.4)	-	-	(53)	(53)	(147)	(200)
Balance at 31 December 2018	200,000	7,284	(88,692)	118,592	-	118,592

The attached notes 1 to 21 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	*2019* *US$ 000*	*2018* *US$ 000*
OPERATING ACTIVITIES			
Net income / (loss) for the year		**5,552**	(159)
Adjustments for:			
Depreciation	7,8	**1,671**	1,717
Amortistion	14	**531**	552
Recovery of impairment loss	9.2	**(4,088)**	(133)
Loss on sale of property and equipment		**-**	2
Operating income before changes in operating assets and liabilities		**3,666**	1,979
Changes in operating assets and liabilities:			
Placements with financial institutions with original maturity of more than 90 days		**(6,500)**	(1,326)
Receivables and prepayments		**10,213**	(5,216)
Accruals and other liabilities		**(8,337)**	4,112
Net cash flows used in operating activities		**(958)**	(451)
INVESTING ACTIVITIES			
Additions to investment property	7	**(200)**	(109)
Additions to property and equipment	8	**(67)**	(61)
Acquisition of non-controlling interest		**-**	(200)
Net cash used in investing activities		**(267)**	(370)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,225)**	(821)
Cash and cash equivalents at 1 January		**6,255**	7,076
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**5,030**	6,255

The attached notes 1 to 21 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Global Banking Corporation B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 25 June 2007 under the Bahrain Commercial Companies Law and is registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration (CR) number 65708. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board comprising of one Islamic scholar. The principal activities of the Bank include investment banking services that comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a

Proposed change of license
The Bank was originally licensed by the Central Bank of Bahrain (the "CBB") as an Islamic Wholesale Bank. In the extra-ordinary general meeting (EGM) held on 15 June 2017, the Bank's shareholders had resolved to change the Bank's license from an Islamic Wholesale Bank to an Category 1 Investment Business Firm (Islamic principles). In 2018, the CBB had provided an in-principle confirmation for the Bank to proceed with the license change subject to fulfilling certain conditions precedent. In November 2019, the CBB has approved the Bank's application for change of license and to operate under the name GBCorp B.S.C. (c) subject to completion of certain legal formalities including amendments to the Memorandum and Articles of Association and changing the legal status of registration with the MOICT, which are currently in progress.

Proposed reduction of capital
In the EGM held on 3 December 2019, the Bank's shareholders resolved to:

- Reduce the Bank's authorised share capital from US$ 500,000 million to US$ 50 million;
- Reduce the Bank's paid up share capital from US$ 200 million to US$ 13.1 million; and
- Distribute the Bank's investment securities, investment properties, property and equipment, and cash amounting to US$ 20 million to the Bank's shareholders towards reduction of the paid up share capital.

As of the date of approval of these financial statements, legal and regulatory formalities in connection with the proposed reduction of share capital is ongoing. Accordingly, the accounting effect to the proposed reduction in share capital will be made when such formalities are completed.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on 16 February 2020.

2 BASIS OF PREPARATION

2.1 Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of trading securities. The consolidated financial statements are presented in US Dollars ("US$"), being the principal currency of the Group's operations. All the values are rounded to the nearest US$ thousand, unless otherwise indicated.

2.2 Statement of compliance
The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. As the Bank is transitioning into an Investment Business Firm license, the CBB has granted several exemptions from compliance with volume 2 of the CBB Rule Book. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses the relevant International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

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

The principal subsidiaries consolidated during the year include:

Name of the entity	*Place of incorporation*	*Effective % of holding 2019*	*2018*	*Nature of business*
Diyafa Holdings Company W.L.L.	Kingdom of Bahrain	**100%**	100%	Virtual offices and hospitality services
Global Executive Offices Co. S.P.C.	Kingdom of Bahrain	**100%**	100%	Providing, operation, leasing and equipping offices

The Bank's subsidiaries are entities (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

3.1 Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as "fair value through equity" such differences are taken to the consolidated statement of comprehensive income.

(iii) Group companies

The group companies' functional currencies are either denominated in US Dollars or currencies that are pegged to the US Dollars, and hence, the translation of the financial statements of such entities that have a functional currency different from the presentation currency do not result in any exchange differences.

3.2 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, bank balances and short-term highly liquid assets (placements with financial and other institutions) with original maturities of less than 90 days when acquired, which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Placements with financial institutions

(i) Wakala placements
These comprise interbank placements made under Shari'a compliant contracts. Placements are usually short-term and less than one year in nature and are stated at amortised cost.

