

IMPORTANT NOTICE

THE ATTACHED ADMISSION PARTICULARS (THE DOCUMENT) MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)) AND ARE OUTSIDE THE UNITED STATES.

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RESTRICTIONS: UNDER NO CIRCUMSTANCES SHALL THE DOCUMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES DESCRIBED HEREIN (THE "SECURITIES") IN THE UNITED STATES OR ANY OTHER JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL. RECIPIENTS OF THE DOCUMENT WHO INTEND TO PURCHASE THE SECURITIES ARE REMINDED THAT ANY PURCHASE MAY ONLY BE MADE ON THE BASIS OF THE INFORMATION CONTAINED IN THE DOCUMENT. THE SECURITIES ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE MANAGER (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

THE DOCUMENT IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE DOCUMENT AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE **FINANCIAL PROMOTION ORDER**), PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49 OF THE FINANCIAL PROMOTION ORDER AND ANY OTHER PERSON TO WHOM THE DOCUMENT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE FINANCIAL PROMOTION ORDER. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

CONFIRMATION OF YOUR REPRESENTATION: By accepting this e-mail and accessing, reading or making any other use of the Document, you shall be deemed to have represented to GFH Financial Group B.S.C. (the **Manager**), KHC Tier 1 Sukuk Limited (the **Trustee**), Khaleeji Commercial Bank BSC (the **Bank**) and Citibank N.A., London Branch (the **Delegate**) that: (1) you are located outside the United States and are not a U.S. person, or acting for the account or benefit of any U.S. person; (2) you consent to delivery by electronic transmission; (3) you will not transmit the Document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Manager, the Trustee and the Bank; and (4) you acknowledge that you will make your own assessment regarding any credit, investment, legal, Shari'a, taxation or other economic considerations with respect to your decision to purchase any of the Securities.

You are reminded that the Document has been delivered to you on the basis that you are a person into whose possession the Document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Document, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

You are reminded that the information contained in the Document is not complete and may be changed. Neither the Manager nor any of its respective affiliates accepts any responsibility whatsoever for the contents of the Document or for any statement made or purported to be made by any of them, or any on their behalf, in connection with the Trustee, the Bank or the offer. The Manager and its respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the Document or any such statement. No representation or warranty, express or implied, is made by the Manager or its respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the Document.

The Manager has acted exclusively for the Trustee and the Bank and no one else in connection with the issuance of the Securities. They will not regard any other person (whether or not a recipient of the Document) as their client in relation to the Securities and will not be responsible to anyone other than to the Trustee and the Bank for providing the protections afforded to its clients nor for giving advice in relation to the Securities or any transaction or arrangement referred to herein.

If you received the Document by e-mail, you should not reply by e-mail. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you received the Document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the Securities do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Manager or any affiliate of the Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Manager or such affiliate on behalf of the Trustee in such jurisdiction.

The Document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Manager, the Trustee, the Bank nor any person who controls or is a director, officer, employee or agent of the Manager, the Trustee, the Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Document distributed to you in electronic format and the hard copy version available to you on request from the Manager. By accessing the Document, you consent to receiving it in electronic form.

Recipients of the Document who intend to purchase the Securities issued are reminded that any purchase may only be made on the basis of the information contained in this Document.

The distribution of the Document and the offer or sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession the Document comes are required by the Manager, the Trustee and the Bank to inform themselves about, and to observe, any such restrictions.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the SFA) – In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the **CMP Regulations 2018**), the Trustee has determined the classification of the Certificates as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

MiFID II professionals / ECPs-only – Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels).

Restrictions on marketing and sales to retail investors

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Securities to retail investors.

In particular, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products (the **PRIIPs Regulation**) became directly applicable in all European Economic Area (**EEA**) member states and (ii) the Markets in Financial Instruments Directive 2014/65/EU (as amended) (**MiFID II**) was required to be implemented in EEA member states by 3 January 2018. Together, the PRIIPs Regulation and MiFID II are referred to as the **Regulations**.

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Securities (or any beneficial interests therein), including the Regulations.

The Manager is required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Securities from the Trustee, the Bank and/or the Manager, each prospective investor represents, warrants, agrees with and undertakes to the Trustee, the Bank and the Manager that:

- (a) it is not a retail investor, where **retail investor** means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II;
- (b) whether or not it is subject to the Regulations, it will not:
 - (i) sell or offer the Securities (or any beneficial interest therein) to any retail investor; or
 - (ii) communicate (including the distribution of the Document) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (or any beneficial interests therein) where that invitation or inducement is addressed to, or disseminated in such a way that it is likely to be received by, any retail investor; and

- (c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities, including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (a) the identified target market for the Securities (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
- (b) no key information document under the PRIIPs Regulation has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities from the Trustee, the Bank and/or the Manager, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.



KHCB Tier 1 Sukuk Limited

(incorporated as an exempted company with limited liability in the Cayman Islands)

U.S.\$159,151,000 Additional Tier 1 Capital Certificates

The U.S.\$159,151,000 Additional Tier 1 Capital Certificates (the **Certificates**) of KHCB Tier 1 Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Issuer** and the **Trustee**) are constituted by a declaration of trust (the **Declaration of Trust**) dated 29 July 2020 (the **Issue Date**) entered into between the Trustee, Khaleeji Commercial Bank BSC (the **Bank**) and Citibank N.A., London Branch as the delegate of the Trustee (the **Delegate**). The Certificates confer on the holders of the Certificates from time to time (the **Certificateholders**) the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the **Trust**) over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

If a Non-Viability Event (as defined herein) occurs, a Conversion (as defined herein) shall occur on the relevant Non-Viability Event Conversion Date (as defined herein), as more particularly described in Condition 11 (*Conversion at the Point of Non-Viability*). In such circumstances, the Certificates shall be cancelled (in the case of a Conversion in whole) or converted in part on a *pro rata* basis (in the case of a Conversion in part) by the Trustee in accordance with the Conversion Rules and Procedures (as defined herein) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Conversion in whole) or converted in part (in the case of a Conversion in part), in the same manner as the Certificates. See *"Risk Factors—Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or converted into Ordinary Shares (in whole or in part) upon the occurrence of a Non-Viability Event"*.

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date at a rate of 10 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below).

Each payment of a Periodic Distribution Amount will be made by the Trustee, provided that the Bank (in its capacity as Mudareb (as defined herein)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs (which includes the case where sufficient Distributable Funds (as defined herein) are not available in order to permit the Bank to make the relevant payment or as a result of a breach of Applicable Regulatory Capital Requirements (as defined in the Conditions)). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Payments on the Certificates will be made free and clear of and without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments nor other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the **Taxes**) to the extent described under Condition 13 (*Taxation*).

The payment obligations of the Bank under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will rank subordinate to all Senior Obligations, rank *pari passu* with all other *Pari Passu* Obligations and rank in priority to all Junior Obligations (each as defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on or after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part) by the Trustee but only upon the instructions of the Bank (acting in its sole discretion), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption due to Taxation*) and 10.1(d) (*Redemption for Capital Event*). Any redemption is subject to the conditions described in Condition 10.1 (*Redemption*).

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "Risk Factors".

The Bank has been assigned a long-term local currency deposit rating of B3 (with a stable outlook), long-term foreign currency deposit rating of B3 (with a stable outlook) and baseline credit assessment (BCA) at caa1 (with a stable outlook) by Moody's Investors Service Cyprus Ltd. (**Moody's**). Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. The Certificates will not be rated by any rating organisation upon their issue.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Application has been made to the London Stock Exchange plc (the **London Stock Exchange**) for the Certificates to be admitted to the London Stock Exchange's International Securities Market (the **ISM**). The ISM is not a regulated market for the purposes of Directive 2014/65/EU (as amended, **MiFID II**).

The ISM is a market designated for professional investors. The Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of these Admission Particulars.

References in these Admission Particulars to the Certificates being **admitted to trading** (and all related references) shall mean that such Certificates have been admitted to trading on the ISM so far as the context permits.

The Certificates may only be offered, sold or transferred in registered form in minimum nominal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Delivery of the Certificates in book-entry form was made on the Issue Date. The Certificates are represented by interests in a global certificate in registered form (the **Global Certificate**) which was deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depository (the **Common Depository**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Certificates (as defined in the Conditions) evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The Certificates should not be offered, sold or otherwise made available to retail investors in the EEA, which, for these purposes, includes a retail client as defined in MiFID II or a customer within the meaning of Directive 2002/92/EC (the Insurance Mediation Directive), each as amended or superseded from time to time. Prospective investors are referred to the section headed "Prohibition of Sale to EEA Retail Investors" on page xi and 147 of these Admission Particulars for further information.

The Certificates have not been and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. Persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

A copy of these Admission Particulars has been submitted and filed with the Central Bank of Bahrain. Filing of these Admission Particulars with the Central Bank of Bahrain does not imply that any Bahraini legal or regulatory requirements have been complied with. The Central Bank of Bahrain has not in any way considered the merits of the Certificates to be offered for investment whether in or outside of the Kingdom of Bahrain. Neither the Central Bank of Bahrain nor the licensed exchange in Bahrain assumes responsibility for the accuracy and completeness of the statements and information contained in these Admission Particulars and each expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of these Admission Particulars. The Issuer together with any local agent or adviser accepts responsibility for the information contained in these Admission Particulars. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in these Admission Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The transaction structure relating to the Certificates (as described in these Admission Particulars) has been approved by the Shari'a Supervisory Board of the Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Manager

GFH Financial Group B.S.C.

The date of these Admission Particulars is 10 September 2020

The Trustee and the Bank accept responsibility for the information contained in these Admission Particulars. To the best of the knowledge of each of the Trustee and the Bank (each having taken all reasonable care to ensure that such is the case) the information contained in these Admission Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The opinions, assumptions, intentions, projections and forecasts expressed in these Admission Particulars with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

None of GFH Financial Group B.S.C. (the **Manager**), nor any of its directors, affiliates, advisers, agents, the Delegate nor the Agents (as defined in the Agency Agreement) has independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is accepted by any of them: (i) as to the accuracy or completeness of the information contained or incorporated by reference in these Admission Particulars or any other information provided by the Trustee or the Bank in connection with the Certificates; or (ii) for any acts or omissions of the Trustee, the Bank or any other person (other than the Manager, directors, affiliates, advisers or agents, each in respect of itself) in connection with these Admission Particulars or the issue and offering of the Certificates.

To the fullest extent permitted by law, the Manager, the Delegate and the Agents accept no responsibility whatsoever for the contents of these Admission Particulars or for any other statement, made or purported to be made by the Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. The Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of these Admission Particulars or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with these Admission Particulars or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or the Manager. None of the Manager, nor any of its directors, affiliates, advisers, agents, the Delegate nor the Agents or any of their respective affiliates make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in these Admission Particulars.

Neither these Admission Particulars nor any other information supplied in connection with the Certificates: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Trustee, the Bank or the Manager that any recipient of these Admission Particulars or any other information supplied in connection with the Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. Neither these Admission Particulars nor any other information supplied in connection with the Certificates constitutes an offer or invitation by or on behalf of the Trustee, the Bank or the Manager to any person to purchase any Certificates.

Neither the delivery of these Admission Particulars nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in these Admission Particulars is correct subsequent to the date hereof or the date upon which these Admission Particulars has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which these Admission Particulars has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Trustee or the Bank during the life of the issuance or to advise any investor in the Certificates of any information coming to their attention.

No comment is made, or advice given, by the Trustee, the Delegate, the Agents, the Bank or the Manager or, any of their directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

These Admission Particulars do not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The transaction structure relating to the Certificates (as described in these Admission Particulars) has been approved by the Shari'a Supervisory Board of the Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Each prospective investor is advised to consult its own tax adviser, legal adviser and business adviser as to tax, legal, business and related matters concerning the purchase of any Certificates.

These Admission Particulars do not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Manager, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The distribution of these Admission Particulars and the offering, sale or delivery of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, the Bank, the Manager, or any of their directors, affiliates, advisers, agents, the Delegate or the Agents represents that these Admission Particulars may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Manager or any of their directors, affiliates, advisers, agents, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of these Admission Particulars in any jurisdiction where action for that purpose is required.

Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither these Admission Particulars nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Manager or any affiliate of the Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Manager or such affiliate on behalf of the Trustee in such jurisdiction.

Persons into whose possession these Admission Particulars or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of these Admission Particulars and the offering and sale

of any Certificates. In particular, there are restrictions on the distribution of these Admission Particulars and the offer or sale of any Certificates in the United States, the United Kingdom, the EEA, the United Arab Emirates (excluding the Dubai International Financial Centre), the Cayman Islands, the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Kuwait (**Kuwait**), the Kingdom of Bahrain (**Bahrain**), Hong Kong, Singapore, Malaysia, Switzerland and the State of Qatar (see "*Subscription and Sale*").

Neither these Admission Particulars nor any other information supplied in connection with the issuance of the Certificates constitutes an offer or an invitation to subscribe for or purchase Certificates, is intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Trustee, the Bank, the Manager, the Delegate, the Agents or any of their directors, affiliates, advisers, agents or any of them that any recipient of these Admission Particulars or any other information supplied in connection with the issuance of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of these Admission Particulars should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness of the Trustee and the Bank. The Manager does not undertake to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by these Admission Particulars or to advise any investor or potential investor in the Certificates of any information coming to the attention of the Manager.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- (a) **have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in these Admission Particulars;**
- (b) **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;**
- (c) **have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;**
- (d) **understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and**
- (e) **be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.**

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of financing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a

financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in these Admission Particulars may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in these Admission Particulars, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Bank*" and other sections of these Admission Particulars. The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in these Admission Particulars (see "*Risk Factors*").

Forward looking statements speak only as at the date of these Admission Particulars and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in these Admission Particulars to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The financial statements relating to the Bank and its subsidiaries (together, the **Group**) included in these Admission Particulars are:

- the interim condensed consolidated financial information (unaudited) as at and for the six-month period ended 30 June 2020 (the **Interim Financial Statements**);
- the audited consolidated financial statements as at and for the year ended 31 December 2019 (the **2019 Financial Statements**); and
- the audited consolidated financial statements as at and for the year ended 31 December 2018 (the **2018 Financial Statements** and, together with the 2019 Financial Statements, the **Annual Financial Statements**).

The Interim Financial Statements and the Annual Financial Statements are together referred to as the **Financial Statements**.

All financial information in these Admission Particulars as at and for the six-month periods ended 30 June 2020 and 30 June 2019 has been derived from the Interim Financial Statements. All financial information in these Admission Particulars as at and for the years ended 31 December 2019 and 31 December 2018 has been derived from the 2019 Financial Statements and all financial information in these Admission Particulars as at and for the year ended 31 December 2017 has been derived from the 2018 Financial Statements.

The Annual Financial Statements have been prepared in accordance with Financial Accounting Standards (**FAS**) as issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (**AAOIFI**) as adopted for use by the Kingdom of Bahrain (**Bahrain**). In line with the requirement of AAOIFI, for matters that are not covered by AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards (**IFRS**).

The Interim Financial Statements have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (**CBB**). These rules and regulations require the adoption of all FAS issued by AAOIFI, except for:

- a. recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by Covid-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 8 of the Interim Financial Statements for further details; and
- b. recognition of financial assistance received from the government and/ or regulators in response to its Covid-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on “Accounting implications of the impact of Covid-19 pandemic” issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognised in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS.

The Annual Financial Statements have been audited by independent auditors KPMG Fakhroo, Bahrain (**KPMG** or the **Auditors**), in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, as stated in its reports included herein, who have issued unqualified reports on the Annual Financial Statements. The

Interim Financial Statements have been reviewed by the Auditors in accordance with International Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”, as stated in their review report included herein, who have issued an unqualified review report on the Interim Financial Statements.

The Group's financial year ends on 31 December and references in these Admission Particulars to **2017**, **2018** and **2019** are to the 12 month period ending on 31 December in each such year.

The Issuer is a special purpose company established in the Cayman Islands. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint an auditor.

Impact of the implementation of FAS 30 from 1 January 2018

Financial Accounting Standard 30 (**FAS 30**) ‘Impairment, Credit losses and Onerous Commitments’ was issued by the Accounting and Auditing Organization for Islamic Financial Institutions (**AAOIFI**) in 2017 with an effective date of 1 January 2020. The Group adopted early, for the first time, FAS 30 with effect from 1 January 2018. FAS 30 was effective for annual periods beginning on or after 1 January 2020 with early application permitted by AAOIFI. The Group has not restated comparative information for 2017 as permitted by the transitional provisions of FAS 30. Therefore, the financial information relating to the Group presented in these Admission Particulars for 2017 do not reflect the requirements of FAS 30 and is not comparable to the financial information relating to the Group presented for 2018 onwards. Differences in the carrying amount of financial assets resulting from the adoption of FAS 30 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 5 to the 2018 Financial Statements, which also summarises the key changes to the Group's accounting policies resulting from the adoption of FAS 30. The Group's ECL allowances for various assets are disclosed in Notes 5 and 34 to the 2018 Financial Statements.

Certain non-FAS and unaudited financial information

These Admission Particulars include references to capital, leverage and certain other ratios. Although these ratios are not FAS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of certain ratios and the basis of its calculation of those ratios may be different from those of other financial institutions. Certain of the non-FAS financial information included in these Admission Particulars are not subject to any audit or review by independent auditors and also constitute Alternative Performance Measures (**APMs**), as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. See “*Selected financial information—Selected consolidated ratios and APMs*”.

All information in these Admission Particulars as at, and relating to the six-month periods ended, 30 June 2020 and 30 June 2019 is unaudited. Results for any interim period within a year will not necessarily be indicative of the results for the full year.

PRESENTATION OF OTHER INFORMATION

Currencies

Unless otherwise indicated, in these Admission Particulars, all references to:

- **dinar** and **BD** are to the lawful currency of Bahrain; and
- **U.S. dollars** and **U.S.\$** are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in these Admission Particulars has been expressed in dinar. The Group's presentation currency is the dinar and the Group prepares its financial statements in dinar.

Third party and market share data

There is no independently determined comprehensive financial services industry data available in Bahrain. As a result, any Group market share data included in these Admission Particulars represents the Group's own estimates of its market shares based on the financial statements published by Bahraini banking groups and, where available, reported bank data published by the CBB. All such market share information is referred herein to as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Bahrain and excludes any Bahraini assets and liabilities of non-Bahraini banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates, as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Bahrain included in these Admission Particulars has been derived from official public sources, including the Organization of Petroleum Exporting Countries (**OPEC**), the International Monetary Fund (the **IMF**), the Sovereign Wealth Fund Institute, the United States Central Intelligence Agency (the **CIA**), the CBB and the Bahrain Central Statistical Bureau (the **CSB**). All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Certificates.

The statistical information in these Admission Particulars, including in relation to Gross Domestic Product (**GDP**), balance of payments, revenues and expenditures, and indebtedness of the Bahraini government, have been obtained from public sources identified in these Admission Particulars. All statistical information provided in these Admission Particulars, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources. Accordingly, the statistical data contained in these Admission Particulars should be treated with caution by prospective investors.

Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

The Bank's website is <http://www.khcbonline.com/en>. The information on this website or any other website mentioned in these Admission Particulars or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into these Admission Particulars, and investors should not rely on it.

Definitions

In these Admission Particulars:

- a **billion** means a thousand million;
- **GCC** means the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates);
- **Government** means the government of Bahrain;

- **GREs** means government-related entities; and
- **MENA region** means the region comprising the Middle East and North Africa.

Rounding

In these Admission Particulars, financial information relating to the Group which has been extracted from the Financial Statements has been rounded to the nearest thousand dinar, with BD 500 and above being rounded up and BD 499 and below being rounded down. In tables in these Admission Particulars, the number "0" denotes that the amount is less than BD 500 whilst the symbol "—" indicates that there is no number for the particular item. In addition, in these Admission Particulars percentages have been rounded to one or, in certain cases, two decimal places with 0.05 and above and 0.005 and above being rounded up. As a result of such rounding, the totals of financial data presented in tables in these Admission Particulars and in any related analysis may vary slightly from the arithmetic totals of such data. Percentage changes and other percentage data relating to the Group's financial information have been calculated on the basis of financial statement data contained in the Financial Statements.

Presentation of Alternative Performance Measures

In these Admission Particulars, the Bank uses the following metrics in the analysis of its business and financial position, which the Bank considers to constitute alternative performance measures (**APMs**) as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures.

Metric	Definition and method of calculation
Return on shareholders' funds	Profit for the year divided by the average total equity attributable to the equity holders of the Bank (calculated as an average of total equity attributable to the equity holders of the Bank for the relevant year).
Return on total assets	Profit for the year divided by average total assets (calculated as an average of total assets for the relevant year).
Cost to income	Operating expenses for the year divided by total income for the year.
Shareholders' funds to total assets	Total equity attributable to the equity holders of the Bank as at the relevant date divided by total assets as at the relevant date.
NPFs to total financings and advances and financing to customers (Gross NPF Ratio)	Non-performing financings and advances to customers as at the relevant date divided by gross financings and advances to customers as at the relevant date.
Net NPFs to gross financings and advances and financing to customers (Net NPF Ratio)	Net Non-performing financings and advances to customers as at the relevant date divided by gross financings and advances to customers as at the relevant date, calculated in accordance with CBB regulations.
Provision coverage	Total allowance for credit losses and contractual profit not recognised as at the relevant date divided by gross financings and advances to customers as at the relevant date.

Net financings to customers deposits	Net financings and advances to customers as at the relevant date divided by deposits from customers as at the relevant date.
Net financings to total assets	Net financings and advances to customers as at the relevant date divided by deposits from customers as at the relevant date.
Liquid assets to customer deposits	Cash, balances with CBB, due from banks, GDBs, Sukuk and T-Bills divided by customer deposits as at the relevant date.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPS REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Certificates or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (THE SFA)

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the **CMP Regulations 2018**), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund", and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and accordingly none of the Trustee, the Bank, the Manager, the Delegate or the Agents, or any of their respective affiliates makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

NOTICE TO U.K. RESIDENTS

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000, as amended (the **FSMA**)) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, these Admission Particulars are not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of these Admission Particulars and any other marketing materials relating to the Certificates: (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CIS Order**); (ii) persons falling within any of the categories of person described in Article 22(2)(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CIS Order; and (iii) any other person to whom it may otherwise lawfully be made. Persons of any other description in the United Kingdom may not receive and should not act or rely on these Admission Particulars.

Prospective investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any prospective investor intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Certificates and these Admission Particulars shall not be construed as an invitation to any member of the public in the Cayman Islands to subscribe for the Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

These Admission Particulars may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Saudi Arabian Capital Market Authority (the **Capital Market Authority**).

The Capital Market Authority does not make any representation as to the accuracy or completeness of these Admission Particulars, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of these Admission Particulars. Prospective purchasers of the Certificates should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of these Admission Particulars you should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities and

its executive bylaws (each as amended) (the **CMA Rules**), and the various resolutions, regulations, directives and instructions and announcements issued from time to time pursuant thereto, or in connection therewith (regardless of nomenclature), have been given in relation to the marketing of, and sale of, the Certificates, the Certificates may not be offered for sale, nor sold, in Kuwait. Neither these Admission Particulars nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

These Admission Particulars are not for general circulation to the public in Kuwait nor will the Certificates be sold by way of a public offering in Kuwait. In the event that the Certificates are intended to be purchased onshore in Kuwait, the same may only be so purchased through a licensed person duly authorised to undertake such activity pursuant to the CMA Rules. Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of these Admission Particulars or verify the validity and accuracy thereof. Prior to purchasing any Certificates, it is recommended that a prospective holder of any Certificates seeks professional advice from its advisors in respect to the contents of these Admission Particulars so as to determine the suitability of purchasing the Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, the Certificates issued in connection with these Admission Particulars and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the **CBB**) in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.\$100,000 or any equivalent amount in any other currency or such other amount as the CBB may determine.

These Admission Particulars do not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (Decree Law No. 64 of 2006). These Admission Particulars and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will these Admission Particulars or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered these Admission Particulars or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of Certificates will be made to the public in the Kingdom of Bahrain and these Admission Particulars must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and these Admission Particulars or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in these Admission Particulars.

CAYMAN ISLANDS DATA PROTECTION

Under the Cayman Islands Data Protection Law 2017 and, in respect of EU data subjects, the EU General Data Protection Regulation (together, the "**Data Protection Legislation**"), individual data subjects have rights and the Trustee as data controller has obligations with respect to the processing of personal data by the Trustee and its affiliates and delegates. Breach of the Data Protection Legislation by the Trustee could lead to enforcement action.

Prospective investors should note that personal data may in certain circumstances be required to be supplied to the Trustee in order for an investment in the Certificates to continue or to enable the Certificates to be redeemed. If the required personal data is not provided, a prospective investor will not be able to continue to invest in the Certificates or to redeem the Certificates.

The Trustee has published a privacy notice (the "**Data Privacy Notice**"), which provides prospective investors with information on the Trustee's use of their personal data in accordance with the Data Protection Legislation. The Data Privacy Notice can be accessed at <https://www.walkersglobal.com/external/SPVDPNotice.pdf>.

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RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in these Admission Particulars.

Each of the Trustee and the Bank believes that the following factors may affect their ability to fulfil their respective obligations under the Certificates and the Transaction Documents. All of these factors are contingencies which may or may not occur and neither the Trustee nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee and the Bank to pay any amounts on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Prospective investors should also read the detailed information set out elsewhere in these Admission Particulars and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

The Trustee is a special purpose company with limited liability incorporated under the laws of the Cayman Islands on 8 April 2020. The Trustee has not as at the date of these Admission Particulars, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Certificates represent limited recourse obligations of the Trustee and the recourse of the Certificateholders against the Trustee in relation to the Certificates is limited to the Trust Assets and the proceeds from the Trust Assets.

The Trustee's only material assets, which are held on trust for Certificateholders, are the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from the Bank of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

RISKS RELATING TO THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

Risks Relating to the Bank

The Bank is exposed to credit risks and relies on effective risk management policies to manage the growth and quality of its financing assets and investment securities and minimise impairment losses.

Credit risk is the risk that a customer or counterparty will fail to meet its obligations in accordance with agreed terms and in doing so will cause the Bank to incur a financial loss.

Risks arising from adverse changes in the credit quality and recoverability of financing and amounts due from counterparties are inherent in a wide range of the Bank's businesses, principally in its lending and investment activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers and other counterparties of the Bank, or from a general deterioration in local or global economic conditions, or from systematic risks within the financial systems. Such credit risks could affect the recoverability and value of the Bank's assets and require an increase in the Bank's provisions for the impairment of financing, securities and other credit exposures. Any significant increase in impairment allowances or a significant change in the Bank's estimate of the risk of loss inherent in its portfolio of non-impaired financing, as well as the occurrence of financing losses in excess of the impairment allowance allocated with respect to such losses, could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, diversification of lending activities and compliance with internal limits to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses, and by obtaining security when appropriate. However, if the Bank fails to maintain growth of its financing and investments portfolio while maintaining the quality of its assets through effective risk management policies this could lead to higher financing loss provisioning and result in higher levels of defaults and write-offs, which in turn could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank establishes an allowance for credit losses as prescribed by FAS and the CBB guidelines that represent its estimate of credit losses in its financing portfolio. Additionally, the Bank adopted FAS 30 early, with effect from 1 January 2018. FAS 30 imposes more stringent requirements on the Bank for the recognition of impairments.

As at 30 June 2020, the Bank had Non-Performing Financings (**NPFs**) amounting to BD 55.4 million and carried allowance for credit losses and contractual profit not recognised of BD 11.7 million to cover potential identified and unidentified impairment losses (compared with NPFs amounting to BD 108.1 million and carried allowance for credit losses and contractual profit not recognised of BD 33.4 million as at 31 December 2019). As at 30 June 2020, the total allowance for credit losses and contractual profit not recognised covered 21.1 per cent of the Bank's NPFs (compared to 30.9 per cent. as at 31 December 2019). In accordance with FAS, the Bank is required to reflect the impairment calculated as a charge to the income statement. The Bank's management believes that the levels of allowance for credit losses and contractual profit not recognised for NPFs under stress as at 30 June 2020 are sufficient to cover the Bank's estimated impairment losses as at that date. However, the actual impairment losses could be materially different from the allowance for credit losses and contractual interest not recognised and if such allowances are insufficient to cover impairment losses this could have an adverse impact on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank's Gross NPF Ratio was 14.5 per cent. as at 31 December 2017, 16.8 per cent. as at 31 December 2018, 24.2 per cent. as at 31 December 2019 and 11.7 per cent. as at 30 June 2020. The Bank's Net NPF Ratio was 12.9 per cent. as at 31 December 2017, 19.6 per cent. as at 31 December 2018, 21.9 per cent. as at 31 December 2019 and 9.67 per cent. as at 30 June 2020. If the Bank is unable to adequately control credit risk it may suffer a deterioration in its financing portfolio, principally manifested in the form of increasing non-performing financing levels, and this could have an adverse impact on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

In addition, the CBB may, at any time, amend or supplement its guidelines and require additional provisions to be made in respect of the Bank's financing portfolio if it determines (acting in its role as the prudential regulator for the Bahraini banking sector) that it is appropriate to do so. If any additional provisions were required to be made, then

depending on the exact quantum and timing, such provisions could have an adverse impact on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank is subject to the risk that liquidity may not always be readily available; this risk may be exacerbated by conditions in the financial markets

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they fall due, which in turn could have a materially adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank maintains liquid assets at prudent levels to ensure that cash can be made available quickly to honour its obligations, even under adverse conditions. To further address liquidity risk, the Bank's management has established liquidity monitoring procedures and is diversifying the Bank's funding sources in terms of origin and tenor. In addition, the Bank maintains a statutory deposit with the CBB and has a range of credit lines from banks and financial institutions.