(ii) Mudarabah Investment Account (Unrestricted)
Mudarabah is a partnership between two parties, where one party provides the capital (Rab al Maal), and the other one possesses the necessary skills and expertise to manage such capital (Mudarab), for a pre-determined share of profit. These are stated at the fair value of consideration given less provision for impairment, if any.

(iii) Murabaha Investment
Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

3.4 Investment securities
Investment securities comprise trading and strategic investments in equity instruments, but exclude investment in subsidiaries.

(i) Classification

(a) Equity-type instruments
Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

- *At fair value through statement of income (FVTSI)*

Equity-type instruments classified and measured at FVTSI include investments held-for-trading or designated on initial recognition as FVTSI.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. Those include investments in quoted equities.

On initial recognition, an equity-type instrument is designated as FVTSI only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis.

- *At fair value through equity (FVTE)*

Equity-type instruments other than those designated at fair value through statement of income are classified as at fair value through equity. These include investments in certain unquoted equity securities.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Investment securities (continued)

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

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment provision.

(iv) Measurement principles - fair value measurement
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 measurement date. Fair values of financial instruments are disclosed in note 18.

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

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

3.5 Special purpose entities
Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity so as to obtain benefits from its activities. Information about the Group's fiduciary assets under management is set out in note 15.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the course of business, use in the production or supply of goods or services or for administrative purposes. The Group follows the cost model to measure its investment property and carries it at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs. Land is not depreciated. Building is depreciated over a period of 30 years on a straight line basis. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.7 Property and equipment

Property and equipment comprise fixture and equipment, furniture, motor vehicles and part of building occupied by the Bank which includes land and building. Property and equipment are stated at cost, less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation on equipment is computed using the straight-line method to write off the cost of the assets over their estimated useful lives ranging from three to five years. Land is not depreciated. Self-occupied portion of the building is depreciated over a period 30 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3.8 Impairment of assets

The Bank assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in quoted equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in the consolidated statement of income and reflected in a provision account. When an event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

(ii) Unquoted equity securities

For unquoted equity securities carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised in the consolidated statement of income, if the estimated recoverable amount is assessed to be below the cost of the investment.

(iii) Other non-financial assets

The carrying amount of the Group's other non-financial assets are reviewed at each reporting date to determine whether there is objective evidence that an asset is impaired. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell.

A provision for impairment is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its estimated recoverable amount. Provision for impairment is reversed only if impairment indication no longer exist or there has been a change in the estimates used to determine the recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Impairment of assets (continued)

(iii) Other non-financial assets (continued)
In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

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

3.10 Dividends to shareholders and board remuneration
Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

3.11 Share capital
Ordinary shares are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares.

3.12 Statutory reserve
The Bahrain Commercial Companies Law, 2001 (BCCL) requires that 10 percent of the annual net profit be appropriated to a statutory reserve after adjustment of accumulated losses which is normally distributable only on dissolution or in circumstances state in the BCCL subject to the approval of the CBB. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

3.13 Restricted investment accounts
Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or an agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

3.14 Revenue recognition

(i) Income from investment property
Rental income from investment property leased out under operating lease is recognised in the consolidated statement of income on a straight-line basis over the term of the lease. Utilities income is recognised based on the leased agreement for invoiced amount to tenants in accordance with the lease agreement.

(ii) Income from placements with financial and other institutions
Income from placements with financial and other institutions is recognised on a time-apportioned basis over the period of the related contract.

(iii) Mudarabah investment
Income on Mudarabah transactions are recognised when the right to receive such income is established or these are declared by the Mudarab, whichever is earlier. In case of losses in Mudaraba, the Bank's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudarabah capital.

(iv) Dividend income
Dividend income from investment securities is recognised when the right to receive the payment is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

3.16 Zakah

The Group is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Group is required to calculate and notify, under a separate report, the individual shareholders, of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

3.17 Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Post employment benefits

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

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

3.18 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.

3.19 Prepaid car park rent

The prepaid car park rent is amortised over the lease contract (currently 10 years).

3.20 New standards, amendments and interpretations adopted during the year

The Group has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the Group's financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 New standards, amendments and interpretations issued but not yet effective
The new standards issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below:

(i) Impairment, Credit Losses and Onerous Contracts (FAS 30)
FAS 30 was issued in November 2017. The requirements relating to impairment and credit losses of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves". The standard is effective from the financial periods beginning on or after 1 January 2020, where early adoption is permitted. In its letter number IFISD/914/2018 dated 24 December 2018, the CBB has approved to extend the deadline to implement FAS 30 for the Group until 1 January 2020. As permitted by FAS 30, the standard will be applied prospectively and the comparative amounts will not be restated.

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

Management has assessed the impact of ECL to be minimal.

(ii) Investment Agency (Al-Wakala Bi Al-Istithmar) (FAS 31)
This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

Management expects that the adoption of the above standard will not have any material impact on the financial statements of the Group in the year of initial application.

(iii) Ijarah (FAS 32)
This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard will be effective beginning or after 1 January 2021, with early adoption permitted.

Management expects that the adoption of the above standard will not have any material impact on the financial statements of the Group in the year of initial application.

(iv) Investment in sukuk, shares and similar instruments (FAS 33)
This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari'ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

Management expects that the adoption of the above standard will not have any material impact on the financial statements of the Group in the year of initial application.

(iv) Financial Reporting for Sukuk -holders (FAS 34)
This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard will be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

Management expects that the adoption of the above standards will not have any material impact on the financial statements of the Group in the year of initial application.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 New standards, amendments and interpretations issued but not yet effective (continued)

(v) FAS 35 Risk Reserves (FAS 35)

This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard will be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

Management expects that the adoption of the above standard will not have any material impact on the financial statements of the Group in the year of initial application.

4 SIGNIFICANT ASSUMPTIONS, JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

4.1 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 (refer note 2.3).

4.2 Impairment on unquoted equity securities

The unquoted equity securities where fair values are not readily available and are carried at cost less impairment, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's unquoted equity securities comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

4.3 Impairment of receivables

The Group reviews its receivables at each reporting date to assess whether an impairment provision should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

4.4 Impairment of investment property

The impairment assessment of the investment property was based on determination of value in use of the cash generating unit principally using average of income capitalisation approach and cost approach. Income capitalisation approach was based on discounted cash flow projections by an external valuer based on estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current (at the date of the consolidated statement of financial position) market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5 CASH AND BANK BALANCES AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Note	*2019* *US$ 000*	*2018* *US$ 000*
Cash and bank balances		**65**	75
Wakala placements	5.1	**16,356**	17,506
Mudarabah investment	5.2	**10,000**	10,000
Murabaha investment	5.3	**6,500**	-
		32,856	27,581
Less: Placements with original maturities of 90 days or more		**(27,826)**	(21,326)
Cash and cash equivelent as at 31 December		**5,030**	6,255

5.1 These are on Wakala based accounts with maturities of less than one year and an average profit rate of 3.18% (2018: 2.56%).

5.2 These are Mudarabah investment accounts maintained with local incorporated banks with maturities of six months and an average profit rate of 3.5% (2018: 3.75%).

5.3 This is a Murabaha investment maintained with locally incorporated bank with maturities of six months and an average profit rate of 3.25%.

6 INVESTMENT SECURITIES

These are unquoted equity securities classified as fair value through equity (FVTE) and are carried at cost less impairment allowance in the absence of reliable measure of fair value. All these investments have underlying real estate development projects with participation from investors. The recoverable amounts of these investments have been determined by management based on valuations performed by independent real estate experts as of 31 December 2019.

	2019 *US$ 000*	*2018* *US$ 000*
Marsa Al Seef Investment Company Limited ("Marsa")		
Cost	**41,422**	41,422
Less: allowance for impairment	**(8,000)**	(8,000)
	33,422	33,422

	2019 *US$ 000*	*2018* *US$ 000*
Boulevard Al Areen Real Estate Development Company ("Boulevard")		
Cost	**20,254**	20,254
Less: allowance for impairment	**(12,152)**	(12,152)
	8,102	8,102
Gulf Holding Company ("GHC")		
Cost	**13,780**	13,780
Less: allowance for impairment	**(13,780)**	(13,780)
	-	-
Total carrying amount	**41,524**	41,524

6 INVESTMENT SECURITIES (continued)

6.1 Subsequent to the Boulevard's subscription period, the legal title of the subject real estate properties was not transferred to the project company by the project developer and other owners of the subject real estate properties (collectively "Property Owners"). In addition, there was no allocation of shares to Boulevard which could represent the subscription amount at the project company level. As a result, a legal dispute arose between Boulevard and the Property Owners which was referred to the Bahrain Chamber of Dispute Resolution ("BCDR"). On 19 January 2012, the BCDR rendered its judgment in favor of Boulevard. The BCDR's judgment was presented to the Execution Court to recover the amounts awarded by the BCDR from the Property Owners.