However, an inability on the Bank's part to access funds or to access the markets from which it raises funds may put the Bank's positions in liquid assets at risk and lead to the Bank being unable to finance its operations adequately. A dislocated credit environment exposes the Bank to higher risk that it will not be able to access funds at favourable rates or it will be unable to realise its high quality liquid assets in the market. These and other factors could also lead creditors to form a negative view of the Bank's liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. If the Bank is unable to realise its high quality liquid assets to manage its liquidity requirements, this could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank receives a significant portion of its funding from deposits (see " – *The Bank is dependent on short-term funding and liquidity*"). Such deposits are subject to fluctuation due to certain factors outside the Bank's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. Any unexpected withdrawals of such deposits could have a material impact on the Bank's liquidity.

In addition, there are always some timing differences between cash payments the Bank owes on its liabilities and the cash payments due to it on its investments and other assets. The Bank's ability to overcome these cash mismatches and make timely payments in respect of the Certificates may be adversely affected if the fixed income markets were to experience significant liquidity problems. Also, under certain market conditions, the Bank could be unable to sell additional products or be unable to sell its portfolio investments in sufficient amounts and sufficient prices to raise the cash required to pay all amounts due in respect of the Certificates.

Furthermore, in circumstances where the Bank's competitors have ongoing limitations on their access to other sources of funding, such as wholesale market derived funding, the Bank's access to funds and its cost of funding may also be adversely affected.

Although the Bank invests substantial time and effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that the Bank did not identify correctly or in a timely fashion. Furthermore, risk methodologies and techniques may not cover the entire spectrum of risks to which the Bank may be subject. If any such risks materialise, the associated losses could be greater than the Bank may have anticipated, which could have a material adverse effect on its business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank is dependent on short-term funding and liquidity

A substantial portion of the Bank's funding requirements is met through short-term funding sources, primarily in the form of customer deposits. As at 31 December 2019, 89.4 per cent. of the Bank's customers' deposits had remaining maturities of one year or less or were repayable on demand.

In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with the Bank and, as a result, such deposits have over time been a stable source of funding for the Bank. The Bank cannot provide any assurance, however, that customers will continue to roll over or maintain their deposits with the Bank. If a substantial number of the Bank's customers fail to roll over their deposits upon maturity or withdraw their deposits from the Bank, the Bank's liquidity and financial position could be adversely affected and the Bank may be required to seek funding from more expensive sources, which could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

Furthermore, disruptions, uncertainty or volatility in the capital and credit markets may limit the Bank's ability to refinance maturing liabilities and increase the cost of such funding. The availability to the Bank of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Bank's financial condition, credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the Bank's financial prospects if, for example, the Bank incurs large losses, experiences significant deposit outflows or if the level of the Bank's business activity decreases. In particular, the Bank's access to funds may be impaired if rating agencies downgrade the Bank's debt ratings. If there is a disruption or reduction in the Bank's access to funding, the Bank's liquidity and financial position could be adversely affected and the Bank may be required to seek funding from more expensive sources, which could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank is exposed to certain concentration risks in both its financing portfolio and funding structure

Concentrations in the Bank's deposit portfolio subject it to risks of exposure to the Government, Government-related entities and pension funds and the risk of default by its larger corporate clients.

A substantial portion of the Bank's funding requirements are met through short-term and long-term deposits by the Government and Government-related entities. As at 31 December 2019, the Government and Government-related entities accounted for 15.8 per cent. of the Bank's customers' deposits. As at 31 December 2019, corporate customers accounted for 52.3 per cent. of the Bank's customers' deposits and retail customers accounted for 31.9 per cent. of the Bank's customers' deposits. Furthermore, the Bank's twenty largest depositors represented 61.5 per cent. of the Bank's total customers' deposits as at 31 December 2019.

The withdrawal of a significant portion of these large deposits could have a material adverse effect on the Bank's business, results of operation, financial condition, liquidity and prospects, as well as its ability to meet the CBB regulations relating to liquidity, and thereby affect the Bank's ability to make payments in respect of the Certificates. Any such withdrawal may require the Bank to seek additional sources of funding (whether in the form of deposits or wholesale funding), which may not be available to the Bank on commercially acceptable terms or at all. Any failure to obtain any replacement funding may negatively impact the Bank's ability to maintain or grow its financing portfolio or otherwise increase its overall cost of funding, any of which could have a material adverse effect on its business, results of operation, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

As at 31 December 2019, the Bank's funded exposure to its ten largest corporate borrowers accounted for 22.2 per cent. of its financing assets. A significant default by one or more of these borrowers could have an adverse effect on the Bank's business, financial condition, results of operations liquidity and prospects and thereby affect the Bank's

ability to make payments in respect of the Certificates. Financing to retail customer portfolios will remain strongly linked to the economic conditions in Bahrain, with changes in employment levels and interest rates among the factors that may impact retail credit exposures (see "*The Bank is dependent on the state of the Bahraini economy which, in turn, is largely dependent on developments in international oil and gas prices*").

A downturn in the financial position of any of the Bank's significant depositors or borrowers and/or a downturn in the financial position of a significant number of the Bank's other depositors or borrowers, when taken in the aggregate, could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects, and thereby affect its ability to perform its obligations in respect of the Certificates.

The Bank's business, financial condition and results of operations are materially affected by conditions in regional and global financial markets and economic conditions

The Bank operates in the Bahraini financial services industry, which is integrated with, and is dependent on, regional and global financial markets. Such regional and global financial markets are in turn affected by regional and global economic conditions. Enhanced credit risks for the Bank could arise from a general deterioration in regional or global economic conditions or from systemic risks within the regional or global financial systems.

The global financial services industry generally prospers in periods of economic growth and stable geopolitical conditions and benefits from capital markets that are transparent, liquid and buoyant and experience positive investor sentiment. However, any future increase in market volatility resulting from regional or global events could result in a material reduction in the availability of financing, both for the Bank and its customers, in turn compelling the Bank to rely on the CBB or the Government to provide liquidity and, in some cases, additional capital.

Changes in interest rates and/or widening credit spreads can create a less favourable environment for certain of the Bank's businesses and could lead to a decrease in the demand for certain financing arrangements and other products and services offered by the Bank. In addition, fluctuations in interest rates and credit spreads have affected the fair value of financial instruments held by the Bank.

If significant market disruptions and high levels of volatility occur, the Bank may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges, and lower profitability and cash flows. The Bank's business and financial performance may also be adversely affected by future recovery rates on assets (including real estate and equity securities which it has accepted as security), particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

In addition, although economic conditions are different in each country in the GCC region, investors' reactions to developments in one country may affect the price of securities of issuers in other countries in the GCC region, including Bahrain. Accordingly, the market price of the Certificates may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank.

Global economic conditions are being significantly impacted by the Covid-19 pandemic, as a result of which many countries have introduced border closures and significantly restricted the free movement of their citizens, resulting in the closure of a large number of businesses, particularly those in the hospitality and travel industries, and significant increases in unemployment. In many cases the period for which these measures will remain in effect and their ultimate negative effect on the economies of the countries affected is unknown.

As at the date of these Admission Particulars, the main impact of the Covid-19 pandemic on the Bank has been on the expected performance of its assets. The Bank anticipates that a number of its clients will seek to defer loan payments as a result of Covid-19 related disruptions to their businesses. Whilst the Bank has received several deferral requests from clients to date, market conditions continue to remain volatile and dynamic which hinders a precise quantification of the impact of such deferral requests. In the short term, the Bank expects to rollover and extend loan maturities, with deferrals ranging from six to 12 months in duration. The length of the shut-down protocols being imposed will determine the severity of their impact on the Bank's business, financial condition,

results of operations, liquidity and prospects. The impact of the shut-down protocols on the Bank will become increasingly severe the longer they remain in place.

With financial conditions sharply tightening, credit markets on the verge of full freeze and global equity prices collapsing, the U.S. Federal Reserve made an emergency 50 basis points cut to its benchmark interest rate on 3 March 2020, noting that the spread of the coronavirus "poses evolving risk to economic activity". With this action failing to ease the concerns of stock markets and credit markets, the U.S. Federal Reserve made a second emergency rate cut on 16 March 2020, cutting short term rates to a target range of 0 per cent. to 0.25 per cent. and introducing quantitative easing stimulus again. On both occasions, the U.S. Federal Reserve's rate cuts were followed by similar moves by regional monetary authorities. The central banks of each of the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the United Arab Emirates cut their key rates by 50 basis points on 3 March 2020 and by additional 75 basis points on 16 March 2020.

As at the date of these Admission Particulars, the macroeconomic outlook for Bahrain and the rest of the GCC remains weak, with particular concerns around the on-going impact of the volatility of global crude oil prices (see "*The Bank is dependent on the state of the Bahraini economy which, in turn, is largely dependent on developments in international oil and gas prices*" below), the effects of the economic downturn in export markets, emerging markets generally, and the broader impact of this on global debt and equity markets. The current weak economic environment, together with the cost of stimulus packages introduced, a decrease in fees and taxes and lower oil prices, particularly if they are prolonged, is expected to lead to increased fiscal deficits in many GCC countries, including Bahrain.

Certain regional oil producing countries that have pegged their domestic currencies to the U.S. dollar typically face increased pressure to remove these foreign exchange pegs at times of significant and prolonged falls in oil prices. For example, each of Kazakhstan and Azerbaijan removed the U.S. dollar peg of their domestic currencies in August 2015 and December 2015, respectively. While no GCC country with such a peg has yet removed it, there remains a risk that any de-pegging by one or more GCC countries would pose a systemic risk to the regional banking systems by virtue of the inevitable devaluation of any such de-pegged currency against the U.S. dollar and the impact this would have on the open cross- currency positions held by regional banks, including the Bank.

The Bank has significant off-balance sheet credit-related commitments that may lead to potential losses

As part of the Bank's financing and trade-related activities, the Bank provides guarantees, letters of credit and acceptances, which are commitments to make payments on behalf of customers contingent upon the failure of the customer to satisfy its obligations supported by the commitment. Although these commitments are contingent and therefore off-balance sheet, they nonetheless subject the Bank to credit risk. Credit-related commitments are subject to the same credit approval and compliance procedures as financings, and commitments to extend credit are contingent on customers maintaining specific credit standards. As at 31 December 2019, the Bank had BD 80.7 million of contingent liabilities.

Although the Bank anticipates that only a portion of the obligations in respect of these commitments will be triggered, it may become obliged to make payments in respect of a greater than anticipated portion of such commitments. If this were to happen, then such payments could have a material adverse effect on its business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

Security interests or financing guarantees provided in favour of the Bank may not be sufficient to cover any losses and may not be legally enforceable

The collateral held by the Bank as security against impaired financings primarily relates to commercial and residential property and pledged deposits. The practice of mortgaging or pledging assets (such as share pledges or legal mortgage security over real estate assets) to obtain bank financing is subject to certain limitations and administrative restrictions under Bahrain law. As a result, security over certain assets may not be enforced in Bahraini courts. Furthermore, there are no self-help remedies available to creditors in an enforcement scenario under Bahrain law and therefore recourse is only available through a formal court process. Accordingly, the Bank may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third-party

credit support arrangements when debtors default on their financings. Foreclosure by the Bank on any real estate collateral would usually involve a sale of the real estate property through a court administered public auction, which is a lengthy and administratively burdensome process. In case of Ijara financings, the Bank would need to obtain a judgment that nullifies the Ijarah contract to sell the property.

In addition, even if such security interests are enforceable in Bahraini courts, the time and costs associated with enforcing security interests in Bahrain may make it uneconomic for the Bank to pursue such proceedings, adversely affecting the Bank's ability to recover its financing losses. In the event that the Bank does acquire real estate assets as a result of enforcement of security, the Bahraini law requires the Bank to dispose of the real estate within twelve months of it being acquired (unless an extension has been obtained from the CBB), which could limit the amount recoverable if market conditions are not opportune.

As at 31 December 2019, the Bank had a net financing portfolio amounting to BD 324.4 million, 60.4 per cent. of which is secured by residential property, commercial real estate, government guarantee, counter guarantee, vehicles, cash margin and investment securities.

The Bank typically requires additional collateral in the form of cash, investment securities, land and building, vehicles and/or other assets in situations where the Bank may not be able to exercise rights over pledged shares or where it enters into guarantees or other third-party credit support arrangements for financings made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Bank from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy, and could thereby adversely affect the Bank's ability to recover any losses.

The occurrence of the foregoing could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank is exposed to fluctuations in foreign exchange rates

As a financial intermediary, the Bank is exposed to foreign exchange rate risk. In general, the Bank aims to make foreign currency financings on terms that are generally similar to its foreign currency borrowings, thereby naturally hedging its exposure. Adverse movements in foreign exchange rates also may impact the creditworthiness of its depositors and borrowers negatively, which in turn may impact on its deposit base and the quality of its exposures to certain borrowers. Any volatility in foreign exchange rates, including as a result of the re-fixing of the Bahraini Dinar – U.S. dollar exchange rate (or the elimination of that rate altogether), could have a material adverse effect on its business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank may become subject to increasingly intense competition

The Bank faces competition for all of its products and services in both the geographic and product areas in which it operates and such competition may increase. See "*Description of the Bank — Competition*".

The Bank's principal competitive weaknesses are:

- its relatively small size; and
- limited expansion prospects in Bahrain.

In addition, the Bank may be affected by mergers between financial institutions which could result in competitors that are significantly larger than the Bank, have a significantly wider product range and have significantly greater resources with which to compete effectively. The Bank offers Shari'a compliant intermediary financial services and continues to focus on enhancing its product and service offerings, furthering the quality of its customer service and improving its delivery channels. However, the Bank cannot be certain that some of its customers will not choose to

transfer some or all of their business to its competitors or to seek alternative sources of financing from those competitors. Such choices could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The interests of the Bank's principal shareholders may conflict with those of holders of the Certificates

As at the date of these Admission Particulars, the Bank's principal shareholders are GFH Financial Group B.S.C. (via KHCB Asset Company) (55.41 per cent.), Goldilocks Investment Company Limited (9.98 per cent.) and Khaleeji Commercial Bank B.S.C (9.87 per cent.). By virtue of such shareholding, the principal shareholders have the ability to influence the Bank's business significantly through their ability to control and/or block actions that require shareholder approval. If circumstances were to arise where the interests of the principal shareholders conflict with the interests of holders of the Certificates, holders of the Certificates could be disadvantaged by any such conflict. As at the date of these Admission Particulars, GFH Financial Group B.S.C. holds all Certificates.

A downgrade in the Bank's credit ratings

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds. The interest rates of the Bank's borrowings are partly dependent on its credit ratings.

The Bank was recently downgraded by Moody's on 29 April 2020. As at the date of these Admission Particulars, the Bank had been assigned the following ratings from Moody's: long-term local currency deposit ratings at B3 (with a stable outlook), long-term foreign currency deposit at B3 (with a stable outlook) and baseline credit assessment (BCA) and adjusted BCA at caa1 (with a stable outlook).

The recent downgrade of the Bank's credit ratings, a further downgrade or the Bank being placed on a negative ratings watch, may increase its cost of borrowing and have a material adverse effect on its business, results of operations and financial condition.

A downgrade of the Bank's credit ratings (or announcement of a negative ratings watch) may also limit its ability to raise funding or capital. Moreover, actual or anticipated changes in the Bank's credit ratings or the credit ratings of the Certificates (if applicable) generally may affect the market value of the Certificates. In addition, ratings assigned to the Certificates (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in these Admission Particulars and other factors may affect the value of the Certificates.

In addition, a downgrade or potential downgrade of the Bahrain sovereign rating or a change in rating agency methodologies relating to systemic support provided by Bahrain could negatively affect the perception by ratings agencies of the Bank's rating. There can also be no assurance that the rating agencies will maintain the Bank's current ratings or outlooks or those of Bahrain.

A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

Risks relating to legal, regulatory, compliance, tax and corporate governance

The Bank is a highly regulated entity and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have a material adverse effect on the Bank

The Bank is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. See "*Bahrain Banking System and*

Prudential Regulations". These regulations include Bahraini laws and regulations (particularly those of the CBB). These regulations may limit its activities and changes in these regulations may increase its cost of doing business. In addition, a breach of regulatory guidelines could expose the Bank to potential liabilities and sanctions. Changes in these laws and regulations (such as pursuant to Basel III) and the manner in which they are interpreted or enforced may have a material adverse effect on its business, results of operations and financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

No assurance can be given that the Government or CBB will not implement regulations or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on the Bank's business, financial condition, results of operations or ability to make payments due under the Certificates, or which could adversely affect the market price and liquidity of the Certificates.

The Bank may be subject to increased capital requirements or standards due to new governmental or regulatory requirements and changes in perceived levels of adequate capitalisation

In July 2018, the CBB issued a framework for domestic systemically important banks (**D-SIBs**) which sets out a list of recommendations and requirements for banks identified as D-SIBs in Bahrain based on the recommendations of the Basel Committee. In addition, in April 2016, the CBB updated Section EN-A.1.1 of the "Enforcement Module" which gives the CBB broad powers to handle an episode of failure within a Bahraini bank. For additional information regarding Bahrain's Basel III requirements, see "*Bahrain Banking System and Prudential Regulations*".

These regulations increase the amount of capital the Bank is required to maintain and may limit the Bank's activities. Whilst the Bank is currently in compliance with all CBB capital adequacy and liquidity requirements, it should be noted that, pursuant to the CBB's laws and regulations, the CBB is entitled to amend capital adequacy requirements at its sole discretion. Further changes in supervision and regulation in Bahrain could adversely affect the Bank's business, results of operations and financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates. The Bank is not currently a D-SIB, however, if this were to change, it would increase the amount of capital the Bank is required to maintain.

Due to the different manner in which Islamic banking operates and the specific risks inherent in the system, the CBB has developed a regulatory framework for Islamic banks which is separate from that for the conventional banking system. This was first implemented in March 2002 with the introduction of the Prudential Information and Regulatory Framework for Islamic banks (**PIRI**) by the Islamic financial institutions directorate. The objective of the PIRI is to provide an Islamic banking regulatory framework which is based on the Basel III standards and addresses the specific features of Islamic financial products. Among other measures, PIRI requires Islamic banks to maintain a 12.5 per cent. consolidated capital adequacy ratio (8.0 per cent. on a solo basis) and to take a capital charge equal to 30.0 per cent. of assets financed by unrestricted profit sharing investments accounts in order to calculate their capital adequacy requirements. Islamic banks, like conventional banks, must also submit prudential returns on a quarterly basis. The Basel III capital adequacy requirements are applicable to Islamic banking institutions, however, such requirements are customised to fit the nature of the relevant Islamic bank in accordance with Islamic Financial Services Board requirements. Net Stable Funding Ratio (**NSFR**) together with Liquidity Coverage Ratio (**LCR**) are the key reforms proposed by the Basel Committee to promote a more resilient banking sector.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Bank deals. These requirements are not designed to protect the holders of the Certificates. Consequently, these regulations may limit the Bank's activities, including its financing, and may increase the Bank's costs of doing business, or require the Bank to seek additional capital in order to maintain Bahraini capital adequacy requirements or different varieties of funding to satisfy the Bahraini liquidity requirements.

Additional capital, whether in the form of financing arrangements or additional equity, may not be available on attractive terms, or at all. Further, any such development may require the Bank to change how it conducts its business, including by reducing the risk and leverage of certain activities, or otherwise have an adverse impact on its business, the products and services it offers and the value of its assets. The Bank may become subject to mandatory guidelines and direct monitoring by the CBB should it fail to strengthen its capital position.

There can be no assurance that any of these alternative methods of raising capital would be successful in increasing the Bank's capital ratios sufficiently or within the timetable required. If the Bank is unable to increase its capital ratios sufficiently, its credit ratings may drop, its cost of funding may increase and its ability to enter into financial arrangements and thereby generate revenue may be effected which in turn could have a material adverse effect on the Bank's business, results of operations and financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank's ability to carry out its business and to achieve its strategic objectives could be impaired if it is unable to maintain or obtain required licences, permits, approvals and consents

In order to carry out and expand its businesses, it is necessary for the Bank to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits approvals and consents are often lengthy, complex, unpredictable and costly. If the Bank is unable to maintain or obtain the relevant licences, permits, approvals and consents, the Bank's ability to achieve its strategic objectives could be impaired, which could have a material adverse effect on its business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

Bahrain's legal system continues to develop and this may create an uncertain environment for investment and business activity

Bahrain is still developing the legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner. As the legal environment remains subject to continuous development, investors in Bahrain may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Bahrain may have a material adverse effect on the rights of holders of the Certificates or the investments that the Bank has made or may make in the future, which may in turn have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

The Bank may be impacted by the imposition of corporation tax or VAT

As a consequence of lower oil revenues in the region, fiscal adjustment to mobilise additional non-oil revenue became more prevalent in recent years. One such measure was the introduction of VAT (at a rate of 5 per cent.) in the UAE and Saudi Arabia effective from 1 January 2018 and in Bahrain effective from 1 January 2019. Saudi Arabia further announced in May 2020 its decision to increase VAT to 15 per cent. As at the date of these Admission Particulars, the new VAT regime in Bahrain has not had a significant impact on the Bank's business, results of operations and financial condition. However, there can be no assurance that the Bank's future profitability will not be negatively affected, or that Bahrain will not follow Saudi Arabia and increase the percentage of applicable VAT in due course.

Furthermore, while the Bank is currently not subject to corporation tax on its earnings in Bahrain, there can be no assurance that this will continue to be the case. The imposition of corporation tax or other tax regimes could have a negative impact on the Bank's profitability and its borrowers' and contractual counterparties' ability to fulfil their respective obligations, and thereby potentially increase the quantum of NPFs. Ultimately this could have an adverse effect on the Bank's business, financial condition, results of operations and prospects, and may affect the Bank's ability to perform its obligations in respect of the Certificates.

Risks Relating to Investments in Bahrain

The Bank's principal operations are in Bahrain, which is an emerging market and as such is subject to greater risks than more developed markets; furthermore, volatility in one emerging market may have a spillover effect into other emerging markets and could negatively impact the Bank's business, financial condition and results of operations

Investment in emerging markets is generally only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Bahrain are subject to rapid change and that the information set forth in these Admission Particulars may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect confidence in markets of all emerging market countries as investors move their money to more developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Bahrain and adversely affect the Bahraini economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Bahraini economy remains relatively stable, financial turmoil in any emerging market country could adversely affect the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates, as well as result in a decrease in the price of the Certificates. Companies located in countries in the emerging markets may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or the increased cost of debt, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Specific country and regional risks that may have a material impact on the Bank's business, operating results, cash flows and financial condition include:

- regional political instability, including government or military regime changes, riots or other forms of civil disturbance or violence, including through acts of terrorism;
- military strikes or the outbreak of war or other hostilities involving nations in the region;
- a material curtailment of the industrial and economic infrastructure development that is currently underway across the MENA region;
- limited overall market liquidity;
- an increase in inflation and the cost of living;
- cancellation of contractual rights, expropriation of assets and/or inability to repatriate profits and/or dividends;
- increased government regulations, or adverse governmental activities, with respect to price, import and export controls, the environment, customs and immigration, capital transfers, foreign exchange and currency controls, labour policies, land and water use and foreign ownership;
- arbitrary, inconsistent or unlawful government action;
- changing tax regimes, including the imposition or increase of taxes in tax favourable jurisdictions such as Bahrain;

- difficulties in staffing and managing operations;
- difficulties in enforcing collateral;
- difficulties and delays in obtaining governmental and other approvals for operations or renewing existing ones;
- inability to repatriate profits or dividends;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- logistical and communications challenges; and
- changes in labour conditions.

There can be no assurance that either the economic performance of, or political stability in, Bahrain or other countries in which the Bank may in the future operate can or will be sustained. Investors should note that a worsening of current financial market conditions, instability in certain sectors of the Bahraini economy or a major political upheaval in Bahrain could lead to decreased investor and consumer confidence, market volatility, economic disruption, and declines in real estate markets and, as a result, could have an adverse effect on the Bank's business and prospects.

The Bank is dependent on the state of the Bahraini economy which, in turn, is largely dependent on developments in international oil and gas prices

The Bank's operations are concentrated in Bahrain. As at 31 December 2019, 80.5 per cent. of the Bank's total assets and 97.1 per cent. of the Bank's total liabilities are in Bahrain. Therefore, the business, results of operations and financial condition of the Bank is heavily dependent on the macro-economic performance of the Bahraini economy, which, in turn, is relatively dependent on economic considerations, including but not limited to the price of crude oil.

Customers' ability to pay their obligations on time is significantly affected by GDP growth, which in turn is substantially dependent on the success of key sectors of the Bahraini economy. Although Bahrain has made efforts to develop its non-hydrocarbon economy, a significant portion of government revenue is dominated by oil and gas, contributing 17.8 per cent. of total revenues in 2019 (Source: *CBB Economic Report 2019*).

Oil prices have, however, been volatile in recent years, which has impacted economic growth in Bahrain. For example, based on data on the OPEC website, oil prices decreased significantly from July 2014 (when the monthly average price of the OPEC reference basket was U.S.\$105.61) to January 2016 (when the monthly average price of the OPEC reference basket was U.S.\$26.50). Since January 2016, international oil prices have generally increased, with the yearly average OPEC reference basket price being U.S.\$40.76 in 2016, U.S.\$52.43 in 2017, U.S.\$69.78 in 2018 and U.S.\$64.10 in 2019. Oil prices have been significantly affected by the Covid-19 pandemic and have fallen sharply since February of 2020 and may fall further in the near future. In April, in response to storage capacity concerns, oil prices briefly fell below zero. The OPEC reference basket price was U.S.\$45.19 in August 2020 (Source: OPEC data obtained on 3 September 2020).

The fall in oil prices have resulted in lower revenues from the petroleum sector, contractions in GDP and fiscal deficits. In 2019, Bahrain's real GDP was BD 39.9 billion compared to BD 37.8 billion in 2018.

This deterioration in pricing has adversely affected the economies of countries in the MENA region. If historically low crude oil prices are sustained for a significant period, this will be likely to have a significant adverse impact on Bahrain's economy, including government revenues and spending and the indirect impact on other sectors of the Bahraini economy, including banking, trade, construction, real estate and tourism sectors in particular. These effects could have a material adverse effect on the Bank's business, financial condition, results of operations, liquidity, prospects and thereby affect the Bank's ability to make payments in respect of the Certificates by:

- reducing the demand from its customers for financing and by adversely affecting the quality of its outstanding financing, thus potentially increasing its impairment losses and so reducing profitability; and/or
- causing certain large depositors of the Bank to withdraw their deposits (in whole or in part) to address their own liquidity needs, resulting in the Bank having to source alternative and potentially more expensive sources of funding.

Further, any reduction in Bahrain's revenues would reduce the likelihood and/or extent of government financial support being available to Bahraini banks, including the Bank, should such support be needed in the future.

In addition, any negative change in one or more macroeconomic factors, such as interest rates (which are influenced by U.S. interest rates given the fixed exchange rate between the Bahraini Dinar and the U.S. dollar), inflation, wage levels, unemployment, foreign investment and international trade, could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of the Certificates.

The Bank's business, financial condition and results of operations may be materially affected by political events in Bahrain

Although Bahrain has not experienced any significant political or security disruptions in recent years, there can be no assurance that further protests or unrest will not occur in the future. An unsettled political environment may have negative implications on foreign direct investment in Bahrain, its future growth trajectory and its reputation in the region, including its standing as a regional leader in the financial services sector. While the government of Bahrain has already begun to implement a broader strategy to diversify its revenue base and cut expenditures further, progress will rely, to a large extent, on popular support for the government's fiscal readjustment programme. The lack of a broad political consensus that encompasses Bahrain's various political and religious groups may undermine the government of Bahrain's ability to implement the full extent of its fiscal readjustment programme and may hinder its efforts to reverse the rise in public debt in the near term.

Political, social and any consequent economic instability in Bahrain may adversely affect the Bank's business, the trading price of the Certificates and the Bank's ability to perform its obligations in respect thereof. See also "*Risk Factors – The Bank's business is located in a region that has been subject to ongoing political and security concerns*".