During 2015, the execution of BCDR judgment was put on hold, after obtaining required approvals of Boulevard's shareholders, in order to proceed with an out-of-court settlement between Boulevard and the Property Owners. However, due to the failure of the Property Owners to execute their obligations in accordance with the settlement proposal, the execution was reinstated. The ultimate outcome of this legal case is still uncertain as at the statement of financial position date. However, the carrying value is supported by a recent, independent valuation of the underlying real estate property (also refer to note 15).

7 INVESTMENT PROPERTY

Investment property comprise a portion of land with a building let out under operating leases. The carrying value of the investment property is given below:

	2019	*2018*
	US$ 000	*US$ 000*
Cost:		
At 1 January	**65,052**	64,943
Additions during the year	**200**	109
At 31 December	**65,252**	65,052
Depreciation:		
At 1 January	**15,874**	14,345
Charge for year	**1,512**	1,529
At 31 December	**17,386**	15,874
Less: allowance for impairment	**(1,150)**	(1,150)
Net book value at 31 December	**46,716**	48,028

The fair value of the investment property at 31 December 2019 was US$ 46,760 thousand (2018: US$ 50,620 thousand) as determined by an external independent professional valuation in December 2019.

8 PROPERTY AND EQUIPMENT

	Land	*Building*	*Fixture and equipment*	*Furniture*	*Total 2019*	*Total 2018*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Cost						
At 1 January	**1,009**	**2,507**	**10,447**	**1,368**	**15,331**	15,389
Additions	-	-	**67**	-	**67**	61
Disposals	-	-	-	-	-	(119)
	1,009	**2,507**	**10,514**	**1,368**	**15,398**	15,331
Depreciation						
At 1 January	-	**828**	**10,338**	**1,364**	**12,530**	12,459
Charge for the year	-	**107**	**51**	**1**	**159**	188
Disposals	-	-	-	-	-	(117)
	-	**935**	**10,389**	**1,365**	**12,689**	12,530
Net book value at 31 December	**1,009**	**1,572**	**125**	**3**	**2,709**	2,801

9 RECEIVABLES AND PREPAYMENTS

	Note	*2019 US$ 000*	*2018 US$ 000*
Receivable from tenants - net	9.1	**159**	718
Project costs recoverable - net	9.1	**252**	108
Other receivables and prepayments	9.2, 10.3	**1,029**	7,270
		1,440	8,096

9.1 Receivable from tenants are net of impairment provisions of US$ 262 thousand (2018: US$ 262 thousand). Project costs recoverable are net of impairment provisions of US$ 850 thousand (2018: US$ 4,938 thousand).

Movement in impairment provisions was as follows:

		2019 US$ 000	*2018 US$ 000*
At 1 January		**5,200**	5,332
Recoveries during the year	9.2, 10.3	**(4,088)**	(132)
At 31 December		**1,112**	5,200

9.2, 10 During the year, the Group received US$ 6,000 thousand (equivalent of SAR 22.5 million) in full settlement against a legal case in relation to a fully impaired project receivable of US$ 4,088 thousand. Consequent to the recovery, the Group reversed US$ 4,088 thousand of the impairment through the consolidated statement of income. Also, refer to note 10.3.

10 ACCRUALS AND OTHER LIABILITIES

	Note	2019 US$ 000	2018 US$ 000
Payable to investors	10.1	**271**	2,457
Security deposits		**275**	330
Employee related accruals	10.2	**259**	251
Unearned rental income		**49**	45
Other accruals and payables	10.3	**247**	6,355
		1,101	9,438

10.1 As at 31 December 2018, the balance included US$ 2,185 thousand due to investors, which were received on exiting a project promoted by the Group. These funds were being withheld pending completion of review of certain administrative and legal matters in relation to the project. During the year 2019, these amounts have been paid to the investors.

10.2 In addition to leave indemnity, this includes a redundancy provision for remaining staff of the Group, which will be paid to employees on termination of their employment or if employees decide to leave the Group voluntarily.

10.3 As of 31 December 2018, this included US$ 6,000 thousand (equivalent of SAR 22.5 million) received by the Group in full settlement against a legal case in relation to a project. Pending completion of certain administrative and legal procedures, the Group had recognised this amount under 'other receivable' with a corresponding liability. During the year, the Group completed the administrative and legal procedures and recognised US$ 5,993 thousand (net of expenses) in the consolidated statement of income partially as a reversal of provision against receivables of US$ 4,088 and the balance as other income as it relates to previously written off receivables. Also refer to note 9.2.

11 SHARE CAPITAL

	2019 US$ 000	2018 US$ 000
Authorised:		
500,000,000 ordinary shares of US$ 1 each (2018: same)	**500,000**	500,000
Issued and subscribed:		
200,000,000 ordinary shares of US$ 1 each (2018: same)	**200,000**	200,000
Paid up:		
200,000,000 ordinary shares fully paid US$ 1 each (2018: same)	**200,000**	200,000

In the EGM held on 3 December 2019, the Bank's shareholders resolved to reduce both the Bank's authorised share capital and paid up capital. Refer note 1 for more details.

12 INCOME FROM INVESTMENT PROPERTY

	2019 US$ 000	2018 US$ 000
Rental income	**2,885**	3,127
Utilities and service income	**873**	843
	3,758	3,970

13 STAFF COSTS

	2019	2018
	US$ 000	*US$ 000*
Salaries and benefits	**787**	717
Redundancy costs	**97**	39
Indemnity expense	**21**	43
Social insurance expenses	**42**	49
Other staff expenses	**4**	5
	951	853

14 OTHER OPERATING EXPENSES

	2019	2018
	US$ 000	*US$ 000*
Amortisation of prepaid car park rent	**531**	552
Information technology and communication expenses	**99**	101
Other expenses	**135**	140
	765	793

15 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investor vehicles, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 449,726 thousand (2018: US$ 449,726 thousand).

As of the reporting date, there was a legal dispute on the underlying real estate properties of one of the investments managed by the Group (Boulevard) amounting to US$ 97,000 thousand (31 December 2018: US$ 97,000 thousand). Since the ultimate outcome of this dispute is still uncertain at the consolidated statement of financial position date, this casts a significant doubt on full recovery of the subscription amount (refer note 6.1).

As at 31 December 2019, there is a balance of US$ 271 thousand (2018: USD 2,457 thousand) to be distributed to investors (note 10.1).

16 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors, Shari'a Supervisory Board members and executive management of the Group. Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The Group's income from investment banking services is from entities over which the Group exercises influence. Although, the entity is considered a related party, the Group administers and manages the entity on behalf of its clients, who are third parties and are the economic beneficiaries of the underlying investment. The transactions with these entities are based on agreed terms in the private placement memorandum.

16 RELATED PARTY TRANSACTIONS (continued)

The significant related party balances and transactions (including compensation to key management personnel) included in these consolidated financial statements are as follows:

	As at 31 December 2019		As at 31 December 2018	
	Assets under management including SPEs US$ 000	Shareholders / key management personnel US$ 000	Assets under management including SPEs US$ 000	Shareholders / key management personnel US$ 000
Assets				
Investment securities	**41,524**	-	41,524	-
Receivables and prepayments	**252**	-	108	-
Liabilities				
Accruals and other liabilities	**271**	**94**	2,457	52

	2019		2018	
	Assets under management including SPEs US$ 000	Shareholders / Key management personnel US$ 000	Assets under management including SPEs US$ 000	Shareholders / Key management personnel US$ 000
Expenses				
Staff costs	-	**389**	-	364
Board member fees	-	**58**	-	48
Board and Shari'a board expenses	-	**23**	-	24
Write back of impairment	-	-	(133)	-

17 SEGMENT INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group has physical operations and offices solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

18 FAIR VALUE

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 measurement date.

The estimated fair values of the Group's financial instruments are not significantly different from their carrying values.

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18 FAIR VALUE (continued)

31 December 2019	***Level 3*** ***US$ 000***
Assets measured at fair value	
Equity type instruments carried at fair value through equity	**41,524**
Assets for which fair values are disclosed	
Investment property	**46,716**
	88,240

31 December 2018	*Level 3* *US$ 000*
Assets measured at fair value	
Equity type instruments carried at fair value through equity	41,524
Assets for which fair values are disclosed	
Investment property	48,028
	89,552

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The independent professional valuers engaged by the Group uses different valuation techniques for the valuation of equity instruments and investment property as explained below:

Equity instruments
The equity investments are valued mainly through the valuation of underlying real estate assets. For investment in Marsa, the valuation is done using the residual approach and key inputs include gross construction cost and gross development value. Increase or decrease in inputs by 5% has an impact of US$ 1,671 thousand on the fair value of the investment (2018: same). For the investment in Boulevard, the valuation is done using the comparable approach based on local market data.