The Bank is located in a region that has been subject to ongoing political and security concerns

Since 2010, there has been political unrest in a range of countries in or proximate to the MENA region, including Syria, Iraq, Egypt, Turkey, Bahrain, Algeria, Libya, Iran, Lebanon, Jordan, Palestine, Tunisia, Somalia, Sudan and Yemen. This unrest, which has ranged from public demonstrations to, in extreme cases, armed conflict and civil war, has led to the collapse of political regimes in Tunisia, Egypt and Libya, civil war in Syria and armed insurrection in Iraq and Yemen. It has also given rise to significantly increased political uncertainty across the region. This situation has caused significant disruption to the economies of affected countries and has had a destabilising effect on international oil and gas prices.

Other potential sources of instability in the region include the ongoing security situation in Iraq and Syria, the ongoing civil war in Yemen and an escalation in the Israeli-Palestinian conflict. There has also been an escalation of tension between Iran and a number of western governments following the United States' withdrawal from the Joint Comprehensive Plan of Action and the decision of Iran to resume uranium enrichment activities. A further

deterioration, and possible conflict, between the United States and certain governments in the MENA region, such as Iran or Syria, has the potential to adversely affect regional security, as well as global oil and gas prices. Such a deterioration in relations, should it materialise, could adversely impact Bahrain and broader regional security, potentially including the outbreak of a regional conflict.

In June 2017, three GCC member states, namely the Kingdom of Saudi Arabia, the UAE and Bahrain, together with other states in the MENA region, such as Egypt, cut diplomatic, economic and transport ties with Qatar. Each of the four countries subsequently announced sanctions on groups and people accused of having Islamist military ties, many of them Qataris or with links to Qatar. Saudi Arabia has also closed its land border with Qatar whilst the UAE has ceased to trans-ship goods from Dubai to Qatar. Kuwait and Oman, the remaining two member states of the GCC, have maintained ties with Qatar. There can be no assurance as to when diplomatic, economic or transport ties will be restored with Qatar. It is also not currently possible to predict the outcome of this dispute or its impact on the Bank.

Wars, acts of terrorism and uncertain political or economic prospects or instability in Bahrain or the wider MENA region may adversely impact regional financial markets and the Bank's business. Renewed protests in the MENA region could lead to significant political uncertainties in a number of countries. Financial market and political uncertainty in the MENA region could decrease the Bank's customer deposits or its customers' demand for loans or other products offered by the Bank. These factors could result in decreased asset values and increased provisions for the Bank. Such instability could also negatively affect the value of the Bank's investments in affected countries. Any of the above factors could have a material adverse effect on the Bank's business, results of operations, financial condition, liquidity and prospects and thereby affect the Bank's ability to make payments in respect of the Certificates.

RISKS RELATING TO THE CERTIFICATES

Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or converted into Ordinary Shares (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined in the Conditions) occurs, the Certificates will be cancelled (in the case of a Conversion in whole) or converted in part on a *pro rata* basis (in the case of a Conversion in part) by the Trustee in accordance with the Conditions and the Conversion Rules and Procedures and all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Bank Event (as defined in the Conditions)) shall, as the case may be, be cancelled or converted *pro rata* among the Certificateholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Bank should absorb losses prior to the Certificates, a Conversion in full or in part of the Certificates could occur prior to the ordinary shares of the Bank absorbing losses in full. A Conversion shall not constitute a Dissolution Event. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 11 (*Conversion at the Point of Non-Viability*) has not been tested in Bahrain and therefore some degree of uncertainty may exist in its application.

In addition, the realisable value of any shares received by investors pursuant to such Conversion could be substantially lower than the price paid for the Certificates at the time of their purchase. Investors may find it difficult to sell any such shares received pursuant to a Conversion, as the Conversion will have been triggered due to a Non-Viability Event being confirmed by the Central Bank, and this could lead to the Certificateholders losing some or all of their investment in the Certificates.

Furthermore, the market price of the ordinary shares may decline further during the period between the determination of the Conversion Price and the date a Certificateholder actually receives the ordinary shares pursuant to a Conversion (see Condition 22 (*Conversion Rules and Procedures*) for further information). No compensation will be payable to

Certificateholders for any losses suffered as a result of the Conversion, including any losses suffered due to any decline in the market price of such shares after the Conversion Price has been determined.

Upon receipt of a Non-Viability Notice, Certificateholders will have to submit a Settlement Notice to the Bank in order to receive delivery of the ordinary shares pursuant to the Conversion. The Settlement Notice must be in the form attached to the Non-Viability Notice, and must contain certain specified information. Neither the Issuer nor the Bank shall be liable to any Certificateholder for any loss resulting from such Certificateholder not receiving any ordinary shares or from any delay in the receipt thereof, in each case as a result of such Certificateholder failing to duly submit a valid Settlement Notice on a timely basis or at all.

The circumstances triggering a Conversion are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Central Bank (as defined in the Conditions). As a result, the Central Bank may require a Conversion in circumstances that are beyond the control of the Bank and with which the Bank may not agree. See "*Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit will be cancelled or converted into Ordinary Shares (in whole or in part) upon the occurrence of a Non-Viability Event*". The exercise (or perceived likelihood of exercise) of any such power by the Central Bank or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the Certificateholders losing some or all of their investment in the Certificates.

The financial viability of the Bank would also depend in part on decisions made by the Bank in relation to its business and operations, including the management of its capital position. In making such decisions, the Bank will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Bank, its shareholders and the Central Bank will be aligned with those of the Certificateholders.

The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations

Payments of Periodic Distribution Amounts will be made by the Trustee, provided that the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of the Bank under the Mudaraba Agreement rank subordinate to all Senior Obligations (as defined in the Conditions), rank *pari passu* with the Pari Passu Obligations (as defined in the Conditions) and rank in priority to all Junior Obligations, as more particularly described in Condition 4.2 (*Subordination*).

Further, the payment obligations of the Bank under the Mudaraba Agreement are unsecured and no collateral is or will be given by the Bank in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Certificates and *pari passu* with creditors whose claims are in respect of the Pari Passu Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full.

The Bank is not restricted from issuing pari passu securities

Other than the limitations in relation to the incurrence of further Parri Passu Obligations by the Bank set out in Condition 4.3 (*Other Issues*), there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating

any guarantee or contractual support arrangement which would rank pari passu to the Certificates and the obligations of the Bank under the Mudaraba Agreement. The issue of or the creation of any such Pari Passu Obligations may reduce the amount recoverable by Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also "*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Bank may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date as more particularly provided in Condition 8.1(ii) (*Non-Payment Event*), for any commercially valid reason (acting reasonably).

In addition, if sufficient Distributable Funds are not available in order to permit the Bank to make the relevant payment, the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit as applicable on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date, as more particularly provided in Condition 8.1 (*Non-Payment Event*).

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Event then, from the date of such Non-Payment Event, the Bank will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities, in each case for a limited period of time, as more particularly described in Condition 8.3 (*Dividend and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. Any Periodic Distribution Amounts not paid following a Non-Payment Event will not accumulate or compound. Accordingly, the Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

The Certificates are Perpetual Securities

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Bank Events and Certificateholders' rights following a Bank Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to:

- (a) Bank Events (being:
 - (i) a default by the Mudareb for a period of seven days or more in the payment of any principal or 14 days or more in the payment of any profit amount due and payable by it under the Mudaraba

Agreement (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event);

- (ii) a final determination is made by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts;
 - (iii) (A) there is a compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law or (B) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; and
- (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on or after the First Call Date and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 10 (*Redemption*), although there is no assurance that the Bank will require it to do so. Any such redemption will also be subject to a number of conditions, as set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*).

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

- (a) the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption*);
- (b) the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or
- (c) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

The Certificates will cease to accrue profit from the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.2 (*Cessation of Accrual*).

Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited Dissolution Events and remedies

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (*Trustee's Call Option*), a redemption in accordance with Condition 10.1(c) (*Redemption due to Taxation*), a redemption in accordance with Condition 10.1(d) (*Redemption for Capital Event*) or following the occurrence of a Bank Event in accordance with Condition 12.1 (*Bank Events*). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any Bank Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at the applicable Dissolution Distribution Amount together with any Outstanding Payments (as defined in the Conditions) and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank and/or (ii) proving in the winding-up of the Bank and/or (iii) claiming in the liquidation of the Bank and/or (iv) taking such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to paragraphs (i) to (iii) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*Bank Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders) will be (subject to Condition 12.3 (*Winding-up, dissolution or liquidation*)) against the Bank to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3 (*The Trust*), the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders

against the Trustee and the Bank shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)) to enforce their respective obligations under the Transaction Documents.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*The Certificates are Perpetual Securities*"), are subordinated (see "*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be fully and permanently converted upon the occurrence of a Non-Viability Event (see "*Certificateholders' right to receive payment of the face amount of the Certificates and the Certificateholders' right to any profit may be cancelled or converted into Ordinary Shares (in whole or in part) upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "*Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

As at the date of these Admission Particulars, the Manager holds all Certificates. The Manager is the Bank's parent company and has a shareholding of 55.41 per cent. in the Bank (via KHCB Asset Company). The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, the Manager or any other shareholder or related party of the Bank adopts a buy and hold strategy in respect of the Certificates.

Application has been made for the Certificates to be admitted to trading on the ISM. However, there can be no assurance that any such admission to trading will occur or that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemption is conditional

Upon the occurrence of a Tax Event or a Capital Event, the Bank may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, at any time, having given not less than 30 prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall specify the date fixed for redemption), redeem in accordance with the Conditions all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*), including obtaining the prior approval of the Central Bank. There can be no guarantee that the approval of the Central Bank will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Bank may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the relevant redemption amount payable in respect of the Certificates. Potential investors should consider re-investment risk in light of other investments available at that time.

The exercise of (or perceived likelihood of exercise of) the redemption features of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

It is unclear whether the provisions of the Commercial Companies Law No. 21 of 2001 (as amended) which refer to “convertible bonds” apply to the Certificates; the Bank may need to obtain further approvals prior to any Conversion

The Certificates include terms and conditions that allow for the exchange of the Certificates for Ordinary Shares in the Bank upon the occurrence of a Non-Viability Event (in accordance with Condition 11 (*Conversion at the Point of Non-Viability*)). However, this is the only circumstance in which the Certificates may be exchanged for the Ordinary Shares of the Bank. The Certificates do not automatically convert into Ordinary Shares of the Bank on a particular predetermined date and neither the Bank nor the holders of the Certificates have an option to require an exchange of the Certificates into Ordinary Shares of the Bank at any other time. On the basis of legal advice received by the Bank, the Bank believes that the provisions of the Commercial Companies Law No. 21 of 2001 (as amended) (the CCL) which refer to “convertible bonds” will not apply to the Certificates. However, given the limited precedents and guidance on this matter (in particular, in the context of a security where an equity conversion feature is included solely to achieve additional tier 1 regulatory capital treatment for the Bank), it is unclear whether, as a result of such Conversion feature being included in the terms and conditions of the Certificates, a court in Bahrain would take a different view and find that such provisions of the CCL do apply to the Certificates.

If such provisions do apply, then: (i) the Conversion may not have been duly authorised and approved by the shareholders of the Bank as required by Article 149 of the CCL, as the shareholders' resolution which considered and approved the issuance of the Certificates did not explicitly reference the Conversion; and (ii) the Certificates have not been offered to all shareholders of the Bank in accordance with the requirements of Article 150 of the CCL, which provides that an issuer's shareholders shall have the priority right to subscribe for convertible bonds. The consequence of the breach of either Article 149 (as described in (i) above) or Article 150 (as described in (ii) above), may entitle any shareholder of the Bank, in addition to any rights that such shareholders may have against the directors of the Bank, to: (i) bring an action in a competent court of Bahrain against the Bank for compensation for any losses suffered as a result of not having been offered the right to subscribe for the Certificates (including the right to receive the Ordinary Shares following the Conversion); and/or (ii) prevent the Conversion. In addition, shareholders who do not approve the waiver of the priority rights and who are eligible to participate in the offering of the Certificates, could bring a claim against any other shareholder who, at the time of such action, is also a Certificateholder and, at the time of their purchase, was aware of the possible breach of Article 150 of the CCL, whereby such Certificateholder may be required to transfer the relevant proportion of the Certificates to such shareholder, for such consideration as may be determined by the court, although the prospects of any such action being successful are expected to be remote. Even if such an action is successful, there is no basis to conclude that the shareholders will be able to successfully challenge the legality or validity of the issuance of the Certificates or any term of the Certificates or Transaction Documents, except as described in this paragraph. However, given that these matters have not yet been considered by the courts of Bahrain, there is no certainty that the approach that the courts of Bahrain will take will conform with the views expressed in this risk factor.

Furthermore, even if shareholder approval is not required or not obtained in accordance with Article 149 as described above, prior to any issue of Ordinary Shares by the Bank pursuant to the Conversion, the Bank may be required to obtain the approval of its shareholders to issue such Ordinary Shares pursuant to Articles 125 and 210 of the CCL, in addition to any regulatory approvals that may be required. It is unclear what the consequences might be in a situation where the Bank fails to obtain such shareholder or other regulatory approval to issue the Ordinary Shares pursuant to a Conversion after a Non-Viability Event has occurred.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the **Mudaraba Capital**). The Mudaraba Capital will be co-mingled with shareholders equity and invested by the Bank (as Mudareb), on an unrestricted co-mingling Mudaraba basis, in its general business activities carried out through the General Mudaraba Pool (as defined in the Conditions) and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**).

with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see "*Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*") materialise or otherwise impact the Bank's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease, which may, in turn, have a material adverse effect on the Bank's ability to fulfil its payment obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

Credit ratings assigned to the Bank may not reflect all the risks associated with an investment in the Certificates.

One or more independent credit rating agencies may assign credit ratings to the Bank. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of these Admission Particulars.

ADDITIONAL RISK FACTORS

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to Shari'a rules

The Shari'a Supervisory Board of the Bank have confirmed that the transaction structure relating to the Certificates (as described in these Admission Particulars) and the Transaction Documents are, in their view, in compliance with Shari'a principles. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents, or the Manager makes any representation as to the *Shari'a*-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Prospective investors should obtain their own independent *Shari'a* advice as to whether the Transaction Documents and the Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the *Shari'a* permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would be, if in dispute, the subject of arbitration in London under the LCIA Rules. The Bank has also agreed under the Transaction Documents to submit to the exclusive jurisdiction of the courts of England, at the option of the Trustee or the Delegate, as the case may be. In such circumstances, the arbitrator or judge, as the case may be, will first apply English law rather than Shari'a principles in determining the obligation of the parties.

Shari'a requirements in relation to interest awarded by a court

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a minimum denomination consisting of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, it is possible that the Certificates may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than U.S.\$200,000 would need to purchase an additional amount of Certificates with a face value of U.S.\$200,000 or more such that it holds an amount equal to at least U.S.\$200,000 to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than U.S.\$200,000 in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 50 per cent. in face amount of the Certificates then outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee, the Bank and the Delegate will be entitled to rely upon:

- (a) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Bank or the Delegate given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 50 per cent. in face amount of the Certificates for the time being outstanding; and
- (b) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (*Trustee Events*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to make any modification to the Declaration of Trust if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in U.S. dollars. If the Certificateholders measure their investment returns by reference to a currency other than U.S. dollars (the **Investor's Currency**), an investment in the Certificates will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the U.S. dollar, as applicable, relative to the Investor's Currency because of economic, political and other factors over which the Trustee has no control and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. Depreciation of the U.S. dollar, as applicable, against the Investor's Currency could cause a decrease in the effective yield of the Certificates below their stated Periodic Distribution Amount and could result in a loss to the Certificateholders when the return on the Certificates is translated into the Investor's Currency. Investment in the Certificates may also have important tax consequences as a result of any foreign exchange currency gains or losses.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive lesser amounts under the Certificates than expected, or no such amounts.

RISKS RELATING TO ENFORCEMENT

The insolvency regime in Bahrain is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Bahrain

In the event of the Bank's insolvency, Bahraini bankruptcy law will apply and such law may adversely affect the Bank's ability to perform its obligations under the Mudaraba Agreement, and obtaining a final bankruptcy judgment in Bahrain may take several years. There is little precedent to predict how any claims by holders of the Certificates against the Bank would be resolved in the event of the Bank's insolvency and therefore there can be no assurance that holders of the Certificates will receive payment of their claims in full or at all in these circumstances.

Enforcing arbitration awards and foreign judgments in Bahrain

The Transaction Documents, the Conditions, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Any dispute in relation to the Transaction Documents or the Conditions, and any non-contractual obligations arising out of or in connection with them, may be referred to arbitration in London, England under the London Court of International Arbitration Rules. Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). Any arbitration award rendered in London should therefore be enforceable in Bahrain in accordance with the terms of the New York Convention. Under the New York Convention, Bahrain has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Bahrain courts find that the subject matter of the dispute is not capable of settlement by arbitration under the laws of Bahrain or enforcement would be contrary to the public policy of Bahrain.

Under the Conditions, any such dispute may also be referred to the courts of England or any other courts with jurisdiction (who shall have non-exclusive jurisdiction to settle any dispute arising from such documents) if the

Certificateholder(s) require. In these circumstances, each party irrevocably agrees to submit to the non-exclusive jurisdiction of the courts of England.

Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Bank has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. Accordingly, there may be insufficient assets of the Bank to satisfy in whole or in part any judgement obtained from an English court relating to any amounts owing under the Certificates.

There is limited reciprocity between Bahrain and other countries in relation to the recognition and enforcement of judgments. Bahrain's courts may enforce a foreign court judgment without re-examining the merits of the claim, provided that:

- (a) such court enforces judgments and orders rendered in Bahrain;
- (b) the courts of Bahrain did not have jurisdiction in the matter in respect of which the order or judgment has been made and it was made by a foreign court of competent jurisdiction under the jurisdiction rules or laws applied by such court;
- (c) the parties had been served with due notice to attend and had been properly represented;
- (d) the judgment was final in accordance with the law of the court making it; and
- (e) the judgment did not conflict with any previous decision of the Bahrain courts and did not involve any conflict with public order or morality in Bahrain.

As there has been no reciprocity between England and Bahrain in relation to the recognition and enforcement of court judgments, the courts of Bahrain are unlikely to enforce an English court judgment without requesting that a fresh case be filed in the Bahrain courts which may result in the Bahrain courts re-examining the merits of the claim although the Bahrain courts may also accept the English court judgment as evidence of a debt. The choice by the parties of English law as the governing law of the transaction will be recognised by the courts of Bahrain provided that the provisions thereof are (i) proved, as a matter of evidence, by the party relying on it and (ii) not contrary to Bahraini public order and morality.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court. Although decisions rendered by the Court of Cassation do not have binding effect on lower courts, the present practice is for the lower courts to adhere to the precedents and principles laid down by the Court of Cassation. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court.

Claims for specific enforcement

In the event that the Trustee fails to perform its obligations under the Conditions, the potential remedies available to the Certificateholders include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Certificateholders to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Trustee to perform its obligations under the Conditions.

RISK FACTORS RELATING TO TAXATION

Taxation risks on payments

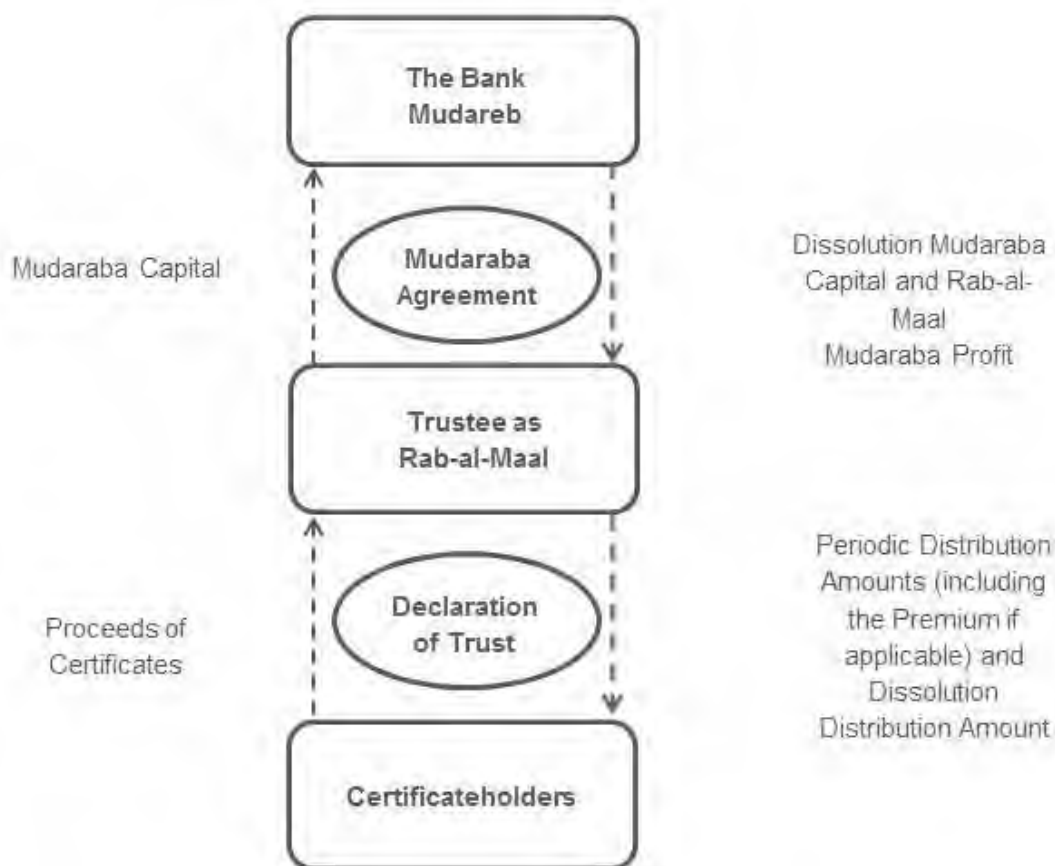
Payments made by the Bank to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires the Bank to pay additional amounts in the event that any withholding or deduction is required by Bahraini law to be made in respect of payments made by it to the Trustee under that document. Furthermore, Condition 13 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands therein in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, the Bank has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Delegate (for the benefit of the Certificateholders) such additional amounts as shall be necessary in order that the aggregate net amounts received by the Certificateholders and the Delegate for the benefit of the Certificateholders after all withholdings or deductions shall equal the amounts that would have been receivable in the absence of any such deduction or withholding.

The circumstances described above may entitle the Bank to be able to instruct the Trustee to redeem the Certificates pursuant to Condition 10.1(c) (*Redemption due to Taxation*). See "*The Certificates may be subject to early redemption; redemption is conditional*" for a description of the consequences thereof.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in these Admission Particulars. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in these Admission Particulars for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire document carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

STRUCTURE DIAGRAM



PRINCIPAL CASH FLOWS

Payments by the Certificateholder and the Trustee

On the Issue Date, the Certificateholder paid the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee declared a trust, in favour of the Certificateholders, over:

- the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);
- all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant

to any of the Transaction Documents and the covenant given to the Trustee by the Bank pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**).

The proceeds of the issuance of the Certificates were contributed by the Trustee (as Rab-al-Maal) to the Mudareb and formed the initial capital of the Mudaraba (the **Mudaraba Capital**) pursuant to the Mudaraba Agreement. The Mudaraba Capital was co-mingled with shareholders equity and invested, on an unrestricted co-mingling Mudaraba basis, by the Bank in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital constituted *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**).

Periodic payments by the Trustee

Unless a Non-Payment Event has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (90 per cent. to the Trustee (as Rab-al-Maal) and 10 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Rab-al Maal Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from a reserve account (the **Mudaraba Reserve**) or otherwise). If the Rab-al-Maal Mudaraba Profit payable to the Trustee (as Rab-al-Maal) on any Mudaraba Profit Distribution Date is greater than the then applicable Periodic Distribution Amount due to any Certificateholder on such date, the amount of any excess shall be credited to the Mudaraba Reserve.

Under the terms of the Mudaraba Agreement, the Mudareb is expressly entitled to co-mingle its assets with the General Mudaraba Pool assets.

Dissolution payments and redemption by the Trustee and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, the Bank (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

- (a) on or after the First Call Date, by giving not less than 30 days' prior notice to the Trustee; or
- (b) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 days' prior notice to the Trustee:
 - (i) upon the occurrence of a Tax Event; or
 - (ii) upon the occurrence of a Capital Event.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice redeem all of, but not only some of, the Certificates, in each case by giving not less than 30 days' prior notice

to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

OVERVIEW OF THE OFFERING

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of these Admission Particulars. Any decision to invest in the Certificates should be based on a consideration of these Admission Particulars as a whole.

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates	U.S.\$159,151,000 Additional Tier 1 Capital Certificates.
Trustee/Issuer	KHCB Tier 1 Sukuk Limited, a special purpose company incorporated with limited liability on 8 April 2020 under the laws of the Cayman Islands with incorporation number WC-361802 with its registered office at Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands.
Trustee/Issuer Legal Entity Identifier (LEI)	5493005B2CY35YB86E19.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 ordinary shares of U.S.\$1.00 each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by Walkers Fiduciary Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee	The affairs of the Trustee are managed by Walkers Fiduciary Limited (the Trustee Administrator), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 29 July 2020 between the Trustee Administrator and the Trustee (the Corporate Services Agreement). The Trustee Administrator's registered office is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands.
Mudareb/Bank	Khaleeji Commercial Bank BSC.
Rab-al-Maal	KHCB Tier 1 Sukuk Limited.
Risk Factors	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and the Bank's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under " <i>Risk Factors</i> ".
Manager	GFH Financial Group B.S.C.
Delegate	Citibank N.A., London Branch. Pursuant to the Declaration of Trust, the Trustee has delegated to the Delegate certain of the present and future powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to

(and, in certain circumstances, shall, subject to being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or the Bank following a Bank Event.

Principal Paying Agent, Transfer Agent and Calculation Agent

Citibank N.A., London Branch.

Registrar

Citigroup Global Markets Europe AG.

Summary of the transaction structure and Transaction Documents

An overview of the structure of the transaction and the principal cash flows is set out under "*Structure Diagram and Cash Flows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".

Issue Date

29 July 2020.

Issue Price

100 per cent. of the aggregate principal amount of the Certificates.

Periodic Distribution Dates

20 June and 20 December every year, commencing on 20 December 2020.

Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date at a rate of 10 per cent. per annum.

If a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*). In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and the Certificateholders will have no right to receive such distributions at any time, even if other distributions are paid in the future.

Form of Certificates

The Certificates have been issued in registered form as described in "*Global Certificate*". The Certificates are represented by ownership interests in the Global Certificate, which is deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.

Clearance and Settlement

Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream,

Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

Denomination of the Certificates

The Certificates are issued in registered form in nominal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Status of the Certificates

Each Certificate represents an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and ranks *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The Relevant Obligations will (a) constitute Additional Tier 1 Capital of the Bank, (b) constitute direct, unsecured, unconditional and subordinated obligations of the Bank, (c) rank subordinate to all Senior Obligations (as defined in the Conditions), (d) rank *pari passu* with all other *Pari Passu* Obligations (as defined in the Conditions) and (e) rank in priority to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Trust Assets

The Trust Assets consist of:

- (a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, by the Trustee (but only upon the instructions of the Bank (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee may (but only upon the instructions of the Bank (acting in its sole

discretion)), on or after the First Call Date, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed in accordance with Conditions 10.1(c) (*Redemption due to Taxation*) and 10.1(d) (*Redemption for Capital Event*).

Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption*).

Conversion at the Point of Non-Viability

If a Non-Viability Event (as defined in the Conditions) occurs, a Conversion (as defined herein) shall occur on the relevant Non-Viability Event Conversion Date (as defined herein), as more particularly described in Condition 11 (*Conversion at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Conversion in whole) or converted in part on a *pro rata* basis (in the case of a Conversion in part) in the same manner as the Certificates, by the Trustee in accordance with the Conversion Rules and Procedures. See Condition 11 (*Conversion at the Point of Non-Viability*).

Dissolution Events

Subject to Condition 12 (*Dissolution Events and Winding-up*), if a Bank Event occurs and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1 (*Bank Events*), the Trustee and/or the Delegate shall, subject to Condition 12.3 (*Winding-up, dissolution or liquidation*), take the actions referred to therein.

Withholding Tax

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto.

In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction, for and on account of, any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Notwithstanding any other provision of the Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto (**FATCA withholding**). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

Trustee Covenants

The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).

Ratings

The Bank has been assigned a long-term local currency deposit rating of B3 (with a stable outlook), long-term foreign currency deposit rating of B3 (with a stable outlook) and baseline credit assessment (**BCA**) at caa1 (with a stable outlook) by Moody's.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).

The Certificates are not be rated by any rating organisation.

Certificateholder Meetings

A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).

Tax Considerations

See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Listing and Admission to Trading

Application has been made to the London Stock Exchange for the Certificates to be admitted to trading on the ISM.

Transaction Documents

The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement (and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto) are referred to herein as the **Transaction Documents**.

Governing Law

The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement, the Mudaraba Agreement and any non-contractual

obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.

The Corporate Services Agreement and the Share Declaration of Trust and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates.

If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.

Selling Restrictions

There are restrictions on the distribution of these Admission Particulars and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Kuwait, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar, Japan, Hong Kong, Malaysia, Singapore and Switzerland. See "*Subscription and Sale*".

Use of Proceeds

The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba

Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

TERMS AND CONDITIONS

Central Bank of Bahrain Notice: *This offer is a private placement. It is not subject to all of the regulations of the Central Bank of Bahrain that apply to public offerings of securities. This document is therefore intended only for “Accredited Investors” as defined in the Central Bank of Bahrain Rulebook. The Certificates offered by way of private placement may only be offered in minimum subscriptions of \$200,000 (or equivalent in other currencies). The Central Bank of Bahrain assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this document. The Board of Directors and the management of the Bank accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Board of Directors and the management, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the reliability of such information.*

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – *The Certificates (as defined below) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA) or in the United Kingdom (the UK). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); (ii) or a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the PRIIPs Regulation) for offering or selling the Certificates or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.*

MIFID II product governance / Professional investors and ECPs only target market – *Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a distributor) should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.*

TERMS AND CONDITIONS OF THE ADDITIONAL TIER 1 CAPITAL CERTIFICATES

The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in “Global Certificate”, apply to the Global Certificate:

KHCB Tier 1 Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**, acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Additional Tier 1 Capital Certificates (the **Certificates**) in an aggregate face amount of U.S.\$159,151,000. The Certificates are constituted by a declaration of trust (the **Declaration of Trust**) dated 29 July 2020 (the **Issue Date**) made between the Trustee, Khaleeji Commercial Bank BSC (the **Bank**) and Citibank N.A., London Branch as the delegate of the Trustee (the **Delegate**, which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Trustee, the Bank, the Delegate, Citibank N.A., London Branch as principal paying

agent (in such capacity, the **Principal Paying Agent** and together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), as transfer agent (in such capacity, the **Transfer Agent** and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**) and Citigroup Global Markets Europe AG as registrar (in such capacity, the **Registrar**). The Paying Agents, the Transfer Agents and the Registrar are together referred to in these terms and conditions (the **Conditions**) as the **Agents**. References to the “Agents” or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

*The owners shown in the records of Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**) of book-entry interests in Certificates are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them.*

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al-Maal (as defined in Condition 5) pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

Additional Amounts has the meaning given to it in Condition 13 (*Taxation*);

Additional Tier 1 Capital means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Central Bank as, additional tier 1 capital in accordance with the Capital Regulations;

Applicable Regulatory Capital Requirements means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

Authorised Denomination has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

Authorised Signatory means any person who: (a) holds the office of the Chief Executive Officer of the Bank from time to time; or (b) is duly authorised by the Bank to sign documents on its behalf;

Bahrain means the Kingdom of Bahrain;

Bank Event means:

- (i) **Non-payment**: the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of (in the case of principal) seven days or (in the case of profit) 14 days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event); or
- (ii) **Insolvency**: a final determination is made by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts (which shall be deemed to include any debt or other financing

arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by the Bank); or

- (iii) **Winding-up:** (A) there is a compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law or (B) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (iv) **Analogous Event:** any event occurs which under the laws of Bahrain has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above;

Basel III Documents means the Basel Committee on Banking Supervision document “*A global regulatory framework for more resilient banks and banking systems*” released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document “*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*” on 13 January 2011;

Business Day means a day, other than a Friday, Saturday, Sunday or public holiday, on which commercial banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City, London and Manama, Bahrain;

Capital Event is deemed to have occurred if the Bank is notified in writing by the Central Bank to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the Additional Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

Capital Event Amount means, in relation to a Certificate, 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Capital Event Profit Amount means, on the date of final constructive liquidation of the Mudaraba pursuant to subclause 7.5(c) of the Mudaraba Agreement, an amount equal to 1 per cent. of the Mudaraba Capital on such date;

Capital Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy for Islamic banks then in effect in Bahrain, including those of the Central Bank and, as at 29 July 2020, includes the module of the Central Bank of Bahrain Rulebook Volume 2 (Islamic Banks) entitled ‘Business Standards – CA Capital Adequacy’;

Central Bank means the Central Bank of Bahrain, which is empowered to issue binding Regulations, Resolutions and/or Directives under Articles 37 and 38 of the Financial Institutions Law, or any successor thereto

Certificateholder means a person in whose name a Certificate is registered in the Register (or, in the case of joint Certificateholders, the first named thereof) and the expressions **holder** and **holder of Certificates** and related expressions shall (where appropriate) be construed accordingly;

Code means the U.S. Internal Revenue Code of 1986, as amended;

Common Equity Tier 1 Capital means capital of the Bank qualifying as, and approved by the Central Bank as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

Conversion means:

- (i) the exchange in whole or in part (as determined by the Bank in consultation with the Central Bank or as the Central Bank may, in its sole discretion, direct) of the Certificates (together with any amounts due and payable under such Certificates) into Ordinary Shares, calculated on the basis of the Conversion Formula;
- (ii) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Conversion in whole) or converted in part (in the case of a Conversion in part) in the same manner as the Certificates; and
- (iii) all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or converted in part and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Conversion Date and even if the Non-Viability Event has ceased;

Conversion Formula means (i) the aggregate of (a) the outstanding face amount of the Certificates; and (b) the Outstanding Payments; divided by (ii) the Conversion Price;

Conversion Price means the amount, in U.S. dollars (after conversion) per Ordinary Share, as determined by the Bank based on the higher of (i) the market price of an Ordinary Share; (ii) the book value of an Ordinary Share; and (iii) the value of an Ordinary Share as determined by an independent appraiser appointed by the Bank;

Conversion Rules and Procedures means the terms and conditions set out in Condition 22 (*Conversion Rules and Procedures*);

Day-count Fraction means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls based on a month of 30 days);

Dispute has the meaning given to it in Condition 21.2 (*Arbitration*);

Dissolution Distribution Amount means the Trustee Call Amount, the Capital Event Amount or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

Dissolution Event means a Bank Event and/or a Trustee Event;

Dissolution Notice has the meaning given to it in Condition 12.1 (*Bank Events*);

Dissolution Request has the meaning given to it in Condition 12.1 (*Bank Events*);

Distributable Funds means, subject as otherwise defined in, and/or interpreted in accordance with, the Capital Regulations, the aggregate of the Bank's (a) distributable profits; and (b) distributable consolidated retained earnings (if greater than zero) and distributable reserves, in each case as set out in the most recent annual audited consolidated financial statements or (as the case may be) auditor reviewed interim consolidated financial statements of the Bank less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to such annual audited or (as the case may be) auditor reviewed interim consolidated financial statements;

Extraordinary Resolution has the meaning given to it in the Declaration of Trust;

Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Financial Institutions Law means The Central Bank of Bahrain and Financial Institutions Law, promulgated by Law No. 64/2006 (as amended);

First Call Date means 29 July 2025;

First Mudaraba Profit Distribution Date means 20 December 2020;

General Mudaraba Pool has the meaning given to it in the Mudaraba Agreement;

Junior Obligations means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its other Common Equity Tier 1 Capital and any other subordinated payment obligations of the Bank which rank, or are expressed to rank, junior to the Relevant Obligations;

LCIA means the London Court of International Arbitration;

Mudaraba has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Agreement has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Assets has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Capital has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba End Date means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

Mudaraba Profit has the meaning given to that term in the Mudaraba Agreement;

Mudaraba Profit Distribution Date means 20 June and 20 December in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

Mudaraba Reserve has the meaning given to it in the Mudaraba Agreement;

Mudareb has the meaning given to it in Condition 5 (*The Trust*);

Non-Payment Event has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

Non-Viability Event means that the Central Bank has notified the Bank in writing that it has determined that the Bank is, or will become, Non-Viable without :

- (i) a Conversion; or
- (ii) a public sector injection of capital (or equivalent support);

Non-Viability Event Conversion Date shall be the date on which the Conversion will take place as specified in the Non-Viability Notice, which date shall be no later than 30 Business Days (or such earlier date as determined by the Central Bank) after the date of the Non-Viability Notice;

Non-Viability Notice has the meaning given to it in Condition 11.2 (*Non-Viability Notice*);

Non-Viable means (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business, or (b) any other event or circumstance occurs which is specified as constituting non-viability by the Central Bank or in the applicable banking regulations;

Ordinary Shares means the ordinary shares of the Bank;

Outstanding Payments means, in relation to any amounts payable on redemption of the Certificates or for the purposes of the Conversion Formula, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs up to the date of redemption or, as the case may be, the Non-Viability Event Conversion Date plus Additional Amounts thereon, if any, and, if the Certificates are redeemed following a Capital Event, shall include a further profit amount in an amount equal to the Capital Event Profit Amount;

Pari Passu Obligations means all subordinated payment obligations of the Bank which rank, or are expressed by their terms to rank, *pari passu* with the Relevant Obligations;

Payment Business Day has the meaning given to it in Condition 9.3 (*Payment only on a Payment Business Day*);

Periodic Distribution Amount has the meaning given to it in Condition 7.1 (*Periodic Distribution Amounts*);

Periodic Distribution Date means 20 June and 20 December in each year, starting on (and including) 20 December 2020;

Periodic Distribution Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

Periodic Distribution Rate has the meaning given to it in Condition 7.3(a) (*Periodic Distribution Rate*);

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Potential Dissolution Event means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

Proceedings has the meaning given to it in Condition 21.5 (*Effect of Exercise of Option to Litigate*);

Profit Rate has the meaning given to it in Condition 7.3(a) (*Periodic Distribution Rate*);

Rab-al-Maal has the meaning given to it in Condition 5 (*The Trust*);

Rab-al-Maal Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Rab-al-Maal Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Record Date means, in the case of the payment of a Periodic Distribution Amount, the date falling on the 15th day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

Register has the meaning given to it in Condition 2.1 (*Form and Denomination*);

Registered Account has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

Relevant Date in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

Relevant Jurisdiction means each of the Cayman Islands and Bahrain or, in each case, any political subdivision or any authority thereof or therein having power to tax to which payments made by the Trustee or the Bank in connection with the Certificates become generally subject;

Relevant Obligations has the meaning given to it in Condition 4.2 (*Subordination*);

Rules has the meaning given to it in Condition 21.2 (*Arbitration*);

Senior Creditors means creditors of the Bank (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, the Bank which ranks senior to the claims of the Trustee in respect of the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

Senior Obligations means all unsubordinated payment obligations of the Bank including depositors and all subordinated payment obligations (if any) of the Bank except Junior Obligations and Pari Passu Obligations;

Subsidiary means, in relation to any Person (the **first person**) at any particular time, any other Person (the **second person**) whose affairs and policies the first person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise;

Substituted Territory has the meaning given to it in Condition 12.2 (*Trustee Events*);

Substituted Trustee has the meaning given to it in Condition 12.2 (*Trustee Events*);

Taxes has the meaning given to it in Condition 13 (*Taxation*);

Tax Event means the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of the Bank (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred), be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

Tax Law Change means any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 29 July 2020);

Tax Redemption Amount, in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Transaction Account has the meaning given to it in Condition 5 (*The Trust*);

Transaction Documents means each of the Declaration of Trust, the Agency Agreement and the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

Trust Assets has the meaning given to it in Condition 5 (*The Trust*);

Trustee Call Amount, in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Trustee Event means any of the following events:

- (i) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or
- (ii) **Insolvency**: a final determination is made by a court or other official body that the Trustee is insolvent or bankrupt or unable to pay its debts in relation to the Certificates; or
- (iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee or the Trustee applies or petitions for a winding-up or administration order in respect of itself except, in each case, (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (iv) **Analogous Event**: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (ii) above.

For the purpose of subparagraph (i) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.3 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply

with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event);

Trustee's Territory has the meaning given to it in Condition 12.2 (*Trustee Events*); and

U.S. means the United States of America.

All references in these Conditions to **U.S. dollars**, **U.S.\$** and **\$** are to the lawful currency of the U.S.

2 Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an **Authorised Denomination**). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the **Register**).

Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered Certificateholder will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered Certificateholder will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office

of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located. Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4 Status, Subordination and Limited Recourse

4.1 Status

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

- 4.2.1 The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will (a) constitute Additional Tier 1 Capital of the Bank, (b) constitute direct, unsecured, unconditional and subordinated obligations of the Bank, (b) rank subordinate to all Senior Obligations, (c) rank *pari passu* with all Pari Passu Obligations and (d) rank in priority only to all Junior Obligations.
- 4.2.2 In the event of any winding-up or liquidation of the Bank including, without limitation, any compulsory liquidation of the Bank pursuant to Article 145 of the Financial Institutions Law, for the purposes of Article 156 of the Financial Institutions Law, the Relevant Obligations shall rank subordinate to all Senior Obligations but *pari passu* with all Pari Passu Obligations and in priority to all other Junior Obligations.
- 4.2.3 The Trustee or the Delegate may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other

Transaction Document in the manner provided in Condition 12.3 (*Winding-up, Dissolution or Liquidation*).

- 4.2.4 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by the Bank for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Bank shall not secure the Relevant Obligations.
- 4.2.5 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

4.3 Other Issues

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) *pari passu* or senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains; and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;
- (b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;
- (c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;
- (d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had in respect of, and no Certificateholder will have any claim for, the payment of any amount (including any fee, indemnity or other amount) due and owing hereunder or under any Transaction Document, or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;

- (e) it will not petition for, institute or join with any other person in instituting proceedings for the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall described in paragraph (d) of this Condition 4.4 or otherwise;
- (f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their negligence, wilful misconduct, default or actual fraud; and
- (g) the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

5 The Trust

5.1 The Mudaraba Agreement

KHCB Tier 1 Sukuk Limited (in its capacity as Trustee and as the Rab-al-Maal) will enter into a mudaraba agreement (the **Mudaraba Agreement**) to be dated the Issue Date with the Bank (in such capacity, the **Mudareb**). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (*Purchase*) (the **Mudaraba Capital**). The Mudareb will invest the Mudaraba Capital on an unrestricted co-mingling basis in its general business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**) in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the **Mudaraba**).

The Trustee has opened a non-interest bearing transaction account in London (the **Transaction Account**) in its own name which shall be operated by the Principal Paying Agent on behalf of the Trustee and for the benefit of the Certificateholders, and into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will be required to open a new transaction account in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

5.2 The Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds:

- (a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of its rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**) upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

5.3 Order of Priority for Payments

On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

- (a) first (to the extent not previously paid), to the Delegate, any Agent and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (in accordance with the Declaration of Trust) or Agent (in accordance with the Agency Agreement);
- (b) second, in or towards reimbursement *pari passu* and rateably of any amounts paid by any Indemnifying Parties as contemplated by clause 11.8 of the Declaration of Trust together with any profit payable thereon;
- (c) third, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*; (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents and the Corporate Services Agreement in its capacity as trustee administrator and registered office provider;
- (d) fourth, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;
- (e) fifth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and
- (f) sixth, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank.

Any such residual amount shall be credited to the Mudaraba Reserve and the balance of amounts standing to the credit of the Mudaraba Reserve, after paying all amounts due to the Trustee pursuant to the Mudaraba Agreement, shall be paid to the Bank as an incentive fee.

6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

- (a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of *Shari'a* or otherwise) by granting or permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);
- (c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents as are required pursuant to Condition 10.1 (*Redemption*);
- (f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents;
 - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

The Bank has given certain undertakings in the Declaration of Trust in favour of the Trustee, who holds the benefit of such undertakings for the Certificateholders. Such undertakings include, in clause 10.1(g) of the Declaration of Trust, an obligation on the Bank to, subject to the provisions of these presents and the Conditions, at all times act in the best interests of the Certificateholders.

7 Periodic Distributions

7.1 Periodic Distribution Amounts

Subject to Conditions 4.2 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.2 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Conversion at the Point of Non-Viability*), the Trustee shall distribute to Certificateholders, *pro rata* to their respective holdings out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. Subject as provided in Condition 7.3 (*Periodic Distributions*), the **Periodic Distribution Amount** payable on (i) the first Periodic Distribution Date, being 20 December 2020, shall be U.S.\$39.17 per U.S.\$1,000 in face amount of the Certificates; and (ii) each Periodic Distribution Date other than the first Periodic Distribution Date, shall be U.S.\$50 per U.S.\$1,000 in face amount of the Certificates.

7.2 Cessation of Accrual

Subject to Conditions 4.2 (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Conversion at the Point of Non-Viability*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

7.3 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future. Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the **Relevant Period**) (including, without limitation, in connection with the payment of any Outstanding Payments on redemption of the Certificates), it shall be calculated as an amount equal to the product of: (a) the Profit Rate; (b) the face amount of the relevant Certificates; and (c) the Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) Periodic Distribution Rate

The Certificates are perpetual securities and for so long as the Certificates are outstanding, the Certificates will bear profit at the rate of 10 per cent. per annum (the **Profit Rate**).

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.3 (*Periodic Distributions*), if any of the following events occur (each a **Non-Payment Event**), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay all or, as the case may be, part of the Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

- (i) to the extent that the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the **Relevant Rab-al-Maal Mudaraba Profit Amount**), when aggregated with any other distributions payable by the Bank (in its capacity as Mudareb or otherwise) in respect of any *Pari Passu* Obligations on the same date as payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (such other distributions,

the **Other Amount**) exceeds, on such date, Distributable Funds, *provided that* if the Distributable Funds are sufficient to pay some, but not all, of the Relevant Rab-al-Maal Mudaraba Profit Amount and the Other Amount, the Bank shall pay such part of the Relevant Rab-al-Maal Mudaraba Profit Amount and the Other Amount, on a *pro rata* basis, as can be paid from the Distributable Funds; or

- (ii) the Bank, following a determination and resolution by the board of directors of the Bank elects that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, whether as a result of (a) the Bank being in breach of any Applicable Regulatory Capital Requirements, (b) any instruction from the Central Bank, (c) the commencement of a compulsory liquidation of the Bank or the appointment of an administrator, or (d) for any other commercially valid reason (acting reasonably).

8.2 Effect of Non-Payment Event

If a Non-Payment Event occurs, then the Bank shall no later than 30 calendar days prior to such event give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement and the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (*Notices*); and (ii) publish a notice on Bahrain Bourse (or any other exchange where the shares of the Bank are listed), in each case providing details of the Non-Payment Event and the reasons therefor, as the case may be. Any non-payment of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) (which shall be credited by the Bank to the Mudaraba Reserve). The Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts but, for the avoidance of doubt, any such unpaid profit shall continue to constitute part of the Mudaraba Assets.

8.3 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) (as the case may be), then, from the date of such Non-Payment Event (the **Dividend Stopper Date**), the Bank will not, so long as any of the Certificates are outstanding:

- (i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any class of shares issued by the Bank (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or
- (ii) declare or pay profit or any other distribution on any of its securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time; or
- (iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any class of shares issued by the Bank; or
- (iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time,

in each case unless or until (a) the next following payment of Rab-al-Maal Mudaraba Profit or (b) payment of the Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date, as the case may be, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9 Payments

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments subject to applicable laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's **Registered Account** means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 Payments subject to applicable laws

Payments in respect of Certificates are subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto.

9.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, **Payment Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.4 Agents

The names of the initial Agents are set out above. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity). Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (*Notices*).

10 Redemption

10.1 Redemption

(a) No Fixed Redemption Date and Conditions for Redemption

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Conversion at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) only have the right to redeem the Certificates in accordance with the following provisions of this Condition 10 (*Redemption*).

The redemption of the Certificates, in each case pursuant to this Condition 10 (*Redemption*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption*)):

- (i) (except to the extent that the Central Bank and/or the Capital Regulations no longer so requires) the Bank having obtained the prior approval of the Central Bank;
- (ii) (except to the extent that the Central Bank and/or the Capital Regulations no longer so requires) the requirement that both at the time when the relevant notice of redemption is given and immediately following any redemption, the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Central Bank); and
- (iii) (in the case of a redemption pursuant to Condition 10.1(c) (*Redemption due to Taxation*) or Condition 10.1(d) (*Redemption for Capital Event*) only) the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption is a change of law, published practice or regulation (including, in the case of Condition 10.1(d) (*Redemption for Capital Event*), Applicable Regulatory Capital Requirements) of Bahrain or, in the case of Condition 10.1(c) (*Redemption due to Taxation*), of a Relevant Jurisdiction or a change in the application or interpretation of such laws, published practices or regulations by any court or authority entitled to do so which change or amendment becomes, or would become, effective (or, in the case of application or interpretation, is announced) on or after the Issue Date.

If the Trustee (upon the instructions of the Bank (acting in its sole discretion)) gives a notice of redemption in accordance with this Condition 10 and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of redemption shall be automatically rescinded and shall be of no force and effect, the Certificates will not be redeemed on the scheduled date of redemption and instead a Conversion shall occur in accordance with Condition 11 (*Conversion at the Point of Non-Viability*).

Following the occurrence of a Non-Viability Event, the Trustee (upon the instructions of the Bank (acting in its sole discretion)) shall not be entitled to give a notice of redemption in accordance with Condition 10 (*Redemption*) prior to the Non-Viability Event Conversion Date.

(b) Trustee's Call Option

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*), the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall give not less than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of the Bank (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust no later than one Business Day prior to the redemption date specified in the initial notice, redeem all, but not some only, of the Certificates at the Trustee Call Amount and publish a notice specifying the same on the Bahrain Bourse (or any other exchange where the shares of the Bank are listed).

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on or after the First Call Date.

Prior to the delivery of any notice of redemption pursuant to this Condition 10.1(b) (*Trustee's Call Option*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Certificates pursuant to this

Condition 10.1(b) (*Trustee's Call Option*) (other than the notice to Certificateholders described in this Condition 10.1(b) (*Trustee's Call Option*)) have been satisfied (upon which the Delegate may rely without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

(c) Redemption due to Taxation

- (i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) and the provisions of this Condition 10.1(c) (*Redemption due to Taxation*), if a Tax Event occurs, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of the Bank (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust no later than one Business Day prior to the redemption date specified in the initial notice redeem all, but not some only, of the Certificates at the Tax Redemption Amount and publish a notice specifying the same on the Bahrain Bourse (or any other exchange where the shares of the Bank are listed). If the Bank does not instruct the Trustee to so redeem in respect of such Tax Event in accordance with this Condition 10.1(c)(i) (*Redemption due to Taxation*) then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Conversion at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates in accordance with the provisions of this Condition 10 (*Redemption*).
- (ii) Redemption of the Certificates of these Conditions and the terms of the Mudaraba Agreement, pursuant to this Condition 10.1(c) (*Redemption due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).
- (iii) Prior to the delivery of any notice of redemption pursuant to this Condition 10.1(c) (*Redemption due to Taxation*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) have been satisfied; and (B) a Tax Event has occurred. Such certificate and opinions shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c)(iii) (*Redemption due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate and opinions as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice and provided that it has not been revoked, the Trustee shall redeem the Certificates.

(d) Redemption for Capital Event

- (i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) and the provisions of this Condition 10.1(d) (*Redemption for Capital Event*), if a Capital Event occurs and is continuing, the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, and, provided that any such notice has not been revoked by the Trustee (upon the instructions of the Bank (acting in its sole discretion)) by giving notice of such revocation to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust no later than one Business Day prior to the redemption date specified in the initial notice, redeem all, but not some only, of the Certificates at the Capital Event Amount together with the Capital Event Profit Amount and publish a notice specifying the same on the Bahrain Bourse

(or any other exchange where the shares of the Bank are listed). If the Bank does not instruct the Trustee to so redeem in respect of such Capital Event in accordance with this Condition 10.1(d)(i) (*Redemption for Capital Event*), then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Conversion at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates in accordance with the provisions of this Condition 10 (*Redemption*).

- (ii) Redemption of the Certificates pursuant to this Condition 10.1(d) (*Redemption for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).
- (iii) At the same time as the delivery of any notice of redemption pursuant to this Condition 10.1(d) (*Redemption for Capital Event*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) have been satisfied; and (B) a Capital Event has occurred and is continuing as at the date of the certificate. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (*Redemption for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice and provided that it has not been revoked, the Trustee shall redeem the Certificates.

10.2 Purchase

Subject to the Bank (A) obtaining the prior written consent of the Central Bank (except to the extent that the Central Bank no longer so requires), and (B) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its Subsidiaries may, in those circumstances permitted by the Applicable Regulatory Capital Requirements, purchase the Certificates in any manner and at any price. Upon any such purchase, subject as required by the Central Bank, the Bank may either hold such purchased Certificates or deliver such Certificates to any Paying Agent for cancellation, and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which the Bank delivers for cancellation in accordance with Condition 10.2 (*Purchase*), will forthwith be cancelled and accordingly may not be held, reissued or resold. Upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

11 Conversion at the Point of Non-Viability

11.1 Non-Viability Event

If a Non-Viability Event occurs a Conversion (in whole or in part, as applicable) will take place in accordance with Condition 11.2 (*Non-Viability Notice*) and the Conversion Rules and Procedures.

Any such Conversion shall not constitute a Dissolution Event. Certificateholders acknowledge that there shall be no recourse to the Central Bank in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

It is the Mudareb's current intention to procure that a Conversion will take place: (1) after the Ordinary Shares absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Central Bank has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; (2) pro rata and pari passu with the conversion or exchange of any Loss Absorbing Instruments, and (3) prior to the or conversion of any of the Mudareb's obligations in respect of Tier 2 Capital and any other trust certificates and

other instruments related to the Mudareb's other obligations constituting Tier 2 Capital. However, the Mudareb may at any time depart from this policy at its sole discretion.

Loss Absorbing Instruments means at any time any instruments or trust certificates that are outstanding at the time of such Conversion (other than the Certificates and the Ordinary Shares) issued directly or indirectly by the Mudareb which at such time (a) are *Pari Passu Obligations* and qualify as *Additional Tier 1 Capital* of the Bank; and (b) also provide for all or some of their principal amount to be written-down or converted into common equity (in accordance with their conditions or otherwise) on the occurrence, or as a result, of a *Non-Viability Event* or substantially similar event; and

Tier 2 Capital means capital qualifying as, and approved by the Central Bank as, tier 2 capital in accordance with the *Capital Regulations*.

11.2 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Central Bank), (a) the Mudareb will notify the Trustee and the Delegate thereof in accordance with the Mudaraba Agreement and the Declaration of Trust and (b) the Trustee will then notify the Certificateholders and the Principal Paying Agent thereof in accordance with Condition 17 (*Notices*) (a **Non-Viability Notice**). Upon the provision of such Non-Viability Notice, a Conversion will occur on the Non-Viability Event Conversion Date in accordance with the Conversion Rules and Procedures and, with effect from such date (i) in the case of a Conversion in whole only, the Mudaraba Agreement will be automatically terminated; and (ii) in the case of a Conversion in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be converted and Periodic Distribution Amounts shall continue to accrue only in respect of the outstanding face amount of the Certificates that have not been converted and references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly. In the case of (i) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets or the Certificates, respectively. In the case of (ii) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced or the Periodic Distribution Amounts that would have been payable on the face amount of the Certificates that has been converted. Any amounts so converted may not be exchanged back into the Certificates.

11.3 Liability of Delegate and Agents

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Conversion and cancellation of any Certificates or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

12 Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

12.1 Bank Events

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon having actual knowledge of the Bank Event) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved (a **Dissolution Request**). The Delegate may and, if so requested in writing by the holders of at least one-fifth of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) give notice (a **Dissolution Notice**) to the Trustee

that the Certificates are immediately due and payable at their aggregate outstanding face amount together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 Trustee Events

- (a) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Central Bank, without the consent of the Certificateholders, the substitution of any newly formed special purpose company in a form substantially the same as that of the Trustee, in place of the Trustee (the **Substituted Trustee**), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:
- (i) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;
 - (ii) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any political sub-division or authority of or in that territory with power to tax (the **Substituted Territory**) other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the **Trustee's Territory**), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (*Taxation*), extending its obligations thereunder to the Substituted Territory);
 - (iii) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;
 - (iv) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and
 - (v) such substitution is not, in the sole opinion of the Delegate, materially prejudicial to the interests of the Certificateholders.
- (b) Subject to this Condition 12.2 (Trustee Events), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).
- (c) If the Bank fails to comply with the foregoing provisions of this Condition 12.2 (Trustee Events) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (Bank Events) and 12.3 (Winding-up, Dissolution or Liquidation) shall apply to the relevant Trustee Event as if it was a Bank Event.

12.3 Winding-up, Dissolution or Liquidation

(a) Proceedings for Winding-up

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*) the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and either the Trustee or the Delegate, on behalf of the Certificateholders, may at its discretion, and the Delegate shall, if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due (if any) to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (*Bank Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Central Bank (which the Bank shall confirm in writing to the Trustee and the Delegate).