Investment property
The investment property is valued using the income approach through discounting future cash flows. The key inputs used are rental value, occupancy rates, discount rate and capitalisation rate. The average occupancy assumed was 89.5% per annum (2018: 92% per annum). The capitalisation rate assumed was 8.5% (2018: 8.5%) while discount rate was 10.5% (2018: 8%). The effect of increase or decrease by 5% (2018: 5%) in occupancy rate, with all other variables held constant, the fair value amount of investment properties would have an estimated increase or decrease of US$ 2,753 thousand (2018: US$ 1,422 thousand). In addition, the effect of increase or decrease by 0.5% (2018: 0.5%) in capitalisation rate used, with all other variables held constant, the fair value amount of investment properties would have an estimated increase or decrease of US$ 2,738 thousand (2018: US$ 1,454 thousand).

19 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified in accordance with their measurement basis as follows:

	FVTE	***Amortised cost***	***Total***
	US$000	***US$000***	***US$000***
31 December 2019			
ASSETS			
Cash and bank balances and placements with financial institutions	**-**	**32,856**	**32,856**
Investment securities	**41,524**	**-**	**41,524**
Receivables and prepayments	**-**	**411**	**411**
	41,524	**33,267**	**74,791**
LIABILITIES			
Accruals and other liabilities	**-**	**1,101**	**1,101**
	-	**1,101**	**1,101**

	FVTE	*Amortised cost*	*Total*
	US$000	*US$000*	*US$000*
31 December 2018			
ASSETS			
Cash and bank balances and placements with financial institutions	-	27,581	27,581
Investment securities	41,524	-	41,524
Receivables and prepayments	-	826	826
	41,524	28,407	69,931
LIABILITIES			
Accruals and other liabilities	-	9,438	9,438
	-	9,438	9,438

20 RISK MANAGEMENT

Financial assets of the Group comprise cash and bank balances, placements with financial institutions, investments carried at FVTE, unquoted equity securities and other receivable balances. Financial liabilities of the Group comprise other payable balances.

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

a. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. Credit risk arises principally from the Group's balances with banks, placements with financial institutions and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Exposure to credit risk

The carrying values of bank balances, placements with financial institutions and other receivables represent the maximum credit risk. The Group's credit risk on bank balances and placements with financial institutions is limited, as these are placed with locally incorporated banks having good credit ratings.

20 RISK MANAGEMENT (continued)

a. Credit risk (continued)

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables agreement(s). During the year, no additional provision for impairment has been provided on receivables (2018: Nil) (note 9.1).

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The industry sector wise distribution of assets and liabilities are set out as follows:

Concentration risk - Industry sector

31 December 2019	and financial institution US$ 000	Real estate US$ 000	Others US$ 000	Total US$ 000
Assets				
Cash and bank balances and placements with financial institutions	32,856	-	-	32,856
Investment securities	-	41,524	-	41,524
Investment property	-	46,716	-	46,716
Property and equipment	-	2,581	128	2,709
Receivables and prepayments	-	159	1,281	1,440
Total assets	32,856	90,980	1,409	125,245
Liabilities				
Accruals and other liabilities	-	271	830	1,101
Total liabilities	-	271	830	1,101

31 December 2018	Banks and financial institutions US$ 000	Real estate US$ 000	Others US$ 000	Total US$ 000
Assets				
Cash and bank balances and placements with financial institutions	27,581	-	-	27,581
Investment securities	-	41,524	-	41,524
Investment property	-	48,028	-	48,028
Property and equipment	-	2,688	113	2,801
Receivables and prepayments	-	712	7,384	8,096
Total assets	27,581	92,952	7,497	128,030
Liabilities				
Accruals and other liabilities	-	2,457	6,981	9,438
Total liabilities	-	2,457	6,981	9,438

Concentration risk - geographic region

Concentration is measured based on the location of the underlying operating assets and not based on the location of the investments. The Group's concentration exposure as at 31 December 2019 and 2018 is limited to GCC countries.