(b) Enforcement

Without prejudice to Condition 12.1 (*Bank Events*) and the remaining provisions of this Condition 12.3 (*Winding-up, Dissolution or Liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), institute such steps, actions or proceedings against the Bank or against the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, Dissolution or Liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) Non-Viability

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 11 (*Conversion at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) Extent of Certificateholder Remedy

No remedy against the Bank, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

(e) Realisation of Trust Assets

- (i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 (*Dissolution Events and Winding-up*)), unless (A) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and (B) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (ii) No Certificateholder shall be entitled to proceed directly against the Trustee or the Bank or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*), unless the Trustee or the Delegate, having become bound so to proceed, (A) fails to do so within a reasonable period, or (B) is unable by reason of an order of a court having competent jurisdiction to do so, and such failure or inability shall be continuing, in which case the Certificateholders shall have only such rights against the Bank as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 12.1 (*Bank Events*) and this Condition 12.3 (*Winding-up, Dissolution or Liquidation*).
- (iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Transaction Documents.
- (iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with Condition 5.3, the obligations of the Trustee and the Delegate in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

13 Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees,

assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts (**Additional Amounts**) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

- (a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day; or
- (c) held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies with, any statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Certificate (or the definitive Certificate representing it) is presented for payment.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Certificates by or on behalf of the Trustee, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA Withholding**). Neither the Trustee nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the **face amount** of the Certificates and **Outstanding Payments**) shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 13 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 13, the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 13 applies.

14 Prescription

The right to receive any amount in respect of the Certificates will be forfeited unless claimed within a period of ten years (in the case of principal) and five years (in the case of distributions) from the Relevant Date in respect thereof.

15 Delegate

15.1 Delegation of Powers

- (a) The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the **Delegation of the Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust or managing the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.
- (b) In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.
- (c) The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

15.3 No Liability

- (a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect

of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

- (b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

15.4 Reliance on Opinions, Certificates, Reports and/or Information

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper Performance of Duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Illegality

The Delegate may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

15.7 Delegate not Precluded from Conducting Business with the Trustee and the Bank

The Delegate is entitled, *inter alia*, (i) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15.8 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16 Replacement of Certificates

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication or, if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication on such websites or for such mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.

18 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Transaction Documents. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of more than 50 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of more than 50 per cent. in aggregate face amount of the Certificates then outstanding (a **Written Resolution**) or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of more than 50 per cent. in aggregate face amount of the Certificates then outstanding (an **Electronic Consent**). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic

Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

- 18.3** These Conditions, the Transaction Documents and the Trustee's memorandum and articles of association may only be modified by the Trustee with the prior consent of the Delegate (acting only on the instructions of the Certificateholders by way of Extraordinary Resolution), save that the Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders: (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error. The Delegate may (but shall not be obliged to) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided that such waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates.
- 18.4** In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*)), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (*Taxation*).
- 18.5** Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

This Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) is without prejudice to Condition 10.1(c) (*Redemption due to Taxation*) and Condition 10.1(d) (*Redemption for Capital Event*).

19 Currency Indemnity

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 19 (*Currency Indemnity*).

20 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 Governing Law and Dispute Resolution

21.1 Governing Law

The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement (except for clause 2.4 thereof) and the Certificates (except for Condition 4.2 (*Subordination*)), and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Each of Condition 4.2 (*Subordination*) and clause 2.4 of the Mudaraba Agreement is governed by, and shall be construed in accordance with, the laws of Bahrain.

21.2 Arbitration

Subject to Condition 21.3 (*Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions) and the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity or any dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (the **LCIA**) (the **Rules**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 21.2 (*Arbitration*). For these purposes:

- (a) the seat of arbitration shall be London, England;
- (b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and
- (c) the language of the arbitration shall be English.

21.3 Option to Litigate

Notwithstanding Condition 21.2 (*Arbitration*) above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at its sole discretion, by notice in writing to the Trustee and the Bank (as applicable):

- (a) within 60 days of service of a Request for Arbitration (as defined in the Rules); or
- (b) if no arbitration has commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 21.5 (*Effect of Exercise of Option to Litigate*) and, subject as provided below, and any arbitration commenced under Condition 21.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate and any Agent (whose costs will be borne by the Trustee, failing which the Bank), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

21.4 Notice to Terminate

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (only where it is permitted to take action in accordance with the terms of the Declaration of Trust)

any Certificateholder, as the case may be, must promptly give notice to the LCIA and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

- (a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
- (b) his entitlement to be paid his proper fees and disbursements; and
- (c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

21.5 Effect of Exercise of Option to Litigate

If a notice pursuant to Condition 21.3 (*Option to Litigate*) is issued, the following provisions shall apply:

- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and the Bank submits to the exclusive jurisdiction of such courts;
- (b) each of the Trustee and the Bank agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (c) this Condition 21.5 (*Effect of Exercise of Option to Litigate*) is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

21.6 Appointment of Process Agent

Each of the Trustee and the Bank has, in the Declaration of Trust, appointed Walkers at its registered office at 6 Gracechurch Street, London, EC3V 0AT, United Kingdom as its agent for service of process and agrees that, in the event of Walkers ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Delegate and the Certificateholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

21.7 Waiver of Interest

- (a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.
- (b) For the avoidance of doubt, nothing in this Condition 21.7 (*Waiver of Interest*) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Capital Event Profit Amount, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/ or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

22 Conversion Rules and Procedures

22.1 Ordinary Shares to be issued to Certificateholders

The aggregate number of Ordinary Shares to be issued on the Non-Viability Event Conversion Date will be determined on the basis of the Conversion Formula. Each Certificateholder shall be entitled to receive a number

of Ordinary Shares equal to the aggregate face amount of the Certificates held by such Certificateholder and the Outstanding Payments in respect of such Certificates divided by the Conversion Price (rounded down, if necessary, to the nearest whole number of Ordinary Shares). Fractions of Ordinary Shares shall not be issued or delivered on a Conversion and no cash payment shall be made in lieu thereof.

22.2 Contents of the Non-Viability Notice

The Non-Viability Notice referred to in Condition 11.2 shall include the following information:

- (a) that a Non-Viability Event has occurred;
- (b) the Conversion Price and the method by which it was calculated;
- (c) the Non-Viability Event Conversion Date;
- (d) a form of settlement notice to be completed by each Certificateholder.

22.3 Settlement Notice

Upon receipt of a Non-Viability Notice, each Certificateholder shall be required to complete and deliver to the Bank an irrevocable settlement notice (a **Settlement Notice**), in the form attached to the Non-Viability Notice, no later than 10 Business Days following receipt of the Non-Viability Notice (the **Settlement Notice Deadline**), specifying the following information:

- (a) the name and address of the Certificateholder;
- (b) the principal amount of the book-entry interests in the Certificates held by such Certificateholder on the date of such notice and evidence of such holding;
- (c) if the Ordinary Shares are to be delivered to a person other than the Certificateholder (the **Nominee**), the name and address of such person;
- (d) if the Ordinary Shares are, at such time, listed on the Bahrain Bourse, the details of the Securities Account to which the Ordinary Shares are to be delivered or credited and for these purposes, **Securities Account** means an account with a brokerage firm registered with the Bahrain Bourse or such other account to which the Ordinary Shares may be credited;
- (e) if the Ordinary Shares are, at such time, not listed on the Bahrain Bourse, such other details as may be required to vest legal and beneficial ownership in the Ordinary Shares in the name of the Certificateholder or, as the case may be, its Nominee; and
- (f) confirmation that, following delivery of the Ordinary Shares, if any Certificateholder will become a "Controller" (for the purposes of, and as defined in, the Central Bank of Bahrain Rulebook Volume 2 (Islamic Banks) entitled 'High Level Standards – GR General Requirements'), that they have been approved as a "Controller" by the Central Bank;
- (g) confirmation that the Certificateholder and/or its Nominee are duly authorised by all applicable law to hold such Ordinary Shares; and
- (h) such other information and representations as may be reasonably required by the Issuer and the Bank in order for the Ordinary Shares to be delivered to the Certificateholder.

22.4 Settlement Procedure

- (a) Upon receipt of a duly completed Settlement Notice, the Bank shall issue the relevant number of Ordinary Shares calculated in accordance with the Conversion Formula (rounded down to the nearest whole number of Ordinary Shares) (i) (if the Ordinary Shares are listed on the Bahrain Bourse by crediting or delivering such Ordinary Shares to the Securities Account stipulated in the Settlement notice or (ii) (if the Ordinary Shares are not listed on the Bahrain Bourse) by delivering the Ordinary Shares by such means as may be required to give the relevant Certificateholder or its Nominee legal and beneficial interest in the Ordinary Shares.

- (b) If a duly completed Settlement Notice is not delivered to the Bank on or before the Settlement Notice Deadline, then the Bank shall continue to hold the relevant Ordinary Shares until a duly completed Settlement Notice is so delivered, but without prejudice to the cancellation of the Certificates on the Non-Viability Event Conversion Date.
- (c) Neither the Issuer nor the Bank shall have any liability to any Certificateholder for any loss resulting from such Certificateholder not receiving any Ordinary Shares or from any delay in the receipt thereof, in each case as a result of such Certificateholder failing to duly submit a valid Settlement Notice on a timely basis or at all.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by ownership interests in a global certificate in registered form (the **Global Certificate**). The Global Certificate will be deposited with a common depository for Euroclear and Clearstream and will be registered in the name of a nominee for the common depository. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the **Registered Holder**). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee, and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder (and such payment obligations of the Trustee will be discharged by payment to the Registered Holder in respect of each amount so paid), and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Certificate represented by the Global Certificate will, in the absence of any provision to the contrary, be made to, or to the order of, the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date, which shall be the Clearing System Business Day immediately prior to the due date for payment (where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

Notices

For so long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to entitled Accountholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **Exchange Event** means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor or alternative clearing system satisfactory to the Delegate is available. If an Exchange Event occurs, any of the Trustee, the Delegate or Euroclear and/or Clearstream, Luxembourg (acting

on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the Certificateholders. Any exchange shall occur no later than ten days after the date of receipt of the first relevant notice by the Registrar. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In these Admission Particulars, **Definitive Certificate** means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for Euroclear or Clearstream, Luxembourg, then:

- (a) approval of a resolution proposed by the Trustee, the Bank or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 50 per cent. in aggregate face amount of the Certificates then outstanding (an **Electronic Consent** as defined in the Declaration of Trust) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum (as specified in the Declaration of Trust) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Declaration of Trust) has been validly passed, the Trustee, the Bank and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate, as the case may be, by Accountholders in the clearing system with entitlements to such Global Certificate or, where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Trustee, the Bank and/or the Delegate, as the case may be, have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting or implementation of such consent or instructions. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, **commercially reasonable evidence** includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Certificates. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Certificates is clearly identified together with the amount of such holding. None of the Trustee, the Bank and/or the Delegate shall be liable to any

person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The proceeds of the Certificates are contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement. The Mudareb will use the Mudaraba Capital to invest the Mudaraba Capital in its business activities carried out through the General Mudaraba Pool.

DESCRIPTION OF THE TRUSTEE

General

KHCB Tier 1 Sukuk Limited, an exempted company with limited liability, was incorporated on 8 April 2020 under the Companies Law (as amended) of the Cayman Islands with company registration number WC-361802. The Trustee was established as a company for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands, and its telephone number is +1 345 814 7600.

The authorised share capital of the Trustee is U.S.\$50,000 shares of U.S.\$1.00 each, of which 250 shares have been issued as at the date of these Admission Particulars. All of the issued shares (the **Shares**) are fully-paid and are held by Walkers Fiduciary Limited as share trustee (the **Share Trustee**) under the terms of a declaration of trust dated 30 June 2020 (the **Share Declaration of Trust**) under which the Share Trustee holds the Shares on trust until the Termination Date (as defined in the Share Declaration of Trust). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit one or more Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to the Charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from its holding of the Shares.

Business of the Trustee

The Trustee is a newly formed entity and will not have any substantial liabilities other than in connection with the Certificates and any further certificates issued pursuant to the Conditions. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are unrestricted provided that such object is not contrary to the principles of Shari'a and the Trustee has full power and authority to carry out any object not prohibited by all relevant Cayman Islands laws (all as set out in clause 3 of its Memorandum of Association as registered or adopted on 8 April 2020).

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The Directors of the Trustee are as follows:

Name	Principal Occupation
Michael Byrne	Assistant Vice President, Walkers Fiduciary Limited
Kirstie Krypner	Vice President, Walkers Fiduciary Limited

The business address of Michael Byrne is c/o Walkers (Dubai) LLP, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506513, Dubai, UAE. The business address of Kirstie Krypner is c/o Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

Other than in their capacities as employees and officers of the Administrator, there are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee. None of the Directors listed above have been convicted of any criminal offence or been the subject of any public incrimination sanctions, bankruptcy, receivership or liquidation proceedings.

The Administrator

Walkers Fiduciary Limited also acts as the corporate administrator of the Trustee (in such capacity, the **Administrator**). The office of the Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of the corporate services agreement dated 29 July 2020 (the **Corporate Services Agreement**) entered into between the Trustee, the Obligor and the Administrator, the Administrator has agreed to perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various

corporate functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement provide that either the Trustee or the Administrator may terminate such agreement by giving not less than 90 days' notice in writing, upon the occurrence of any material breach by the other party of its obligations under such agreement. In addition, the Corporate Services Agreement provides that either party shall be entitled to terminate such agreement by giving at least three months' notice in writing.

The Administrator's principal office is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Administrator or an affiliate thereof. The Trustee has no employees and is not expected to have any employees in the future.

SELECTED FINANCIAL INFORMATION

The following financial information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and the related notes thereto and the other information incorporated by reference in these Admission Particulars.

The following tables set forth selected information extracted from, in respect of the financial information as at and for the six months ended 30 June 2020 and 30 June 2019, from the Interim Financial Statements, in respect of the financial information as at and for the year ended 31 December 2017, from the Bank's 2018 Financial Statements, and, in respect of the financial information as at and for the years ended 31 December 2018 and 31 December 2019, from the 2019 Financial Statements.

Consolidated Statement of Financial Position

	As at 30 June		As at 31 December	
	2020	2019	2018	2017
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
ASSETS				
Cash and bank balances.....	96,327	104,376	99,401	75,787
Placements with financial institutions.....	10,036	65,508	43,637	33,969
Financing assets.....	309,081	324,355	327,640	354,504
Investment in sukuk.....	225,256	195,050	161,324	113,347
Assets acquired for leasing.....	121,265	129,097	108,678	97,193
Lease rentals receivables.....	21,390	17,102	11,525	8,590
Investment in equity securities**.....	40,766	43,989	50,039	52,203
Investment in associate.....	29,012	4,524	4,575	4,610
Investment in real estate.....	17,781	17,781	18,081	19,621
Development property.....	57,418	6,251	6,251	6,251
Other assets.....	24,936	23,969	11,923	11,390
Property and equipment.....	7,545	7,750	7,865	7,755
Total assets	960,813	939,752	850,939	785,220
LIABILITIES				
Placements from financial institutions.....	108,143	117,098	20,795	52,138
Placements from non-financial institutions and individuals.....	165,516	134,654	120,470	61,359
Term borrowing*.....	79,636	-	41,357	41,308
Customers' current accounts.....	51,136	58,105	70,416	74,833
Other liabilities.....	14,028	19,798	10,512	7,953
Total liabilities	418,459	329,655	263,550	237,591
Equity of investment account holders	398,926	522,190	483,927	431,945
OWNERS' EQUITY				
Share capital.....	89,212	105,000	105,000	105,000
Subordinated Mudaraba (AT1)....	47,060	-	-	-

Statutory reserve.....	8,225	8,225	8,225	8,159
Treasury shares.....	(11,765)	(11,730)	(11,295)	(10,212)
Employee share incentive scheme	-	-	(29)	(70)
Investment fair value reserve.....	(226)	-	-	-
Retained Earnings/(Accumulated losses).....	8,746	(15,788)	(729)	10,162
Total owners' equity.....	141,252	85,707	101,172	113,039
Non-controlling interest.....	2,176	2,200	2,290	2,645
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest.....	960,813	939,752	850,939	785,220

* For the years 31 December 2017, 2018 and 2019 the Term Borrowing caption was named "Medium Term Borrowing"

** As of 30 June the Investment in equity securities are all held at fair value through equity Due to the adoption of FAS 33 while the investment in equity securities for 31 December 2019,2018 and 2017 are held at fair value through equity and fair value through profit or loss.

	For the six months ended 30 June	For the year ended 31 December		
	2020 <i>BD'000</i>	2019 <i>BD'000</i>	2018 <i>BD'000</i>	2017 <i>BD'000</i>
Income from financing assets and assets acquired for leasing...	15,558	31,334	26,565	27,368
Income from placements with financial institutions.....	352	2,183	955	761
Income from sukuk.....	6,035	10,031	6,377	4,736
Income from equity securities...	174	(1,687)	1,422	(1,658)
Fees and other income.....	1,197	5,726	2,842	2,644
Total income before return to investment account holders....	23,316	47,587	38,161	33,851
Less: Return to investment account holders before Bank's share as				
Mudarib.....	(11,477)	(27,150)	(16,784)	(16,190)
Bank's share as a Mudarib.....	5,453	8,457	5,619	7,436
Net Return to investment account holders	(6,024)	(18,693)	(11,165)	(8,754)
Finance expense on placements from financial institutions, non-financial institutions and individuals.....	(5,767)	(8,097)	(5,627)	(4,028)
Finance expense on term borrowing.....	(156)	(1,241)	(2,054)	(648)
Total income.....	11,369	19,556	19,315	20,421
Staff cost.....	3,472	8,158	7,175	6,674
Other operating expenses.....	2,093	6,036	5,252	5,459
Total expenses.....	5,565	14,194	12,427	12,133
Profit before impairment allowances.....	5,804	5,362	6,888	8,288
Net impairment charge.....	(119)	(20,389)	(6,288)	(7,470)
PROFIT / (LOSS) FOR THE PERIOD/YEAR	5,685	(15,027)	600	818
Attributable to:				
Shareholders of the parent	5,709	(14,937)	659	1,969
Non-controlling interest.....	(24)	(90)	(59)	(1,151)
	5,685	(15,027)	600	818
Earnings per share				
Basic and diluted earnings per share (fils).....	6.521	(15.86)	0.69	2.04

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

BD 000's

Equity attributable to shareholders of the Bank

	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Investment fair value reserve	Subordinated mudaraba (AT1)	Retained earnings	Total
Balance at 1 January 2020	105,000	8,225	(11,730)	-	-	-	(15,788)	85,707
Profit for the period	-	-	-	-	-	-	5,709	5,709
Total recognised income and expense for the period	-	-	-	-	-	-	5,709	5,709
Issuance of AT1	-	-	-	-	-	60,000	12,000	72,000
Issuance costs of AT1	-	-	-	-	-	(12,940)	-	(12,940)
Modification loss	-	-	-	-	-	-	(9,536)	(9,536)
Government grant	-	-	-	-	-	-	791	791
Capital reduction	(15,788)	-	-	-	-	-	15,788	-
Purchase of Treasury shares	-	-	(35)	-	-	-	-	(35)
Issue of shares under incentive scheme	-	-	-	-	-	-	-	-
Fair value revaluation movement	-	-	-	-	(226)	-	-	(226)
Transfer to Zakah fund movement	-	-	-	-	-	-	(218)	(218)
Balance at 30 June 2020	89,212	8,225	(11,765)	-	(226)	47,060	8,746	141,252

For the year ended 31 December 2019

	Share Capital	Equity attributable to shareholders of the parent				Total	Non-Controlling interest	Total Equity
		Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses)			
Balance at 1 January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Loss for the year	-	-	-	-	(14,937)	(14,937)	(90)	(15,027)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Net treasury shares purchased	-	-	(435)	-	-	(435)	-	(435)
Issue of shares under incentive scheme	-	-	-	29	65	94	-	94
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 31 December 2019	105,000	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907

For the year ended 31 December 2018

	Share Capital	Equity attributable to shareholders of the parent				Total	Non-Controlling interest	Total Equity
		Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses) / retained earnings			
Balance at 1 January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684
Impact of adopting FAS 30	-	-	-	-	(11,069)	(11,069)	-	(11,069)
Restated balance at 1 January 2018	105,000	8,159	(10,212)	(70)	(907)	101,970	2,645	104,615
Total recognized income and expense for the year	-	-	-	-	659	659	(59)	600
Transfer to statutory reserve	-	66	-	-	(66)	-	-	-
Net treasury shares purchased	-	-	(1,083)	-	-	(1,083)	-	(1,083)
Issue of shares under incentive scheme	-	-	-	41	42	83	-	83
Loss of control	-	-	-	-	(16)	(16)	(296)	(312)

	Share Capital	Equity attributable to shareholders of the parent				Total	Non-Controlling interest	Total Equity
		Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses) / retained earnings			
Balance at 1 January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684
Transfer to Zakah fund	-	-	-	-	(441)	(441)	-	(441)
Balance at 31 December 2018	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462

For the year ended 31 December 2017

	Share Capital	Equity attributable to shareholders of the parent				Total	Non-Controlling interest	Total Equity
		Statutory reserve	Treasury shares	Employee share incentive scheme	Retained earnings			
Balance at 1 January 2017	105,000	7,962	(8,832)	(182)	8,751	112,699	3,796	116,495
Profit for the year	-	-	-	-	1,969	1,969	(1,151)	818
Total recognised income and expense for the year	-	-	-	-	1,969	1,969	(1,151)	818
Transfer to statutory reserve	-	197	-	-	(197)	-	-	-
Net treasury shares purchased	-	-	(1,380)	-	-	(1,380)	-	(1,380)
Issue of shares under incentive scheme	-	-	-	112	-	112	-	112
Transfer to Zakah fund	-	-	-	-	(361)	(361)	-	(361)
Balance at 31 December 2017	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684

Consolidated Statement of Cash Flows

	For the six month ended 30 June		For the year ended 31 December	
	2020	2019	2018	2017
Operating activities				
(Disbursements of) / Receipts from financing assets, net	(127)	9,621	40,392	23,286
Receipt from / (disbursements of) assets acquired for leasing, net	4,932	(17,786)	(15,145)	(10,543)
Income from short-term placements received	352	2,183	955	760

	For the six month ended 30 June	For the year ended 31 December		
	2020 <i>BD'000</i>	2019 <i>BD'000</i>	2018 <i>BD'000</i>	2017 <i>BD'000</i>
Returns paid to investment account holders (Withdrawals)/Receipts from investment account holders, net	(9,502)	(10,454)	(7,184)	(7,533)
Finance expense on placements paid	(123,265)	165,461	(13,444)	(44,834)
Payment for expenses.....	(5,767)	(11,703)	(8,190)	(4,612)
Other receipts	(8,510)	(19,441)	(10,642)	(13,228)
Contributions paid to charitable organisations	1,209	3,964	2,878	2,643
Withdrawals from customers' current accounts, net.....	(46)	(235)	(422)	(427)
(Payments) toward / Receipts from placements from financial institutions, net	(6,969)	(12,311)	(4,341)	(981)
Receipts/(Withdrawals) from placements from non-financial institutions and individuals, net	(8,955)	(29,839)	34,084	65,186
Net receipt from/(payment) to CBB reserve account	30,861	14,184	59,111	(39,290)
Income from sukuk received	12,696	(4,610)	(3,360)	2,395
Placements with financial institutions	6,084	10,006	5,937	4,015
	-	-	-	(1,048)
Net Cash (used in) / generated from operating activities	(107,007)	99,040	80,629	(24,211)
Investing activities				
Purchase of sukuk	(45,971)	(37,407)	(63,205)	(59,054)
Proceeds from redemption / sale of sukuk	10,431	3,269	15,135	19,465
(Purchase) / Disposal of equity securities	(18)	1,438	(97)	92
(Purchase) / Disposal of Investment in real estate, net	-	-	(105)	452
Proceeds from disposal of development property	728	-	-	-
Receipt of dividends / income from equity securities.....	202	343	1,478	399
(Purchase) / Disposal of property and equipment, net	(83)	(452)	(674)	41
Net cash used in investing activities	(34,711)	(32,809)	(47,468)	(38,605)
Financing activities				
Purchase of treasury shares, net	(35)	(350)	(1,234)	(1,380)
Drawdown / (Repayment) of term borrowing, net	79,636	(41,357)	50	41,004
Cash from injection of AT1 capital	11,447	-	-	-
Finance expense paid on term borrowing	(156)	(1,241)	(2,054)	(425)
Net Cash generated / (used in) from financing activities.....	90,892	(42,948)	(3,238)	39,199
Net (decrease) / Increase in cash and cash equivalents	(50,826)	23,283	29,923	(23,617)
Cash and cash equivalents at beginning of the period/year	144,454	121,171	91,248	114,865
Cash and cash equivalents at end of the period/year	93,628	144,454	121,171	91,248
Cash and cash equivalent comprise:				
Cash and bank balances (excluding CBB reserve)	83,592	78,946	78,581	58,327
Placements with financial institutions with original maturities of 90 days or less	10,036	65,508	42,590	32,921
	93,628	144,454	121,171	91,248

Distributable Funds

The Distributable Funds as at 30 June 2020 were BD 8.7 million.

Selected Financial Ratios

	For the six	As at / for the year ended 31 December		
	months ended 30 June 2020	2019	2018	2017
			%	
Profitability				
Return on shareholders' funds ⁽¹⁾	10.02	(16.08)	0.56	0.73
Return on total assets ⁽²⁾	1.20	(1.68)	0.07	0.11
Cost to income ⁽³⁾	48.94	72.58	64.34	59.41
Capital				
Capital adequacy ratio ⁽⁴⁾	21.41	16.63	16.23	17.00
Shareholders' funds to total assets ⁽⁵⁾	14.70	9.12	11.89	14.40
Asset Quality				
Gross NPF Ratio ⁽⁶⁾	11.74	24.2	16.8	14.5
Net NPF Ratio ⁽⁶⁾	9.67	21.9	19.6	12.9
Provision coverage ⁽⁷⁾	21.18	41.57	33.11	17.71
Liquidity				
Net financings to customers deposits ⁽⁸⁾	72.91	66.41	82.62	92.80
Net financings to total assets ⁽⁹⁾	47.02	50.07	52.63	58.62
Liquid assets to customer deposits ⁽¹⁰⁾	33.38	51.50	47.13	35.12

Notes:

- (1) Profit for the year divided by the average ⁽¹¹⁾ total equity attributable to the equity holders of the Bank.
- (2) Profit for the year divided by average ⁽¹¹⁾ total assets.
- (3) Operating expenses for the year divided by total income for the year.
- (4) Calculated in accordance with CBB regulations, as presented in the Financial Statements.
- (5) Total equity attributable to the equity holders of the Bank as at the relevant date divided by total assets as at the relevant date.
- (6) Calculated in accordance with CBB regulations, as presented in the Financial Statements ⁽¹²⁾.
- (7) Total allowance for loan impairment and contractual interest not recognised as at the relevant date divided by gross advances and financing to customers as at the relevant date.
- (8) Net advances and financing to customers as at the relevant date divided by deposits from customers as at the relevant date.
- (9) Net advances and financing to customers as at the relevant date divided by total assets as at the relevant date.
- (10) Cash, balances with CBB, due from banks, GDBs, Government sukuk and Treasury-Bills divided by customer deposits as at the relevant date.
- (11) The average is calculated as the arithmetic mean of the opening balance and the closing balance.
- (12) The definition and method of calculation of above selected financial ratio, unless specifically defined, are disclosed in the Presentation of Alternative Performance Measure.

FINANCIAL REVIEW

The following discussion contains an analysis of the results of operations of the Bank as at and for the six months ended 30 June 2020 and as at and for the years ended 31 December 2019, 31 December 2018 and 31 December 2017. The financial data disclosed in this financial review should be read in conjunction with the Financial Statements and the related notes thereto. Unless otherwise specified, the financial data discussed below has been extracted without material adjustment from the Financial Statements and the related notes thereto, in these Admission Particulars.

OVERVIEW

As at 30 June 2020, the authorised ordinary share capital of the Bank comprised 3,000,000,000 Ordinary Shares of BD 0.100 (U.S.\$0.27 equivalent) each and the issued and fully paid-up ordinary share capital of the Bank comprised of 892,119,480 Ordinary Shares of BD 0.100 (U.S.\$ 0.27 equivalent) each. As at 30 June 2020, the major shareholders of the Bank were: KHCB Asset Company (on behalf of GFH Financial Group) (55.41 per cent.), Goldilocks Investment Company Limited (9.98 per cent.) and Khaleeji Commercial Bank B.S.C (9.87 per cent.).

As at 30 June 2020, the Bank had 5 branches and 12 ATMs across Bahrain.

Financial Overview

The Bank made a profit of BD 5.7 million (U.S.\$15.1 million) in the six months ended 30 June 2020, compared to a profit of BD 0.2 million (U.S.\$0.5 million) for the six months ended 30 June 2019. The Bank made a loss of BD 15.0 million (U.S.\$40.0 million) in the year ended 31 December 2019, compared to a profit of BD 600 thousand (U.S.\$1.6 million) for the year ended 31 December 2018, which represented a decrease of 26.7 per cent. from BD 818 thousand (U.S.\$2.2 million) for the year ended 31 December 2017.

The Bank's total assets increased 2.2 per cent to BD 960.8 million (U.S.\$ 2,555.4 million) as at 30 June 2020 from 939.8 million (U.S.\$ 2,499.3 million) as at 31 December 2019 which represented an increase of 10.4 per cent. from BD 850.9 million (U.S.\$ 2,263.1 million) as at 31 December 2018, which represented an increase of 8.4 per cent. from BD 785.2 million (U.S.\$ 2,088.4 million) as at 31 December 2017.

The Bank's total owners' equity increased by 64.8 per cent. to BD 141.3 million (U.S.\$375.7 million) as at 30 June 2020 compared to BD 85.7 million (U.S.\$227.9 million) as at 31 December 2019, which represented a decrease of 15.3 per cent. from BD 101.2 million (U.S.\$269.1 million) as at 31 December 2018, which represented an decrease of 10.5 per cent. from BD 113.0 million (U.S.\$ 300.6 million) as at 31 December 2017.

As per CBB guidelines, the Bank was required to maintain its capital adequacy ratio at a minimum of 12.5 per cent. (including the capital conservation buffer) with effect from 1 January 2015. The Bank's total capital adequacy ratio (calculated in accordance with CBB guidelines) as at 30 June 2020 was 21.41 per cent, as at 31 December 2019 was 16.25 per cent., as at 31 December 2018 was 16.23 per cent. and as at 31 December 2017 was 17.00 per cent. The Bank's Tier 1 capital ratio was 20.29 per cent as at 30 June 2020, 15.55 per cent. as at 31 December 2019, 15.11 per cent. as at 31 December 2018 and 16.31 per cent. as at 31 December 2017.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

The Bank's revenues and results of operations during the periods under review have been affected by the following factors:

Non-performing financings

The Bank's Gross NPF Ratio decreased as at 30 June 2020 to 11.74 per cent compared to 24.20 per cent as at 31 December 2019, 16.80 per cent. as at 31 December 2018 and 14.50 per cent. as at 31 December 2017. The Bank's

Net NPF Ratio decreased to 9.67 per cent. as at 30 June 2020 compared to 21.90 per cent. as at 31 December 2019, 19.60 per cent. as at 31 December 2018. The Bank's Net NPF Ratio stood at 12.90 per cent. as at 31 December 2017. The decrease in NPF ratios during 2020 was mainly due to the regularisation of NPFs and restructuring.

Liquidity

Due to lower oil prices and thus lower hydrocarbon revenues of the government, liquidity in the Bahraini economy is in short supply. Low oil prices have reduced government-related deposits. Banks in Bahrain have been affected by a decrease in customer deposits base generally. The Bank has addressed this by raising funding through alternative sources including medium term funding from financial institutions and concessionary repo from CBB at zero per cent.

Economic conditions and CBB regulatory guidelines

On 11 March 2020, the Covid-19 outbreak was declared a pandemic by the World Health Organisation and has rapidly evolved globally. This has resulted in a global slowdown with uncertainties in the economic environment. This included disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Bank.

The CBB announced various measures to combat the effect of Covid-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measures include the following:

- payment holiday for 6 months to eligible customers;
- in response to the payment holiday, the CBB offered eligible banks an option to avail funding at zero per cent. on repurchase of collateral basis (**concessionary repo**);
- reduction of cash reserve ratio from 5 per cent. to 3 per cent.;
- reductions of LCR and NSFR from 100 per cent. to 80 per cent. respectively;
- aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. Thereafter this amount shall be deducted proportionally from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.

The aforementioned measures and the Covid-19 pandemic have resulted in the following effects on the Bank:

- The CBB mandated 6-month payment holiday requires impacted banks to recognise a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- The Government of Bahrain has announced various economic stimulus programmes to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waivers of fees, levies and utility charges and concessionary repo received from the Government and/or regulators, in response to its Covid-19 support measures. This has been recognised directly in the Bank's equity.
- The mandated 6 months payment holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, which resulted in a significant decline in the Bank's fees income.
- The strain caused by Covid-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Bank. During the six months ended 30 June 2020, financing assets bookings were 26.3 per cent. lower than the same period of the previous year.
- Decreased consumer spending caused by the economic slow-down decreased the booking of new financing drawdowns by the Bank, and deposit balances also decreased compared to the same period of the previous year.

The reduced financing drawdowns partly alleviated the liquidity stress faced by the Bank due to the mandated 6 months payment holiday.

- The stressed economic situation resulted in the Bank recognising incremental ECL on its exposure.

A summary of the financial impact of the above is as follows:

	Net Impact on the Bank's consolidated income statement		Net Impact on the Bank's consolidated financial position		Net Impact on the Bank's consolidated owners' equity	
	BD '000	U.S.\$ '000	BD '000	U.S.\$ '000	BD '000	U.S.\$ '000
Average reduction of cash reserve	-	-	8,606	22,888	-	-
Concessionary repo at 0%	-	-	48,888	130,021	-	-
Modification loss	-	-	(9,536)	(25,362)	(9,536)	(25,362)
Government grants	-	-	-	-	791	2,104
Credit card income	(313)	(832)	-	-	-	-
ECL attributable to COVID-19	(1,275)	(3,391)	(1,275)	(3,391)	-	-
	(1,588)	(4,223)	46,683	124,156	(8,745)	(23,258)

FINANCIAL RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 30 JUNE 2019

Total income

The following table sets out the principal components of the Bank's total income for the periods indicated.

	For the six months ended 30 June				Percentage change 2020/2019
	2020		2019		
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	%
Income from financing assets and assets acquired for leasing.....	15,558	41,378	14,613	38,761	6.5
Income from placements with financial institutions.....	352	936	1,421	3,769	(75.2)
Income from sukuk.....	6,035	16,051	4,814	12,769	24.4
Income from equity securities.....	174	463	299	793	(41.8)
Fees and other income.....	1,197	3,184	4,051	10,745	(70.5)
Total income before return to investment account holders	23,316	62,012	25,198	66,837	(7.5)
Less: Return to investment account holders before Bank's share as Mudarib	(11,477)	(30,524)	(13,542)	(35,920)	(15.2)
Bank's share as a Mudarib	5,453	14,503	4,050	10,743	34.6
Net return to investment account holders ...	(6,024)	(16,021)	(9,492)	(25,177)	(36.5)
Finance expense on placements from financial institutions, non-financial institutions and individuals.....	(5,767)	(15,338)	(3,928)	(10,419)	46.8%
Finance expense on term borrowing.....	(156)	(415)	(1,051)	(2,788)	(85.2)
Total income	11,369	30,238	10,727	28,453	6.0

The Bank's total income for the six months ended 30 June 2020 increased by 6.0 per cent. to BD 11.4 million (U.S.\$ 30.2 million) from BD 10.7 million (U.S.\$ 30.2 million) for the six months ended 30 June 2019. This increase was principally a result of the increases and decreases in the line items as set out below.

Income from financing assets and assets acquired for leasing

The Bank's income from financing assets and assets acquired for leasing for the six months ended 30 June 2020 increased by 6.5 per cent. to BD 15.6 million (U.S.\$ 41.4 million) from BD 14.6 million (U.S.\$ 38.8 million) for the six months ended 30 June 2019. This increase was principally a result of an increase in income from murabaha by BD 1 million (U.S.\$ 2.5 million) and an increase in corporate Ijarah by BHD 0.7 million (U.S.\$ 1.8 million).

Income from placements with financial institutions

The Bank's income from placements with financial institutions for the six months ended 30 June 2020 decreased by 75.2 per cent. to BD 0.4 million (U.S.\$ 0.9 million) from BD 1.4 million (U.S.\$ 3.8 million) for the six months ended 30 June 2019. This decrease was principally a result of shifting the available cash to higher yielding assets.

Other income

The Bank's income from sukuk for the six months ended 30 June 2020 increased by 25.4 per cent to BD 6.0 million (U.S.\$ 16.1 million) from BD 4.8 million (U.S.\$ 12.8 million) for the six months ended 30 June 2019. This increase was principally due to higher investment in sukuk due to their low risk and high return.

The Bank made a profit of BD 0.2 million (U.S.\$ 0.5 million) from equity securities for the six months ended 30 June 2020, compared to an income of BD 0.3 million (U.S.\$ 0.8 million) for the six months ended 30 June 2019. Fees and other income for the six months ended 30 June 2020 decreased by 70.5 per cent. to BD 1.2 million (U.S.\$ 3.2 million) compared to BD 4.1 million (U.S.\$ 10.7 million) from 30 June 2019 for the six months ended 30 June 2019. This decrease was principally due to the higher recovery of written-off financing assets for the six months ended 30 June 2019.

Finance expenses

The Bank's finance expense on placements from financial institutions, non-financial institutions and individuals for the six months ended 30 June 2020 decreased by 46.8 per cent. to BD 5.8 million (U.S.\$ 15.3 million) from BD 3.9 million (U.S.\$ 10.4 million) for the six months ended 30 June 2019. This decrease was principally a result of lower average balances of deposits and lower profit rates given on such deposits.

The Bank's finance expense on term borrowing for the six months ended 30 June 2020 decreased by 85.2 per cent. to BD 0.2 million (U.S.\$ 0.4 million) from BD 1.1 million (U.S.\$ 2.8 million) for the six months ended 30 June 2019. This decrease was principally a result of later drawdown of financings during the year and lower finance rates.

The Bank's return to investment account holders for the period 30 June 2020 decreased by 36.5 per cent to BD 6.0 million (U.S.\$ 16.0 million) from BD 9.5 million (U.S.\$ 25.2 million) for the six months ended 30 June 2019. The decrease is principally due to the lower average balances of deposits and also due to lower deposit rates provided to depositors for the period.

Operating expenses

The following table sets out the principal components of the Bank's operating expenses for the six months s ended 30 June 2020 and 30 June 2019.

	For six months ended 30 June				Percentage
	2020		2019		change
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	2020/2019
					%
Staff costs	3,472	9,234	3,944	10,489	(12.0)
Other operating expenses	2,093	5,566	2,351	6,253	(11.0)
Total expenses.....	5,565	14,800	6,295	16,742	(11.6)

The Bank's staff cost for the six months ended 30 June 2020 decreased by 12.0 per cent to BD 3.5 million (U.S.\$ 9.2 million) from BD 3.9 million (U.S.\$ 10.5 million) for the six months ended 30 June 2019. The Bank's other operating expenses for the six months ended 30 June 2020 decreased by 11.0 per cent to BD 2.1 million (U.S.\$ 5.6 million) from BD 2.4 million (U.S.\$ 6.3 million) from the six months ended 30 June 2019. This decrease was principally due to the cost rationalisation exercise performed by the Bank in 2020. As a result, the Bank's total operating expenses for the six months ended 30 June 2020 decreased by 11.6 per cent to BD 5.6 million (U.S.\$ 14.8 million) from BD 6.3 million (U.S.\$ 16.7 million) for the six months ended 30 June 2019.

Net impairment charge

The Bank's net impairment charge for the six months ended 30 June 2020 decreased by 97.2% to BD 0.1 million (U.S.\$ 0.3 million) from BD 4.3 million (U.S.\$ 11.4 million) for the six months ended 30 June 2019. During the six months ended 30 June 2020, the Bank has written-off BD 10.1 million (U.S.\$ 27 million) and disposed BD 11.0 million (U.S.\$ 29.3 million) of provision.

Profit for the period

As a result of the foregoing, the Bank made a profit of BD 5.7 million (U.S.\$ 15.2 million) for the six months ended 30 June 2020. The increase in profit was mainly due to the lower provision taken for the period BD 0.1 million (U.S.\$ 0.3 million) compared to BD 4.3 million (U.S.\$ 11.4 million) for the six months ended 30 June 2019. Moreover, operating expenses reduced to BD 5.6 million (U.S.\$ 14.8 million) from BD 6.3 million (U.S.\$ 16.7 million) for the six months ended 30 June 2020 due to the cost rationalisation exercise performed by the management. Furthermore, total income also increased to BD 11.4 million (U.S.\$ 30.2 million) from BD 10.7 million (U.S.\$ 28.5 million) for the six months ended 30 June 2020.

FINANCIAL RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018

Total income

The following table sets out the principal components of the Bank's total income for the periods indicated.

	For year ended 31 December				Percentage
	2019		2018		change
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	2019/2018
				%	
Income from financing assets and assets acquired for leasing.....	31,334	83,335	26,565	70,652	18.0
Income from placements with financial institutions.....	2,183	5,806	955	2,540	128.6
Income from sukuk.....	10,031	26,678	6,377	16,960	57.3
Income from equity securities.....	(1,687)	(4,487)	1,422	3,782	(218.6)
Fees and other income.....	5,726	15,229	2,842	7,559	101.5
Total income before return to investment account holders	47,587	126,561	38,161	101,493	24.7
Less: Return to investment account holders before Bank's share as Mudarib	(27,150)	(72,207)	(16,784)	(44,639)	61.8
Bank's share as a Mudarib	8,457	22,492	5,619	14,944	50.5
Net return to investment account holders ...	(18,693)	(49,715)	(11,165)	(29,695)	67.4
Finance expense on placements from financial institutions, non-financial institutions and individuals.....	(8,097)	(21,535)	(5,627)	(14,965)	43.9
Finance expense on medium-term borrowing	(1,241)	(3,301)	(2,054)	(5,463)	39.6
Total income	19,556	52,010	19,315	51,370	1.2

The Bank's total income for the year ended 31 December 2019 increased by 1.2 per cent. to BD 19.6 million (U.S.\$ 52.0 million) from BD 19.3 million (U.S.\$ 51.4 million) for the year ended 31 December 2018. This increase was principally a result of the increases and decreases in the line items as set out below.

Income from financing assets and assets acquired for leasing

The Bank's income from financing assets and assets acquired for leasing for the year ended 31 December 2019 increased by 18.0 per cent. to BD 31.3 million (U.S.\$ 83.3 million) from BD 26.6 million (U.S.\$ 70.7 million) for the year ended 31 December 2018. This increase was principally due to an increase in income from Murabaha financing amounting to BD 3.5 million (U.S.\$ 9.3 million) and an increase in income from Corporate Ijara by BD 2.2 million (U.S.\$ 5.8 million).

Income from placements with financial institutions

The Bank's income from placements with financial institutions for the year ended 31 December 2019 increased by 128.6 per cent. to BD 2.2 million (U.S.\$ 5.8 million) from BD 1.0 million (U.S.\$ 2.5 million) for the year ended 31 December 2018. This increase was principally a result of increase from income from Murabaha contracts, Wakala contracts and overnight profit amounting to BD 394 thousand (U.S.\$ 1.0 million), BD 500 thousand (U.S.\$ 1.3 million) and BD 328 thousand (U.S.\$ 872 thousand) respectively.

Other income

The Bank's income from sukuk for the year ended 31 December 2019 increased by 57.3 per cent. to BD 10.0 million (U.S.\$ 26.7 million) from BD 6.4 million (U.S.\$ 17 million) for the year ended 31 December 2018. This increase was principally due to high investment in sukuk due to their nature of being high return and lower risk.

The Bank made a loss of BD 1.7 million (U.S.\$ 4.5 million) from equity securities for the year ended 31 December 2019, compared to an income of BD 1.4 million (U.S.\$ 3.8 million) for the year ended 31 December 2018. This was principally due to fair value movement of equity type security by BD 2.0 million (U.S.\$ 5.2 million) and a reduction in dividend income from one of the investments by BD 932 thousand (U.S.\$ 2.5 million).

Fees and other income for the year ended 31 December 2019 increased by 101.5 per cent. to BD 5.7 million (U.S.\$ 15.2 million) from BD 2.8 million (U.S.\$ 7.6 million) for the year ended 31 December 2018. This increase was principally due to the recovery of written-off assets during the year ended 31 December 2019 amounting to BD 2.8 million (U.S.\$ 7.4 million) as compared to BD 100 thousand (U.S.\$ 265 thousand) for the year ended 31 December 2019.

Finance expenses

The Bank's finance expense on placements from financial institutions, non-financial institutions and individuals for the year ended 31 December 2019 increased by 43.9 per cent. to BD 8.1 million (U.S.\$ 21.5 million) from BD 5.6 million (U.S.\$ 15.0 million) for the year ended 31 December 2018. The increase during 2019 compared to 2018 was principally a result of an increase in placements from financial institutions, non-financial institutions and individuals by BD 110.5 million (U.S.\$ 293.8 million) from BD 141 million (U.S.\$ 375.7 million) in 2018 to BD 251.8 (U.S.\$ 669.6 million) in 2019.

The Bank's finance expense on medium-term borrowing for the year ended 31 December 2019 decreased by 39.6 per cent. to BD 1.2 million (U.S.\$ 3.3 million) from BD 2.1 million (U.S.\$ 5.5 million) for the year ended 31 December 2018. This decrease was principally a result of the settlement of the medium-term borrowing early during the year and having no balance by the year ended 31 December 2019.

The Bank's return to investment account holders for the year ended 31 December 2019 increased by 67.4 per cent to BD 18.7 million (U.S.\$ 49.7 million) from BD 11.2 million (U.S.\$ 29.7 million) for the year ended 31 December

2018. The increase was principally due to the higher average balances of deposits and also due to higher deposit rates provided to depositors for the period.

Operating expenses

The following table sets out the principal components of the Bank's operating expenses for the years ended 31 December 2019 and 31 December 2018.

	For year ended 31 December				Percentage change 2019/2018
	2019		2018		
	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	%
Staff costs	8,158	21,698	7,175	19,082	13.7
Other operating expenses	6,036	16,053	5,252	13,968	14.9
Total expenses.....	14,194	37,760	12,427	33,050	14.2

The Bank's staff costs for the year ended 31 December 2019 increased by 13.7 per cent. to BD 8.2 million (U.S.\$ 21.7 million) from BD 7.2 million (U.S.\$ 19.1 million) for the year ended 31 December 2018 and the Bank's other operating expenses for the year ended 31 December 2019 increased by 14.9 per cent. to BD 6.0 million (U.S.\$ 16.1 million) from BD 5.3 million (U.S.\$ 14 million) for the year ended 31 December 2018. This increase was principally due to increase of legal and professional expenses of BD 370 thousand (U.S.\$ 983 thousand) and increase in marketing and promotion expenses of BD 223 thousand (U.S.\$ 593 thousand). As a result, the Bank's total operating expenses for the year ended 31 December 2019 increased by 14.2 per cent. to BD 14.2 million (U.S.\$ 14.2 million) from BD 12.4 million (U.S.\$ 37.8 million) for the year ended 31 December 2018.

Net impairment charge

The Bank's net impairment charge for the year ended 31 December 2019 increased by 224.3 per cent. to BD 20.4 million (U.S.\$54.2 million) from BD 6.3 million (U.S.\$ 16.7 million) for the year ended 31 December 2018. This increase was principally due to additional provisions taken on pre-existing non-performing financings.

Loss for the year

As a result of the foregoing, the Bank made a loss of BD 15.0 million (U.S.\$ 40 million) in the year ended 31 December 2019, compared to a profit of BD 600 thousand (U.S.\$ 1.6 million) for the year ended 31 December 2018. The loss for the period was mainly due to the BD 20.4 million (U.S.\$ 54.2 million) impairment allowance taken during the year compared to BD 6.3 (U.S.\$ 16.7 million) for the year ended 31 December 2018.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

Total income

The following table sets out the principal components of the Bank's total income for the periods indicated.

	For year ended 31 December				Percentage change 2018/2017
	2018		2017		
	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	%
Income from financing assets and assets acquired for leasing	26,565	70,652	27,368	72,787	(2.9)
Income from placements with financial institutions.....	955	2,540	761	2,024	25.5
Income from sukuk.....	6,377	16,960	4,736	12,596	34.6
Income from equity securities	1,422	3,782	(1,658)	(4,410)	185.8

Fees and other income	2,842	7,559	2,644	7,032	7.5
Total income before return to investment account holders	38,161	101,493	33,851	90,029	12.7
Less: Return to investment account holders before Bank's share as Mudarib ...	(16,784)	(44,639)	(16,190)	(43,058)	3.7
Bank's share as a Mudarib	5,619	14,944	7,436	19,777	(24.4)
Net return to investment account holders ...	(11,165)	(29,695)	(8,754)	(23,281)	27.5
Finance expense on placements from financial institutions, non-financial institutions and individuals.....	(5,627)	(14,965)	(4,028)	(10,713)	39.7
Finance expense on medium-term borrowing	(2,054)	(5,463)	(648)	(1,723)	217
Total income	19,315	51,370	20,421	54,312	(5.4)

The Bank's total income for the year ended 31 December 2018 decreased by 5.4 per cent. to BD 19.3 million (U.S.\$ 51.4 million) from BD 20.4 million (U.S.\$ 54.3 million) for the year ended 31 December 2017. This decrease was principally a result of the increases and decreases in the line items as set out below.

Income from financing assets and assets acquired for leasing

The Bank's income from financing assets and assets acquired for leasing for the year ended 31 December 2018 decreased by 2.9 per cent. to BD 26.6 million (U.S.\$ 70.6 million) from BD 27.4 million (U.S.\$ 72.8 million) for the year ended 31 December 2017.

Income from placements with financial institutions

The Bank's income from placements with financial institutions for the year ended 31 December 2018 increased by 25.5 per cent. to BD 1.0 million (U.S.\$ 2.5 million) from BD 0.8 million (U.S.\$ 2.0 million) for the year ended 31 December 2017.

Other income

The Bank's income from sukuk for the year ended 31 December 2018 increased by 34.6 per cent. to BD 6.4 million (U.S.\$ 17 million) from BD 4.7 million (U.S.\$ 12.6 million) for the year ended 31 December 2017. This increase was principally due to the Bank's higher investment in Sukuk due to their nature of high return and lower risk.

The Bank's income from equity securities was BD 1.4 million (U.S.\$ 3.8 million) for the year ended 31 December 2018, compared to a loss of BD 1.7 million (U.S.\$ 4.4 million) for the year ended 31 December 2017. This was principally due to fair value movement of equity type securities for BD 2.0 million (U.S.\$ 5.3 million) during 2017 and an increase of BD 1.1 million (U.S.\$ 2.8 million) in dividend income.

Fees and other income for the year ended 31 December 2018 increased by 7.5 per cent. to BD 2.8 million (U.S.\$ 7.6 million) from BD 2.6 million (U.S.\$ 7.0 million) for the year ended 31 December 2017. This increase was principally due to an increase in commercial banking fees amounting to BD 179 thousand (U.S.\$ 475 thousand) and increase in recovery of written-off expenses amounting to BD 100 thousand (U.S.\$ 265 thousand).

Finance expenses

The Bank's finance expense on placements from financial institutions, non-financial institutions and individuals for the year ended 31 December 2018 increased by 39.7 per cent. to BD 5.6 million (U.S.\$ 15.0 million) from BD 4.0 million (U.S.\$ 10.7 million) for the year ended 31 December 2017. This increase was principally a result of an increase in average balances of placements from financial institutions, non-financial institutions and individuals from 2017 to 2018.

The Bank's finance expense on medium-term borrowing for the year ended 31 December 2018 increased by 217.0 per cent. to BD 2.1 million (U.S.\$ 5.5 million) from BD 0.6 million (U.S.\$ 1.7 million) for the year ended 31 December 2017. This increase was principally a result of the medium-term borrowing being drawn during 2017 .

The Bank's return to investment account holders for the year 31 December 2018 increased by 27.5 per cent to BD 11.2 million (U.S.\$ 29.7 million) from BD 8.8 million (U.S.\$ 23.3 million) for the year ending 31 December 2017. The increase was principally due to the higher average balances of deposits.

Operating expenses

The following table sets out the principal components of the Bank's operating expenses for the years ended 31 December 2018 and 31 December 2017.

	For year ended 31 December				Percentage
	2018		2017		change
	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	2018/2017
				%	
Staff costs	7,175	19,082	6,674	17,750	7.5
Other operating expenses	5,252	13,968	5,459	14,519	(3.8)
Total expenses.....	12,427	33,050	12,133	32,269	2.4

The Bank's staff costs for the year ended 31 December 2018 increased by 7.5 per cent. to BD 7.2 million (U.S.\$ 19.1 million) from BD 6.7 million (U.S.\$ 17.8 million) for the year ended 31 December 2017 and the Bank's other operating expenses for the year ended 31 December 2018 decreased by 3.8 per cent. to BD 5.3 million (U.S.\$ 14 million) from BD 5.5 million (U.S.\$ 14.5 million) for the year ended 31 December 2017. As a result of the foregoing, the Bank's total operating expenses for the year ended 31 December 2018 increased by 2.4 per cent. to BD 12.4 million (U.S.\$ 33.1 million) from BD 12.1 million (U.S.\$ 32.3 million) for the year ended 31 December 2017.

Net impairment charge

The Bank's net impairment charge for the year ended 31 December 2018 decreased by 15.8 per cent. to BD 6.3 million (U.S.\$ 16.7 million) from BD 7.5 million (U.S.\$ 19.9 million) for the year ended 31 December 2017. This decrease was due to a lower net impairment charge on financing assets amounting to BD 1.2 million (U.S.\$ 3.2 million).

Profit for the year

As a result of the foregoing, the Bank's profit for the year ended 31 December 2018 decreased by 26.7 per cent. to BD 600 thousand (U.S.\$ 1.6 million) from BD 818 thousand (U.S.\$ 2.2 million) for the year ended 31 December 2017.

FINANCIAL CONDITION AS AT 30 JUNE 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

Total assets

The following table sets out a breakdown of the principal components of the Bank's total assets as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017.

As at 30 June		As at 31 December		Percentage Change		
2020	2019	2018	2017	2020/ 2019	2019/ 2018	2018/ 2017

	<i>BD'00</i>	<i>U.S.\$'00</i>	<i>BD'00</i>	<i>U.S.\$'000</i>	<i>BD'00</i>	<i>U.S.\$'000</i>	<i>BD'00</i>	<i>U.S.\$'00</i>	<i>%</i>	<i>%</i>	<i>%</i>
ASSETS											
Cash and Bank balances	96,327	256,189	104,376	277,596	99,401	264,364	75,787	201,561	(7.7)	5.0	31.1
Placements with financial institutions	10,036	26,691	65,508	174,223	43,637	116,056	33,969	90,343	(84.7)	50.1	28.5
Financing assets	309,081	822,024	324,355	862,646	327,640	871,383	354,504	942,830	(4.7)	(1.0)	(7.6)
Investment in sukuk	225,256	599,085	195,050	518,750	161,324	429,053	113,347	301,455	15.5	20.9	42.3
Assets acquired for leasing	121,265	322,513	129,097	343,343	108,678	289,037	97,193	258,492	(6.1)	18.8	11.8
Lease rentals receivables	21,390	56,888	17,102	45,484	11,525	30,652	8,590	22,846	25.1	48.4	34.2
Investment in equity securities	40,766	108,420	43,989	116,992	50,039	133,082	52,203	138,838	(7.3)	(12.1)	(4.1)
Investment in associate	29,012	77,160	4,524	12,032	4,575	12,168	4,610	12,261	541.3	(1.1)	(0.8)
Investment in real estate	17,781	47,290	17,781	47,290	18,081	48,088	19,621	52,184	0.0	(1.7)	(7.8)
Development property	57,418	152,707	6,251	16,625	6,251	16,625	6,251	16,625	818.5	0	0
Other assets	24,936	66,319	23,969	63,747	11,923	31,710	11,390	30,293	4.0	101.1	4.7
Property and equipment	7,545	20,066	7,750	20,612	7,865	20,918	7,755	20,625	(2.6)	(1.5)	1.4
Total assets	960,813	2,555,352	939,752	2,499,340	850,939	2,263,136	785,220	2,088,353	2.2	10.4	8.4

The Bank's total assets increased 2.2 per cent. to BD 960.8 million (U.S.\$ 2,555.4 million) as at 30 June 2020 from BD 939.8 million (U.S.\$2,499.3 million) as at 31 December 2019, which represented an increase of 10.4 per cent from BD 850.9 million (U.S.\$ 2,263.1 million) as at 31 December 2018, which represented an increase of 8.4 per cent. from BD 785.2 million (U.S.\$ 2,888.4 million) as at 31 December 2017. These increases were a result of the increases and decreases in the line items as set out below.

Cash and bank balances

The Bank's cash and bank balances as at 30 June 2020 decreased by 7.7 per cent. to BD 96.3 million (U.S.\$ 256.2 million) compared to BD 104.4 million (U.S.\$ 277.6 million) as at 31 December 2019 which represented an increase of 5.0 per cent. to compared to BD 99.4 million (U.S.\$ 264.4 million) as at 31 December 2018, which represented an increase of 31.1 per cent. compared to BD 75.8 million (U.S.\$ 201.2 million) as at 31 December 2017. The decrease as at 30 June 2020 compared to 31 December 2019 was principally a result of a decrease in balances with banks amounting to BD 4.5 million (U.S.\$ 12.0 million) and a decrease of BD 3.9 million (U.S.\$ 10.3 million) in

balances with CBB. The increase as at 31 December 2019 compared to 31 December 2018 was principally a result of an increase of BD 20.7 million (U.S.\$ 55.1 million) in balances with the CBB and a decrease of BD 49 thousand (U.S.\$ 130 thousand) in impairment allowance, although these were partially offset by a decrease of BD 13.0 million (U.S.\$ 34.6 million) in balances with banks and a decrease of BD 2.8 million (U.S.\$ 7.4 million) in cash.