20 RISK MANAGEMENT (continued)

b. Liquidity risk

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

Management of liquidity risk

The Board of Directors approves significant policies and strategies related to the management of liquidity. The management reviews the liquidity profile of the Group on a regular basis and any material change in the Bank's current or prospective liquidity position is notified to the Board.

The management ensures that adequate funds are available to meet the maturing obligations and growth in assets while cost is minimised. The management ensures that all limits and guidelines set by the Board are complied with and any adverse development is reported to the Board. The management also obtains the exceptional approvals when required as per this policy and manages the relationship with other banks and financial institutions. The Bank also has an action plan including sales of assets, partial or full disposal of its investment property to generate additional liquidity.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity.

	Gross undiscounted cash flows						
	Up to 3 months	*3 to 6 months*	*6 months-1 year*	*1 to 3 years*	*Over 3 years*	*Total*	*Carrying amount*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
31 December 2019							
Financial liabilities	**262**	**9**	**552**	**278**	**-**	**1,101**	**1,101**
31 December 2018							
Financial liabilities	6,350	-	2,787	301	-	9,438	9,438

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected realisation / payment.

31 December 2019	***Up to 3 months***	***3 months to 6 months***	***6 months to 1 year***	***1 year to 3 years***	***Undated***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***	***US$ 000***	***US$ 000***
Assets						
Cash and bank balances and placements with financial institutions	**6,357**	**26,499**		**-**	**-**	**32,856**
Investment securities	**-**	**-**	**-**	**-**	**41,524**	**41,524**
Investment property	**-**	**-**	**-**	**-**	**46,716**	**46,716**
Property and equipment	**-**	**-**	**-**	**-**	**2,709**	**2,709**
Receivables and prepayments	**592**	**453**	**395**	**-**	**-**	**1,440**
Total assets	**6,949**	**26,952**	**395**	**-**	**90,949**	**125,245**
Liabilities						
Accruals and other liabilities	**262**	**9**	**552**	**278**	**-**	**1,101**
Total liabilities	**262**	**9**	**552**	**278**	**-**	**1,101**

20 RISK MANAGEMENT (continued)

b. Liquidity risk (continued)

31 December 2018	*Up to 3 months US$ 000*	*3 months to 6 months US$ 000*	*6 months to 1 year US$ 000*	*1 year to 3 years US$ 000*	*Undated US$ 000*	*Total US$ 000*
Assets						
Cash and bank balances placements with financial institutions	6,255	11,326	10,000	-	-	27,581
Investment securities	-	-	-	-	41,524	41,524
Investment property	-	-	-	-	48,028	48,028
Property and equipment	-	-	-	-	2,801	2,801
Receivables and prepayments	6,980	483	633	-	-	8,096
Total assets	13,235	11,809	10,633	-	92,353	128,030
Liabilities						
Accruals and other liabilities	6,350	-	2,787	301	-	9,438
Total liabilities	6,350	-	2,787	301	-	9,438

c. Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to profit rate risk

Profit rate risk arises due to differences in timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly placements with financial institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The average effective profit rates, during the year, on the profit bearing financial instruments are given below:

	2019	*2018*
Placements with financial institutions	**3.27%**	2.64%

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the placements with financial institutions held as at the date of consolidated statement of financial position.

The effect of change in 100 basis points is expected have an equal and opposite effect the consolidated statement of income.

	2019 US$ 000	*2018 US$ 000*
Placements with financial institutions (+1%)	**328**	275
Placements with financial institutions (-1%)	**(328)**	(275)

20 RISK MANAGEMENT (continued)

c. Market risk (continued)

Exposure to foreign exchange risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Group does not have significant net exposures denominated in other foreign currencies as at 31 December 2019 (2018: same).

Exposure to equity price risk
Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group's exposure to equity price risk is limited to its investments covered under note 6. The Group monitors these investment closely as part of its risk management.

d. Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, internal checks and balances.

21 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (the CBB) the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") as adopted by the CBB in supervising the Group. In implementing current capital requirements the CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board of Directors.

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

	2019 ***US$ 000***	*2018* *US$ 000*
Capital adequacy		
Tier 1 capital and total regulatory capital [a]	**126,550**	118,592
Total risk weighted assets [b]	**522,881**	540,818
Total regulatory capital expressed as a percentage of total risk weighted assets [(a/b)*100]	**24.20%**	21.93%
Minimum requirement by CBB	12.50%	12.50%