Placements with financial institutions

The Bank's placements with financial institutions as at 30 June 2020 decreased by 84.7 per cent. to BD 10.0 million (U.S.\$ 26.7 million) compared to BD 65.5 million (U.S.\$ 174.2 million) as at 31 December 2019 which represented an increase by 50.1 per cent. compared to BD 43.6 million (U.S.\$ 116.1 million) as at 31 December 2018, which represented an increase of 28.5 per cent. compared to BD 34.0 million (U.S.\$ 90.3 million) as at 31 December 2017. These decreases were principally a result of cash management and placement of cash into higher yielding assets.

Financing assets

The Bank's financing assets as at 30 June 2020 decreased by 4.7 per cent. to BD 309.1 million (U.S.\$ 822.0 million) compared to BD 324.4 million (U.S.\$ 862.6 million) as at 31 December 2019, which represented a decrease of 1.0 per cent. compared to BD 327.6 million (U.S.\$ 871.4 million) as at 31 December 2018, which represented a decrease of 7.6 per cent. compared to BD 354.5 million (U.S.\$ 942.8 million) as at 31 December 2017.

The decrease as at 30 June 2020 compared to 31 December 2019 was mainly due to write-down and disposal of assets which resulted in a decrease in provision of BD 21 million (U.S.\$ 55.7 million). The decrease as at 31 December 2019 compared to 31 December 2018 was principally a result of an increase of BD 16.0 million (U.S.\$ 42.6 million) in impairment allowances. The decrease as at 31 December 2018 compared to 31 December 2017 was principally a result of a decrease of BD 16.5 million (U.S.\$ 43.9 million) in Wakala assets, a decrease of BD 3.4 million (U.S.\$ 9.0 million) in Musharaka assets and an increase of BD 11.9 million (U.S.\$ 31.6 million) in impairment allowances.

Types of financing assets

The following table sets out a breakdown of the types of financing assets as at the dates indicated.

	As at 30 June		As at 31 December				Percentage Change				
	2020		2019		2018		2017		2020/ 2019	2019/ 2018	2018/ 2017
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000	%	%	%
Murabaha	317,498	844,411	354,510	942,846	338,012	898,968	335,064	891,128	(10.4)	4.9	0.9
Musharaka	104	277	104	277	3,541	9,418	6,918	18,399	0.0	(97.1)	(48.8)
Wakala	5,007	13,316	5,007	13,316	5,007	13,316	21,482	57,133	0.0	0	(76.7)
Mudharaba	1,047	2,785	1,047	2,785	1,049	2,790	1,137	3,024	0.0	(0.2)	(7.7)
Istisna	2,463	6,551	1,733	4,609	2,054	5,463	-	-	42.1	(15.6)	-
	326,119	867,340	362,401	963,833	349,663	929,955	364,601	969,684	(10.0)	3.6	(4.1)
Less: Impairment allowances	(17,038)	(45,314)	(38,046)	(101,186)	(22,023)	(58,572)	(10,097)	(26,854)	(58.1)	72.8	118.1
	309,081	822,026	324,355	862,647	327,640	871,383	354,504	942,830	(4.4)	(1.0)	(7.6)

Total impairment allowances on the financing assets were BD17.0 million (U.S.\$ 45.3 million) as at 30 June 2020, BD 38.0 million (U.S.\$ 101.2 million) as at 31 December 2019, BD 22.0 million (U.S.\$ 58.6 million) as at 31 December 2018 and BD 10.1 million (U.S.\$ 26.9 million) as at 31 December 2017. The decrease as at 30 June 2020 compared to 31 December 2019 was principally a result of a decrease of BD 21 million (U.S.\$ 55.7 million) due to

written-off and disposal of assets. The increase in impairment allowances as at 31 December 2019 compared to 31 December 2018 was principally a result of an increase of BD 16.0 million (U.S.\$ 42.6 million) in impairment allowances due to the management adopting a conservative stance against legacy assets by taking further provisions.

Financing assets by sector

The following table sets out the Bank's financing assets by sector as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017.

	As at 30 June		2019		As at 31 December		2017	
	2020				2018			
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000
Banks and financial institutions.....	7,250	19,283	7,857	20,896	10,358	27,548	11,011	29,285
Real estate	79,769	212,152	72,043	191,604	51,630	137,314	75,688	200,233
Construction.....	54,375	144,615	51,038	135,739	54,803	145,753	35,917	95,924
Trading.....	51,530	137,049	57,224	152,191	78,009	207,471	90,691	241,199
Manufacturing.....	14,554	38,708	13,955	37,114	13,880	36,915	45,090	119,920
Others.....	101,602	270,218	122,238	325,101	118,960	316,383	132,024	351,128
	309,081	822,025	324,355	862,646	327,640	871,384	390,421	1,037,689

Investment in sukuk

The Bank's investment in sukuk as at 30 June 2020 increased by 15.5 per cent to BD 225.3 million (U.S.\$ 599.1 million) compared to BD 195.1 million (U.S.\$ 518.8 million) as at 31 December 2019, which represented an increase of 20.9 per cent. compared to BD 161.3 million (U.S.\$ 429.1 million) as at 31 December 2018, which represented an increase of 42.3 per cent. compared to BD 113.3 million (U.S.\$ 301.5 million) as at 31 December 2017. These increases were due to the Bank's strategy of investing in sukuk due to their nature of high return and lower risk.

Assets acquired for leasing (including lease rental receivable)

The Bank's assets acquired for leasing as at 30 June 2020 decreased by 2.4 per cent to BD 142.7 million (U.S.\$ 379.4 million) compared to BD 146.2 million (U.S.\$ 388.8 million) as at 31 December 2019, which represented an increase of 21.6 per cent. compared to BD 120.2 million (U.S.\$ 319.7 million) as at 31 December 2018, which represented an increase of 13.6 per cent compared to BD 105.8 million (U.S.\$ 281.3 million) as at 31 December 2017. The year on year increase between the years 2017, 2018 and 2019 is principally due to growth in business, however, the decrease in 30 June 2020 compared to 31 December 2019 is principally due to soft market and economic conditions.

Investment in equity securities

The Bank's investment in equity securities as at 30 June 2020 decreased by 7.3 per cent to BD 40.8 million (U.S.\$ 108.4 million) compared to BD 44.0 million (U.S.\$ 117 million) as at 31 December 2019, which represented a decrease of 12.1 per cent compared to BD 50.0 million (U.S.\$ 133.1 million) as at 31 December 2018, which represented a decrease of 4.1 per cent. compared to BD 52.2 million (U.S.\$ 138.8 million) as at 31 December 2017. The decrease in 2020 compared to 31 December 2019 is principally due to the decrease of BD 3.0 million (U.S.\$ 7.9 million) as fair value movement.

Investment in Associate

The Bank's investment in associate as at 30 June 2020 increased by 541.3 per cent to BD 29.0 million (U.S.\$ 77.2 million) compared to BD 4.5 million (U.S.\$ 12.0 million) as at 31 December 2019, which represented a decrease of 1.1 per cent compared to BD 4.6 million (U.S.\$ 12.2 million) as at 31 December 2018, which represented a decrease of 0.8 per cent. compared to BD 4.6 million (U.S.\$ 12.3 million) as at 31 December 2017. In order to meet minimum regulatory requirements relating to total equity, during the six months ended 30 June 2020, the Bank issued the

Certificates which are the subject of these Admission Particulars, at a premium of BD 12 million (U.S.\$ 31.9 million). The issue was fully subscribed for by the Bank's parent company, GFH Financial Group B.S.C. through a combination of cash of BD 23.6 million (U.S.\$ 62.8 million) and in-kind of BD 48.4 million (U.S.\$ 128.7 million) comprising of a stake in a joint venture (investment in associate) of BD 24.5 million (U.S.\$ 65.2 million), properties of BD 5.5 million (U.S.\$ 14.6 million), and financing assets of BD 18.4 million (U.S.\$ 48.9 million) (see Note 11 to the Interim financial statements for further details).

Investment in real estate

The Bank's investment in real estate as at 30 June 2020 was BD 17.8 million (U.S.\$ 47.3 million) with no movement compared to 31 December 2019, which decreased by 1.7 per cent. to BD 17.8 million (U.S.\$ 47.3 million) compared to BD 18.1 million (U.S.\$ 48.1 million) as at 31 December 2018, which represented a decrease of 7.8 per cent. compared to BD 19.6 million (U.S.\$ 52.2 million) as at 31 December 2017. The decrease in 2019 compared to 2018 was principally a result of additional impairment allowance of BD 300 thousand (U.S.\$ 798 thousand). The decrease in 2018 compared to 2017 was principally due to a decrease resulting from the consolidation of one of the subsidiaries amounting to BD 1.6 million (U.S.\$ 4.4 million).

Development property

The Bank's development property as at 30 June 2020 increased by 818.5 per cent to BD 57.4 million (U.S.\$ 152.7 million) compared to BD 6.3 million (U.S.\$ 16.6 million) as at 31 December 2019, which represented no movement and stood at BD 6.3 million (U.S.\$ 16.6 million) as at 31 December 2018, which also had no movement and stood at BD 6.3 million (U.S.\$ 16.6 million) as at 31 December 2017. During the six months ended 30 June 2020, the Bank issued the Certificates at a premium of BD 12 million (U.S.\$ 31.9 million). The issue was fully subscribed for by the Manager through a combination of cash of BD 23.6 million (U.S.\$ 62.8 million) and in-kind of BD 48.4 million (U.S.\$ 128.7 million) comprising of a stake in a joint venture (Investment in Associate) of BD 24.5 million (U.S.\$ 65.2 million), properties of BD 5.5 million (U.S.\$ 14.6 million), and financing assets of BD 18.4 million (U.S.\$ 48.9 million) (see Note 11 to the Interim financial statements for further details).

Other assets

The Bank's other assets includes repossessed assets, profit accrued on sukuk, prepaid expenses and other receivables. The Bank's other assets as at 30 June 2020 increased by 4.0 per cent. to BD 24.9 million (U.S.\$ 66.3 million) compared to BD 24.0 million (U.S.\$ 63.7 million) as at 31 December 2019 which represents an increase of 101.0 per cent. compared to BD 11.9 million (U.S.\$ 31.7 million) as at 31 December 2018 which represents a 4.7 per cent increase compared to BD 11.4 million (U.S.\$ 30.3 million) as at 31 December 2017. The increase as at 31 December 2019 compared to 31 December 2018 was principally the result of an increase of BD 12.6 (U.S.\$ 33.5 million) million in repossessed assets.

Total liabilities

The following table sets out a breakdown of the Bank's total liabilities as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017.

	As at 30 June		As at 31 December						2020/ 2019	2019/ 2018
	2020		2019		2018		2017			
	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000	BD'000	U.S.\$'000	%	%
LIABILITIES										
Placements from financial institutions.....	108,14									
...	3	287,614	117,098	311,431	20,795	55,305	52,138	138,665	(7.6)	463.1

Placements from non-financial institutions and individuals.....	165,516	440,202	134,654	358,122	120,470	320,399	61,359	163,189	22.9	11.8
Term borrowing.....	79,636	211,798	-	-	41,357	109,992	41,308	109,862	100.0	(100)
Customers' current accounts.....	51,136	136,000	58,105	154,535	70,416	187,277	74,833	199,024	(12.0)	(17.5)
Other liabilities.....	14,028	37,309	19,798	52,654	10,512	28,957	7,953	21,152	(29.1)	88.3
Total liabilities.....	418,459	1,112,923	329,655	876,742	263,550	700,390	237,591	631,892	26.9	25.1

The Bank's total liabilities as at 30 June 2020 increased by 26.9 per cent to BD 418.5 million (U.S.\$ 1,112.9 million) compared to BD 329.7 million (U.S.\$ 876.7 million) as at 31 December 2019, which represented an increase of 25.1 per cent. compared to BD 263.6 million (U.S.\$ 700.4 million) as at 31 December 2018, which represented an increase of 10.9 per cent compared to BD 237.6 million (U.S.\$ 631.9 million) as at 31 December 2017. These changes were principally a result of the increases and decreases in the line items set out below.

Placements from financial institutions

Placements from financial institutions as at 30 June 2020 decreased by 7.6 per cent to BD 108.1 million (U.S.\$ 287.6 million) compared to BD 117.1 million (U.S.\$ 311.4 million) as at 31 December 2019, which represented an increase of 463.1 per cent. compared to BD 20.8 million (U.S.\$ 55.3 million) as at 31 December 2018, which represented a decrease of 60.1 per cent compared to BD 52.1 million (U.S.\$ 138.7 million) as at 31 December 2017. Placements from financial institutions is part of the Bank's asset and liabilities management where it is used for cash management liquidity purposes.

Placements from non-financial institutions and individuals

Placements from non-financial institutions and individuals as at 30 June 2020 increased by 22.9 per cent to BD 165.5 million (U.S.\$ 440.2 million) compared to BD 134.7 million (U.S.\$ 358.1 million) as at 31 December 2019, which represented an increase of 11.8 per cent. compared to BD 120.5 million (U.S.\$ 320.4 million) as at 31 December 2018, which represented an increase of 96.3 per cent compared to BD 61.4 million (U.S.\$ 163.2 million) as at 31 December 2017.

The increase in 30 June 2020 compared with 31 December 2019 is principally a result of an increase of BD 18.1 million (U.S.\$ 48.1 million) in placements with individuals, and increase of BD 24.4 million (U.S.\$ 64.8 million) in advance murabaha contracts although this was partially offset by a decrease of BD 10.2 million (U.S.\$ 27.0 million) in Thabet accounts. The increase as at 31 December 2019 compared to 31 December 2018 was principally a result of an increase of BD 10.8 million (U.S.\$ 28.7 million) in placements from individuals. The increase as at 31 December 2018 compared to 31 December 2017 was principally a result of increases of BD 28.8 million (U.S.\$ 76.5 million), BD 12.4 million (U.S.\$ 32.9 million), BD 15.5 million (U.S.\$ 41.3 million).

As at 30 June 2020, 98.0 per cent of total placements with the Bank were from private customers (compared to 97.5 per cent. as at 31 December 2019, 97.3 per cent. as at 31 December 2018 and 100 per cent. as at 31 December 2017) and 2.0 per cent. were from the Government sector (compared to 2.5 per cent as at 31 December 2019, 2.7 per cent. as at 31 December 2018 and none as at 31 December 2017).

Term borrowing

As of 30 June 2020, sukuk of BD 124.8 million (U.S.\$ 331.9 million) were pledged against term borrowings of BD 79.6 million (U.S.\$ 211.7 million) while during 2018, the Bank had two medium-term Murabaha facilities of BD 41.4 million (U.S.\$ 110.1 million) (BD 41.3 million (U.S.\$ 109.8 million) in 2017) which were secured by pledges over sukuk of BD 48,888 thousand. These borrowings were repaid during 2019.

Customers' current accounts

Customers' current accounts as at 30 June 2020 decreased by 12.0 per cent. to BD 51.1 million (U.S.\$ 136.0 million) compared to BD 58.1 million (U.S.\$ 154.5 million) as at 31 December 2019, which represented an decrease of 17.5 per cent. compared to BD 70.4 million (U.S.\$ 187.3 million) as of 31 December 2018, which represented a decrease of 5.9 per cent. compared to BD 74.8 million (U.S.\$ 199.0 million) as of 31 December 2017 .

Other liabilities

Other liabilities comprise Mudaraba profit accruals, advances received from customers, employee related accruals, Zakah and charity payable, payables for Istisna'a contracts, other payables and accrued expenses.

The Bank's other liabilities as at 30 June 2020 decreased by 29.1 per cent to BD 14.0 million (U.S.\$ 37.3 million) compared to BD 19.8 million (U.S.\$ 52.7 million) as at 31 December 2019, which represented an increase of 88.3 per cent. compared to BD 10.5 million (U.S.\$ 29.0 million) as at 31 December 2018, which represented an increase of 33.2 per cent. compared to BD 8.0 million (U.S.\$ 21.2 million) as at 31 December 2017. The decrease as at 30 June 2020 compared to 31 December 2019 is principally as a result of a decrease of BD 3.4 million (U.S.\$ 9.3 million) in Mudharaba profit accrual, a decrease of BD 1.1 million (U.S.\$ 2.9 million) in employee accruals. The increase as at 31 December 2019 compared to 31 December 2018 is principally due to an increase of BD 4.6 million (U.S.\$ 12.3 million), an increase of BD 1.0 million (U.S.\$ 2.7 million) in employee accruals and increase by BD 2.9 million (U.S.\$ 7.7 million) in consumer finance dues.

Total equity

The Bank's equity of investment account holders, owners' equity, non-controlling interest and total liabilities as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017 are set out below.

	As at 30	As at 31 December			Percentage Change		
	June 2020	2019	2018	2017	2020/ 2019	2019/ 2018	2018/ 2017
	BD'000	BD'000	BD'000	BD'000	%	%	%
Equity of investment account holders.....	398,926	522,190	483,927	431,945	(23.6)	7.9	12.0
OWNERS' EQUITY							
Share capital.....	89,212	105,000	105,000	105,000	(15.0)	0	0
Subordinated Mudaraba (AT 1) Statutory reserve.....	47,060	-	-	-	100.0	0	0
Treasury shares.....	8,225	8,225	8,225	8,159	0	0	0.8
Employee share incentive scheme.....	(11,765)	(11,730)	(11,295)	(10,212)	0.3	3.9	10.6
Investment fair value reserve (Accumulated losses) / retained earnings.....	-	-	(29)	(70)	0	(100)	(58.6)
	(226)	-	-	-	100	0	0
	8,746	(15,788)	(729)	10,162	(155.4)	2065.7	(107.2)
Total owners' equity.....	141,252	85,707	101,172	113,039	64.8	(15.3)	(10.5)
Non-controlling interest.....	2,176	2,200	2,290	2,645	(1.1)	(3.9)	(13.4)
Total liabilities, equity of investment account holders owners' equity and non-controlling interest.....	960,813	939,752	850,939	785,220	2.2	10.4	8.4

Equity of Investment Account Holders

Balances for equity of investment account holders represent funds received by an Islamic bank from account holders on the basis that the Islamic Bank will have the right to use and invest these funds without restriction (unrestricted investment accounts) or with limited use based on agreed limitations with the account holders (restricted investment accounts). For the Bank, the equity of investment account holders solely comprises unrestricted investment accounts. The holders of investment accounts may invest these funds with the Bank with different maturity periods from one month to three years and receive a share of the profit earned by the Bank commensurate with the proportion of their funds invested with the Bank relative to the total pool of investment funds available to the Bank.

The amount held by the Bank as equity of investment account holders as at 30 June 2020 decreased by 23.6 per cent to BD 398.9 million (U.S.\$ 1,061.0 million) compared to BD 522.2 million (U.S.\$ 1,388.8 million) as at 31 December 2019, which represents an increase of 7.9 per cent compared to BD 483.9 million (U.S.\$ 1,287.0 million) as at 31 December 2018, which represented an increase of 12.0 per cent compared to BD 431.9 million (U.S.\$ 1,148.8 million) as at 31 December 2017.

Total Owners' Equity

The main constituents of the Bank's total owners' equity were share capital, statutory reserve, treasury shares, employee share incentive scheme and retained earnings/accumulated losses. The Bank's total owners' equity amounted to BD 141.3 million (U.S.\$ 375.7 million) as at 30 June 2020, BD 85.7 million (U.S.\$ 227.8 million) as at 31 December 2019, BD 101.2 million (U.S.\$ 269.1 million) as at 31 December 2018 and BD 113.0 million (U.S.\$ 300.6 million) as at 31 December 2017.

During the period 30 June 2020, the Bank issued the Certificates at a premium of BD 12 million (U.S.\$ 31.9 million). The issue was fully subscribed for by the Manager through a combination of cash of BD 23.6 million (U.S.\$ 62.8 million) and in-kind of BD 48.4 million (U.S.\$ 128.7 million) comprising of a stake in a joint venture (investment in associate) of BD 24.5 million (U.S.\$ 65.2 million), properties of BD 5.5 million (U.S.\$ 14.6 million), and financing assets of BD 18.4 million (U.S.\$ 48.9 million) (*see Note 11 to the Interim financial statements for further details*).

In addition, on 25 March 2020 the shareholders of the Bank resolved to write-off losses of BD 15.8 million against paid up capital by reducing the number of shares from 1,050,000,000 ordinary shares of BD 0.100 each as at 30 December 2019 to 892,119,480 ordinary shares of BD 0.100 each as at 30 June 2020.

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

Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Bank's financial statements, they contain credit risk and are therefore part of the overall risk of the Bank.

Credit-related financial instruments include unutilised commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. Commitments to extend credit represent contractual commitments to make financing and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

The following table sets out the outstanding contract value or the notional amounts of these instruments as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017.

	As at 30 June		2019		As at 31 December		2017	
	2020				2018			
	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>
Undrawn commitments to extend finance..	45,539	121,114	68,876	183,181	33,193	88,279	48,747	129,646
Financial guarantees.....	10,320	27,447	11,836	31,479	12,864	34,213	18,390	48,910
	55,859	148,561	80,712	214,660	46,057	122,492	67,137	178,556

The Bank's undrawn commitments to extend finance as at 30 June 2020 were BD 45.5 million (U.S.\$ 121.1 million), which represented a decrease of 33.9 per cent compared to BD 68.9 million (U.S.\$ 183.2 million) as at 31 December 2019, which represented an increase of 107.5 per cent. compared to BD 33.2 million (U.S.\$ 88.3 million) as at 31 December 2018, which represented a decrease of 31.9 per cent. compared to BD 48.7 million (U.S.\$ 18.4 million) as at 31 December 2017.

Contingent liabilities included BD 759 thousand (U.S.\$ 2,017.3) relating to NPFs as at 30 June 2020 compared to BD 1.4 million (U.S.\$ 3,798.3 million) as at 31 December 2019 BD 1.3 million (U.S.\$ 3,490.0 million) as at 31 December 2018 and BD 1.6 million (U.S.\$ 4,136.1 million) as at 31 December 2017.

Capital adequacy

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator (the CBB);
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the CBB capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBB's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements. CBB requires banks registered in Bahrain to maintain a minimum capital adequacy ratio of 12.5 per cent. (on a consolidated basis) and 8.0 per cent. (on a stand-alone basis) which exceeds the minimum ratio requirements set by Basel III.

The following table sets out the Bank's key capital adequacy ratios as at 30 June 2020, 31 December 2019, 31 December 2018 and 31 December 2017, calculated in accordance with CBB guidelines.

	As at 30 June		2019		As at 31 December		2017	
	2020				2018			
	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>	<i>BD'000</i>	<i>U.S.\$'000</i>
Total risk weighted exposure	695,626	1,850,069	532,793	1,417,003	653,067	1,736,880	683,784	1,818,574
Tier 1 capital:								
- CET 1 capital prior to regulatory adjustments	105,878	281,590	97,215	258,551	112,401	298,939	123,141	327,503

- Less: regulatory adjustments									
.....	(11,765)	(31,290)	(14,356)	(38,181)	(13,725)	(36,503)	(11,325)	(30,120)	
CET 1 after regulatory adjustments									
.....	94,113	250,300	82,859	220,370	98,676	262,436	111,816	297,383	
AT 1									
.....	47,060	125,160	-	-	-	-	-	-	-
Tier 2 capital:	7,783	20,699	5,726	15,229	7,286	19,378	4,419	11,753	
Total regulatory capital									
.....	148,956	396,159	88,585	235,599	105,962	281,814	116,235	309,136	
Total regulatory capital expressed as a percentage of total risk weighted assets									
.....	21.41%		16.63%		16.23%		17.00%		
Liquidity coverage ratio									
.....	187%		733.93%		395.03%		111.99%		
Net stable funding ratio									
.....	92.7%		108.5%		88.31%		196.01%		
Leverage ratio									
.....	3.66		5.40		4.77		3.80		

Tier 1 capital includes common equity tier 1 capital (**CET1**) and additional tier 1 capital (**AT1**). CET1 comprises of ordinary share capital that meets the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal or 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 comprises 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.

Impairment provisions

Since 1 January 2018, the Bank recognises loss allowances for expected credit losses (**ECL**) on the following financial instruments that are not measured at fair value through profit or loss: cash, placements, investment in sukuk, off-balance sheet items (commitments and guarantees), financing assets and Ijarah. As at 30 June 2020 total ECL was BD 21.8 million (U.S.\$ 57.8 million), at 31 December 2019 was BD 42.9 million (U.S.\$ 113.8 million), at 31 December 2018 was BD 26.2 million (U.S.\$ 69.5 million).

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a public shareholding company that was incorporated in Bahrain on 24 November 2004, with the name Gulf Finance House Commercial Bank and was subsequently renamed as Khaleeji Commercial Bank BSC on 10th August 2006. The Bank has been listed on the local stock exchange of Bahrain, as the Bahrain Bourse, since June 2008. The Bank is registered with the CBB as a retail Islamic Bank, with commercial registration number 55133. The registered address of the Bank is Bahrain Financial Harbour, East Tower, P.O. Box 60002, Manama, Kingdom of Bahrain. The Bank's website address is <http://www.khcbonline.com/en> and its telephone number is +973 17540054.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

As at 30 June 2020, the authorised ordinary share capital of the Bank comprised 3,000,000,000 ordinary shares of BD 0.100 each and the issued and fully paid-up ordinary share capital of the Bank comprised of 892,119,480 ordinary shares of BD 0.100 each. As at 30 June 2020, the major shareholders of the Bank were: KHCB Asset Company (on behalf of GFH Financial Group) (55.41 per cent.), Goldilocks Investment Company Limited (9.98 per cent.) and Khaleeji Commercial Bank B.S.C (9.79 per cent.).

As at 30 June 2020, the Bank had 5 branches and 12 ATMs across Bahrain. As at the date of these Admission Particulars the Bank has 5 branches in Bahrain.

For financial reporting purposes, the Bank's business activities are classified within the following two segments: (i) corporate and retail banking; and (ii) investment banking (see "*Financial Reporting and Business Segments*"). The Bank is winding down its investment banking business.

Financial Overview

The Bank made a profit of BD 5.7 million in the period ended 30 June 2020, compared to a profit of BD 0.2 million for the period ended 30 June 2019. The Bank made a loss of BD 15.0 million in the year ended 31 December 2019, compared to a profit of BD 600 thousand for the year ended 31 December 2018, which represented a decrease of 26.7 per cent. from BD 818 thousand for the year ended 31 December 2017.

The Bank's total assets increased 2.2 per cent to BD 960.8 million as at 30 June 2020 from 939.8 million as at 31 December 2019. The Bank's total assets increased 10.4 per cent. to BD 939.8 million as at 31 December 2019 from BD 850.9 million as at 31 December 2018, which represented an increase of 8.4 per cent. from BD 785.2 million as at 31 December 2017.

The Bank's total owners' equity increased by 64.8 per cent. to BD 141.3 million as at 30 June 2020 compared to BD 85.7 million as at 31 December 2019, which represented a decrease of 15.3 per cent. from BD 101.2 million as at 31 December 2018, which represented an increase of 10.5 per cent. from BD 113.0 million as at 31 December 2017.

As per CBB guidelines, the Bank was required to maintain its capital adequacy ratio at a minimum of 12.5 per cent. (including the capital conservation buffer) with effect from 1 January 2015. The Bank's total capital adequacy ratio (calculated in accordance with CBB guidelines) as at 30 June 2020 was 21.41 per cent, as at 31 December 2019 was 16.63 per cent., as at 31 December 2018 was 16.23 per cent. and as at 31 December 2017 was 17.00 per cent. The Bank's Tier 1 capital ratio was 20.65 per cent. as at 30 June 2020, 15.55 per cent. as at 31 December 2019, 15.11 per cent. as at 31 December 2018 and 16.31 per cent. as at 31 December 2017.

Ratings

As at the date of these Admission Particulars, the Bank had the following ratings from Moody's:

- long term local currency deposit ratings at B3 (with a stable outlook);
- long term foreign currency deposit at B3 (with a stable outlook); and
- baseline credit assessment at caa1 (with a stable outlook).

Awards

The Bank has won a number of awards, including the awards listed in the table below:

History

The Bank is a public shareholding company, was incorporated on 24 November 2004 and operates under an Islamic retail banking license granted by the CBB on 20 October 2003. The Bank was initially registered under the name

Award	Institution	Year
Best Retail Bank	Islamic Business & Finance – CPI Financial	2008
Best Islamic Investment Advisory Institution	Islamic Business & Finance – CPI Financial	2008
Best Commercial Bank	Islamic Business & Finance – CPI Financial	2009
New Product Award	Banker Middle East – CPI Financial	2009
Fastest Growing Bank in Bahrain	Banker Middle East – CPI Financial	2016
Best Saving Product in Bahrain “Al Waffer”	Banker Middle East – CPI Financial	2016
Best Islamic Credit Card – Easy 360	Global Banking & Finance Review	2016
Best Islamic Banking Product – It’eman	Global Banking & Finance Review	2016

Gulf Finance House Commercial Bank B.S.C. (C) and on 10 August 2006 its name was changed to Khaleeji Commercial Bank B.S.C.

The Bank was incorporated with a share capital of BD 30 million. In 2007, the Bank increased its share capital to BD 100 million and in 2008, the Banks' shares were listed on the Bahrain Bourse. In 2009 the Bank increased its share capital to BD 105 million by issuing a 5 per cent. stock dividend.

In 2010, the Bank went through a major transformation and was converted into a full-fledged commercial bank. During 2015 the Bank amortised its cumulative losses by reducing its share capital to BD 100 million which was subsequently increased to BD 105 million in 2016 by issuing a 5 per cent. stock dividend. During 2019, the Bank reported total accumulated loss of BD 15.8 million and therefore reduced its share capital to BD 89.2 million during the first quarter of 2020.

STRATEGY

Strategy Statement

The Bank’s strategy for retail envisions a strategic shift from the mass market to a more focused niche market targeting affluent individuals and professionals by redirecting its marketing approach and tailoring its products and services to ensure a more enriching customer experience. The Bank is applying a segmentation approach to its customer base and seeking to understand different customer types and their needs rather than simply creating a one-size-fits-all product, with a view to improving its customers’ experience and increasing efficiency through increased use of e-channels.

New products and enhanced services are the key drivers of the Bank's business growth and increase in assets, therefore, the Bank continues to invest heavily in developing its products and services and continues to grow closer to its customers, listening closely to their needs and providing tailored financial solutions.

Overview – Looking Ahead

The Bank's inclination towards digital banking would be key in increasing customer acquisition through digital channels which would reduce acquisition cost and time. Digital banking will empower customers to perform transactions at any moment thereby enhancing their experience.

Technology, risk management and controls are the backbone that support business growth and ensure competitiveness in the market place. The Bank continues to invest in further enhancing them by implementing new solutions for risk, compliance, core banking and others. The Bank continues to align risk management with business to contribute in the creation, optimization and protection of enterprise value by managing business risks while creating value in the marketplace and continuous asset management of investment portfolio by establishing strategic investment exits.

The Bank is driven towards adopting important expansionary initiatives that it aims to achieve in the years to follow which include the Bank's plans to continue improving the financing portfolio at both the Corporate and Retail level, with special consideration to the sovereign exposures, while maintaining appropriate liquidity buffers and financial ratios.

Customer experience, approach and acquisition

The Bank's distribution network comprised five branches across Bahrain as at 30 June 2020 and, reflecting its strategy of targeting a smaller and more focused retail customer base and a greater focus on digitalization of banking services, it is currently in the process of rationalizing its branch network through the closure of some existing branches, the strategic selection of new locations and the redistribution of resources to improve efficiency and ensure higher and more strategic penetration of its target retail customer base. The Bank also offers its clients a wide range of electronic services which aims to simplify both communications with its clients and transactions such as e-banking, mobile banking and e-Dinar (an electronic payment gateway), eStatement (Interactive HTML5 Statement) and SMS Banking.

The Bank is the first bank in the MENA region to be Open Banking compliant and has recently launched the service to its customers where customers are able to manage and view all of their accounts in other banks with ease under one platform provided by the Bank. Moreover, the Bank is in the process of launching its new mobile application where clients can view, manage and conduct transactions with ease on their phones all of which is aimed to enhance the customer experience and increase customer retention and acquisition.

The Bank will continue its strides towards positive transformation through adopting several focused development plans and initiatives that aim to bolster its position, increase its market share, and competitiveness in the market.

As an example, the Bank introduced the elite companies program, a program where major employers are approached and the Bank would open a small workspace for a short period of time in the employer's premises offering special promotions and product for both acquiring more customers and enhancing relationships with major corporations. The Bank has also repackaged and enhanced existing products including rebranding of Al Wafer (the Bank's prize money deposit account), introduction of Flexi finance where the customer can postpone up to 6 instalments to create a more flexible and desirable product.

Technology, risk management and controls

During 2020, the Bank underwent an organisational restructuring creating a new division named Digital Banking to focus on the ever growing technology trends in the banking industry thereby adding another revenue line. The

division aims to create an online onboarding platform where it enables customers to open new bank accounts within minutes without the need of visiting a branch while still completing the necessary due diligence procedures.

The Bank launched “Qlik-sense”, its new data analytics platform which provides a clean interface to build data exploration, discovery, and visualisation apps. The application enables the management to easily combine, load data, create smart visualisations to enhance data analytics and decision making.

Moreover, the Bank is always finding new ways to increase the efficiency of processes by automating existing processes. The Bank recently introduced a new compliance software which helps with controlling regulatory submissions. Furthermore, the Bank also recently automated both the profit suspension process and card disputes resolution.

Retail and Corporate Banking

The Bank believes that corporate banking is likely to be to a major driver of its future growth and it is developing its plans to further exploit this sector. To improve the quality of assets the corporate banking department is strategically targeting landmark projects, large corporates, family conglomerates, syndications, Government and quasi-Government financing and reputable high net-worth individuals.

Furthermore, key strategic initiatives for corporate banking include: improvement in turn-around times, profitability enhancement by managing cost of funding, systematic tracking of profitability and performance targets and collateral enhancement.

On the other hand, the retail department provides a variety of services that would meet the needs of every retail consumer by offering a wide variety of financing and depository products.

The Bank plans to redesign its retail banking experience by focusing on special offerings and unique customer experience. The Bank plans to offer the identified segment a basket of products and services with a personal touch, promote convenience, time efficient transactions and not only meeting customers’ needs but also anticipating them.

The Bank's strategy for its retail banking department is as follows:

Niche market: moving from product-driven and mass segment approach to targeting the mid/ affluent to high income customers.

Focus segmentation: introducing the employer appreciation program where the Bank will be directly targeting employees of selected companies and offering them a basket of services at better pricing and better turn around time with better AI Waffer winning opportunities.

Rationalisation: rationalise number and location of branches to have more effective market penetration.

Competitive advantages

Highly skilled and talented management and staff

The Bank is equipped with highly trained and motivated management and staff that ensures continuous assessment of current market conditions, market needs and Bank performance. The Bank’s nine-member Board comprises executive, non-executive and independent members which includes Mr. Jassim Alseddiqi, the chief executive officer of its largest shareholder, Abu Dhabi Financial Group LLC (“ADFG”), an Abu Dhabi-based global investment group, H.E. Shaikh Ahmed Al Khalifa, the Advisor for Community Affairs at the Bahrain Crown Prince Court, and Mr. Sattam Al Gosaibi, the CEO. Together, the Board has a wide range of skills and significant experience.

The Bank is committed to creating a workplace that embraces innovation and allows interdepartmental synergies. The human resources department has launched several initiatives to promote this culture including:

- sending employees to the CFO grooming programme in collaboration with the Central Bank of Bahrain Waqf Fund and the Ivey School of Business, through which employees attended intensive international courses in countries including Canada, Hong Kong, Singapore and United Arab Emirates;
- association with Bahrain's Institute of Banking and Finance, a leading educational provider in Bahrain, which offers classes for some of the world's most prominent professional certifications, bachelors and master degrees;
- the "STAR" program through which employees are rewarded and recognised on a quarterly basis to promote a healthy competitive and innovative environment; and
- the top management of the Bank has launched an initiative where they announce their office hours to employees giving them the opportunity to discuss career growth, pitch ideas and raise concerns. This also gives management the opportunity to share their vast knowledge and experience with their employees tackling issues on an individual basis.

Growth in liquid assets

The Bank's strong liquidity buffers moderate the impact of its high deposit concentration. As at 30 June 2020, the Bank's stock of liquid assets comprised cash, interbank placements and securities. The Bank was able to achieve growth in liquid assets which currently comprises 21.52 per cent. of total assets. This has in turn allowed the Bank to invest the liquidity in prominent sukuk investments that are characterised by high yield and low risk. Such investments resulted in a considerable increase in the sukuk portfolio reaching BD 225.3 million as at 30 June 2020 compared to BD 195.1 million as at 31 December 2019, a growth of 15.5 per cent. The Bank's liquidity buffers are above the Islamic banks average in Bahrain of 17.5 per cent. as of 31 December 2019. The Bank also has the third highest equity amongst Islamic banks in Bahrain with a capital adequacy ratio of 21.41per cent. compared to the Islamic banking average of 18.3 per cent. as of 31 December 2019

Financial Technology

The Bank has also played a prominent role in creating high quality digital banking solutions, placing it in the forefront of the financial technology (**FinTech**) sector in Bahrain, as the first bank in Bahrain and the Middle East to announce its readiness to offer Open Banking Services. The Bank has recently launched this service to its customers, in line with Bahrain's ambition to become a leading regional hub in this field. This has partly been a result of the early establishment of foundations for a modern technological environment in the Bank for several years, emphasising on the Bank's leadership in the introduction of digital banking products in Bahrain, beginning with the launch of the digital payment gateway "eDinar".

The Bank has also proven its FinTech leadership by introducing the "Khaleeji eTrade" platform, which is the first of its kind in Bahrain and offers several services that enable clients to easily open accounts to trade stocks listed on Bahrain Bourse, place buy-and-sell orders, review market performance charts, receive the latest news on local and international stock markets and other services that can be conveniently and securely accessed through a special app on smart devices.

Strong shareholder

The Bank's parent company, GFH Financial Group B.S.C., has a shareholding of 55.41 per cent in the Bank (via KHCB Asset Company) at the date of these Admission Particulars, therefore the Bank benefits from constant support from its parent company. Support from parent company comes in many forms such as liquidity by depositing significant funds into the Bank and supporting the capital structure of the Bank by injecting additional tier 1 capital.

GFH Financial Group B.S.C. is a financial group headquartered in Bahrain and operating in the GCC region with a diversified offering of investment opportunities and a track record of identifying, successfully bringing to market and capitalising on a range of Islamic investment opportunities. Since its inception in 1999, it has raised over U.S.\$10 billion of assets and funds under management from its wide client base.

The Manager is listed on three stock exchanges in the GCC: the Bahrain Bourse, Boursa Kuwait and the Dubai Financial Market (**DFM**). The Manager is one of the most liquid and actively traded stocks on the DFM. It has consistently been recognised for its innovative approach, investment prudence and overall achievements in Islamic finance, wealth management and investment banking.

During its 20-year history, the Manager has conceptualised and established a large number of pioneering financial institutions in the GCC. For example, it was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively on the energy sector. It has also established several cross-border entities, including QInvest in Qatar, Arab Finance House in Lebanon, First Leasing Bank in Bahrain, Asia Finance Bank in Malaysia, Injazat Capital (now known as GFH Capital) in the Dubai International Financial Centre and Gulf Holding Company in Kuwait.

In addition, the Manager has also successfully conceived, funded and developed large, complex and innovative real estate and infrastructure projects in the GCC, the wider MENA region and India. The Group's residential and commercial projects include Bahrain's and Tunisia's financial harbours and energy cities in Qatar and India. The Manager has also acted as the master developer for luxury lifestyle developments such as Royal Parks Marrakech and Tangier in Morocco and the Al Areen Development in Bahrain. More recently, the Manager has led the revival of the Villamar development in Bahrain and launched the Harbour Row project in Bahrain as well as California Village at Dubailand in Dubai.

CAPITAL STRUCTURE

As at 30 June 2020, the Bank's major shareholders (owning 5 per cent. or more) were:

	Percentage of total Bank shares
KHCB Asset Company (GFH Financial Group)	55.41
Goldilocks Investment Company Limited	9.98
Khaleeji Commercial Bank B.S.C.	9.79

KHCB Asset Company is the largest shareholder of the Bank with a shareholding of 55.41 per cent. as at 30 June 2020. KHCB Asset Company holds these shares on behalf of GFH Financial Group B.S.C. (see "*Competitive Strengths – Strong Shareholder*" above). Goldilocks Investment Company Limited

Goldilocks Investment Company Limited held 9.98 per cent. of the Bank's share capital as at 30 June 2020. Goldilocks Investment Company Limited is an open-end fund incorporated in the United Arab Emirates. The fund's objective is to generate superior and consistent returns. The fund invests in undervalued and intrinsically mispriced opportunities with a focus on Middle East region public equities.

The rights of the Bank's shareholders are contained in the articles of association of the Bank and the Bank is managed in accordance with those articles and with the provisions of Bahraini law.

FINANCIAL REPORTING AND BUSINESS SEGMENTS

For financial reporting purposes, the Bank's business activities are classified within the following segments:

- *Corporate and retail banking*: providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities and bill payment facilities. The Bank also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah

facilities) to corporate clients and high net worth individuals, and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group.

- *Investment banking*: primarily relates to conceptualising of investment deals and performing the roles of an arranger, lead manager and administrator of the funds (involves structuring of deals, raising of funds through private placements and funds administration). This segment also includes products like Restricted Investment Accounts (RIA) and management of funds raised through such RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Set out below is a summary of certain segmental financial information as at and for the years ended 31 December 2019, 31 December 2018 and 31 December 2017.

31-Dec-19

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
	BD'000			
Total segment income.....	(1,597)	21,153	-	19,556
Segment results.....				
Total segment expenses.....	917	4,525	8,752	14,194
Segment results.....	(5,482)	(793)	(8,752)	(15,027)
Total segment assets.....	87,636	838,485	13,631	939,752
Total segment liabilities.....	3,031	332,675	4,304	340,010

31-Dec-18

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
	BD'000			
Total segment income.....	1,412	17,903	-	19,315
Segment results.....				
Total segment expenses.....	810	3,821	7,796	12,427
Segment results.....	(1,603)	9,999	(7,796)	600
Total segment assets.....	86,867	754,987	9,085	850,939
Total segment liabilities.....	3,346	395,637	2,121	401,104

31-Dec-17

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
	BD'000			
Total segment income.....	(1,725)	22,146	-	20,421
Segment results.....				
Total segment expenses.....	1,016	3,773	7,344	12,133
Segment results.....	(4,842)	13,004	(7,344)	818
Total segment assets.....	89,811	685,830	9,579	785,220
Total segment liabilities.....	3,096	305,106	1,516	309,718

CORPORATE AND RETAIL BANKING

As at 30 June 2020, the Bank's corporate and retail banking assets amounted to BD 788.3 million and accounted for 82.0 per cent. of the Bank's total assets (compared to BD 838.5 million, 89.2 per cent. as at 31 December 2019, compared to BD 755.0 million, 88.7 per cent. as at 31 December 2018 and BD 685.8 million, 87.3 per cent. as at 31 December 2017). As at 31 December 2019, the Bank provided corporate and retail banking products and services to 57,564 customers.

For the year ended 31 December 2019, corporate and retail banking activities generated total income of BD 21.2 million which accounted for 108.2 per cent. of the Bank's total operating income (compared to BD 17.9 million and 92.7 per cent. for the year ended 31 December 2018 and BD 22.1 million, 108.4 per cent. for the year ended 31 December 2017).

Corporate Banking

Corporate Banking products are used and tailored depending on client needs. The most widely used products are as follows:

- Commodity Murabaha or “Tawarruq” – product catered for generating liquidity through buying a resalable commodity from the Bank which is later resold to generate the required liquidity for the client. The product is mostly used for project financing and some working capital structures.
- Murabaha Contracts (Goods Murabaha / LC Murabaha)- for purchasing goods and machinery from local or international producers or exporters to be repaid through installments agreement between the client and the Bank.
- Ijara or leasing contracts – this product is used for real estate or equipment finance and is then leased back to the client via a lease to own contract. This is beneficially for capex requirements as it enables the client to utilise the property or machinery while the financing is being repaid.
- Other structures including Istisnaa and Musharaka structures may be used as well depending on the client's need and suitability of the structure.

The Bank uses an array of the above products to cater to clients' financing needs and support company balance sheets. The Bank provides working capital, short-term, and long-term facilities to cater to all the needs of the business. Corporate Banking also looks at the depository side of the relationship and provides clients with different options to manage their liquidity (Mudharaba and Murabaha accounts).

As at 31 December 2019 the Corporate Banking unit managed approximately 110 financing relationships with a total book of BD 292.0 million. The unit also manages many liability accounts with total deposits of BD 85.9 million.

The Bank offers various products and services for the Small and Medium Enterprise (SME) segment and has collaborated with Tamkeen (a semi-autonomous government agency in Bahrain that provides assistance and training to private-sector businesses and individuals, and promotes development of that sector) in relation to several programmes since 2011, providing financial packages that comply with Sharia'a principles. This has included providing a financing portfolio of BD 50 million under “Tamweel Finance Scheme” to support SMEs and BD 30 million under “Tamweel Plus Finance Scheme” to support larger corporates in their financial requirements.

The main services offered to corporates and SMEs to support their financing requirements include:

- working capital finance;
- capital expenditure finance;
- project finance;
- trade finance;

- real estate finance;
- refinancing to enhance company cash flows; and
- i'teman (overdraft like facility).

The SME business banking unit provided banking services and products to 286 customers, with an asset portfolio of BD 59.0 million and liabilities portfolio of BD 25.0 million as of 31 December 2019.

Retail banking

The principal retail products and services offered by the Bank include:

Accounts

The Bank offers a wide range of deposit products including (i) current accounts, (ii) savings accounts, (iii) murabaha accounts, (iv) call mudharaba accounts and (v) al waffer account. The Bank offers a variety of debit and credit cards connected to the accounts outlined further below.

Current Account

The current account is a non-profit account that grants customers instant and flexible access to their funds at any time. Deposits and withdrawals can be made using cheques, ATMs or at one of the Bank's branches.

Savings Account

This is a profit based account adhering to Shari'a principles that is designed specifically to meet the requirements of customers who wish to invest their cash. Customers are able to deposit and withdraw their funds by using ATMs or visiting one of the Bank's branches. Monthly profit distributions are made to account holders. This account does not offer a cheque book facility.

Murabaha Account

Murabaha deposits represent a safe investment opportunity in accordance with the provisions of Islamic Shari'a as they are based on Murabaha with a specified pre-agreed profit rate. The Bank pledges to reimburse the value of capital on maturity.

Call Mudharaba Account

This is a Shari'a compliant account that offers two levels of profits and offers It is based on the principle of unrestricted Mudharaba (Al-Mutlaqa), in which the investor (as Rab-Al Maal) provides capital. The Bank (as Mudharib) provides expertise for the investment of capital to earn Shari'a-compliant profits, which is divided between the two parties according to ratios agreed in advance. Customers are able to deposit and withdraw their funds by using ATMs or by visiting a branch.

Al Waffer Account

Al Waffer is an investment account that is Shari'a-compliant where its deposits are invested on an unrestricted Mudaraba basis. A minimum of BD 500 is required to open an Al Waffer account, which also gives customers the chance to win prizes. In addition, two new features have been introduced during 2020: the "Al Waffer Club" and a "Double Points" programme.

"Al Waffer Club" is meant for Al Waffer clients who have BD 5,000 or more deposited in their account, which offers entry to additional monthly raffle draws for BD 5,000 cash prizes. This is in addition to the grand prize raffles for all Al Waffer accountholders.

The “Double Points” programme offers Al Waffer clients additional points towards all prize raffles, on the condition that the account balance is maintained or increased without making any withdrawals for over 90 days before the relevant raffle dates.

Financing

The Bank offers a wide range of financing facilities including (i) personal finance, (ii) home finance, (iii) auto finance and (iv) mazaya.

Personal Finance

Personal financing can be used for a variety of purposes, including education, marriage or even for holidays. The Bank's flexible financing is available to those who are employed, those who are self-employed as well as retirees. Profit rates are competitive, and approval is fast.

Home Finance

Home financing is available to Bahrainis and expatriate residents in Bahrain, for up to BD 400,000 and up to 85 per cent. of the property value. Profit rates are competitive, processing fees are low and approval is fast.

Auto Finance

Auto financing is available to employees as well as self-employed, and to Bahrainis and resident expatriates. No down payment is required. The Bank finances up to BD 50,000 at competitive profit rates.

Mazaya

The Bank is currently the only bank in Bahrain that offers financing in relation to the Government's social housing scheme “Mazaya” with zero down payment requirements. Financing is provided for up to BD 120,000.

Cards

The Bank offers a wide range of debit and credit cards. All of the Bank's credit and debit cards come with the new “TAP & GO” feature, allowing for contactless payment. The maximum amount that can be spent through the contactless “TAP & GO” feature is BD 20 for security purposes, with the PIN being required for purchases over BD 20.

Credit Cards

The Bank's Shari'a-compliant Visa credit cards are accepted worldwide with competitive profit rates. The Bank offers Classic, Gold and Platinum cards for personal use and Corporate cards for businesses needs. The Bank also offers an “Infinite” credit card which offers exclusive benefits for high-net-worth individuals. The main differences between the cards are the benefits offered on each class transaction as follows:

Visa Classic

- Global emergency assistance
- Global ATM network

Visa Gold

- Global emergency assistance

- Travel assistance
- Global ATM network

Visa Platinum

- Complimentary 12 visits to airport lounges at 25 lounges globally per year
- Dragon Pass “Fine & Fly” airport dining programme
- Up to 12 per cent. discount on over 985,000+ hotels and vacation rentals
- 8 per cent. off booking on Hotels.com
- 50 per cent. off on Vox Cinemas tickets purchased online or via the app
- Visa Luxury Hotel Collection (VLHC)
- YQ Meet & Assist
- Extended warranty
- Purchase protection
- 2 for 1 ENTERTAINER offers with VISA offers Mena Mobile App

Visa Infinite

- Unlimited access to more than 1000 airport lounges around the world for one guest.

Service fees are competitive, and the profit rate for repayments is 3 per cent. Up to 35 per cent. of the card’s limit can be withdrawn in cash. The Bank allows a grace period of 55 days (25 days from the date of the credit card statement). The Bank also offers up to five free supplementary cards, free travel insurance and free Gulf Airmiles.

Debit Cards

The Bank offers two types of Visa debit cards:

The Classic debit card – this has a maximum withdrawal and Point of Sale limit of BD 700.

The VIP debit card - this has a maximum withdrawal and Point of Sale limit of BD 1500.

Khaleeji VIP

Khaleeji VIP is the Bank's premier banking service designed to optimise, protect and manage the financial well-being of an individual, family or corporation. Khaleeji VIP customers are provided with a dedicated relationship manager, offered competitive rates, preferential tariff charges and special exchange rates. They are also provided with a customised Khaleeji VIP cheque book, and allowed higher daily withdrawal and spend limits.

Treasury

The Bank's treasury function primarily manages the liquidity requirement of the organisation. Treasury receives information from the Banks' business units regarding the liquidity profile of their financial assets and liabilities and details of the projected cash flows arising from projected future commitments. Treasury then aims to maintain a

portfolio of short-term liquid assets, largely made up of short-term placements with financial institutions and other inter-bank facilities to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through Treasury to cover any short-term fluctuations and through longer term funding to address any structural liquidity requirements.

Foreign Exchange

The Bank caters to all foreign exchange requirements and clients with currency exposure who benefit from expert advice at competitive pricing on spot, forwards, swaps. Treasury also monitors clients' large currency orders on a 24/7 basis.

Money Markets

The Bank offers a wide range of deposit products on local currency and all other major currencies for various tenors alongside an array of attractive profit rate campaigns.

INVESTMENT BANKING

As at 30 June 2020, the Bank's investment banking assets amounted to BD 158.5 million and accounted for 16.5 per cent. of the Bank's total assets (compared to BD 87.6 million, 9.3 per cent. as at 31 December 2019, compared to BD 86.9 million, 10.2 per cent. as at 31 December 2018 and BD 89.8 million, 11.4 per cent. as at 31 December 2017). As at 31 December 2019, the Bank provided investment banking products and services to 520 customers.

For the year ended 31 December 2019, investment banking activities generated a loss of of BD 1.6 million (compared to total income of BD 1.4 million, which was 7.3 per cent. of the Bank's total income for the year ended 31 December 2018 and a loss of BD 1.7 million for the year ended 31 December 2017).

The Bank is winding down its investment banking business by exiting from its various investment funds whilst progressively taking on more of an asset management role especially with the case of its remedial assets under various collateral take-overs of non-performing corporate financing assets. This entails the orderly transfer of such assets, efficient and continuous asset management and sourcing exit solutions to enable the Bank to maximise recoveries from non-performing assets.

KEY OPERATIONAL DIVISIONS

Legal Department

The Bank's legal department's main duties are to:

- ensure that the Bank complies with laws and regulations in coordination with all relevant departments of the Bank;
- review and amend the Bank's constitutional documents in a manner consistent with the laws and regulations in force;
- review and approve prospectuses confirming they meet all legal requirements and that the non-financial information contained therein are in line with the provisions of laws and regulations in force in Bahrain and the Bank's constitutional documents;
- prepare, revise and approve contracts and agreements to which the Bank is a party to make sure they meet all legal requirements;
- review and study cases filed by or against the Bank and provide appropriate legal advice on them;
- review by all means to protect the Bank's assets and the rights in such assets;
- express opinions on legal cases and other issues referred to it by the Bank's management;

- arrange to appoint and monitor external counsels to represent the Bank and manage all cases at courts, tribunals, bodies of investigation and prosecution, the Bahrain Police, judicial jurisdiction and administrative committees and other points of the official investigation;
- arrange to appoint and monitor external counsels to assume, plead, defend and manage all cases in various courts and decrees and prosecution with the Bahrain Police and other legal bodies; and
- conduct studies and legal research that aims to develop the legal action and protect the interests of the Bank in accordance with directives issued from time to time.

Compliance Function

In order to enhance the Compliance Function's operational processes and its efficiency, the Compliance Function has been segregated into two departments, namely the Compliance Department and Anti-Financial Crimes Department. The responsibilities of each department are as follows:

Anti-Financial Crime Department

- responsible for the overall implementation and management of the Anti-Financial Crime Framework of the Bank to ensure that the Bank meets local regulatory requirements and industry best practices related to Anti-Money Laundering and Countering the Financing of Terrorism (**AML/CFT**) and sanctions;
- providing guidance and advice to the Bank's management and staff in relation to AML/CFT and sanctions requirements;
- ensuring proper and sound investigative practices of alleged violations of AML/CFT, sanctions regulatory requirements, policies and procedures;
- ensuring that the Bank is aware of the Foreign Account Tax Compliance Act (**FATCA**) and Common Reporting Standard (CRS) obligations and meeting applicable deadlines; and
- developing and implementing adequate training programs for Bank staff on regulations and current developments in the banking industry on topics covering financial crimes compliance.

Compliance Department

- responsible for the overall implementation of the Regulatory Compliance Framework of the Bank and ensuring that the Bank meets local regulatory requirements and industry best practices;
- reporting to the Board of Directors and the Board's Audit and Risk Management committee compliance related developments and /or compliance breaches;
- promoting the right compliance culture within the Bank and supporting the Bank's values and policies that help ensure that the Bank acts responsibly and fulfils all applicable requirements;
- handling the responsibilities of data protection officer to oversee the Bank's compliance with data protection laws; and
- handling external complaints and investigations to resolve such complaints.

Internal Audit

The Internal Audit Division gives an independent assurance to the Bank's Board, executive management, and the regulator that policies and procedures are followed and that management takes appropriate and timely corrective action in response to identified internal control weaknesses.

While the responsibility for identifying and managing risks belongs to management, the Internal Audit Division's role is to provide assurance that those risks have been properly managed. This is achieved by conducting a risk based audit approach that looks at operational, financial, regulatory, and information technology risks.

The Internal Audit Division is subject to an external quality review every five years in line with the International Standards for the Professional practices framework promulgated by the Institute of Internal Auditors.

The Head of Internal Audit reports functionally to the Board through Board Audit and Risk Management Committee (BARMC) while administratively he reports to the Bank's Chief Executive Officer.

The BARMC meets frequently to review the work of the Internal Audit Division, to challenge the Bank's management and to assess the overall control environment prevailing in the organisation. It reviews the reports presented by the Internal Audit Division and other bodies in its deliberations and offers guidance and direction in the area of risk management, including fraud and related controls. The BARMC reviews periodically the Committee and Internal Audit Charter. These are key to reinforcing the organisational independence of internal audit and to establishing their rules of engagement throughout the Bank. The BARMC approves the audit plan which contains sufficient flexibility to adapt to new emerging risks, changing circumstances, business strategy, products and services. The BARMC views a robust fraud management framework as a priority and has zero tolerance towards fraud. Any type of fraud is not tolerated under any circumstances and appropriate disciplinary action may be taken against any employee or external party involved if found guilty of committing fraud against the Bank.

The Audit Committee meets frequently to review the work of the Internal Audit Division, challenge the Bank's management and to assess the overall control environment prevailing in the organisation. It reviews the reports presented by the Internal Audit and other bodies in its deliberations and offers guidance and direction in the area of risk management, including fraud and related controls. The Audit Committee reviews on a biannual basis the Audit Committee and Internal Audit Charter and has approved a code of ethics policy for all internal auditors within the department. These are key to reinforce the organisational independence of internal audit and to establish their rules of engagement throughout the Bank. The Audit Committee approves the audit plan which contains sufficient flexibility to adapt to new emerging risks, changing circumstances, business strategy, products and services. The Audit Committee views a robust fraud management framework as a priority and has a zero tolerance towards fraud. Any type of fraud will not be tolerated under any circumstances and appropriate disciplinary action may be taken against any employee or external party involved if found of committing fraud against the Bank.

The Audit Committee places high importance on the professional development of all internal audit staff to ensure that they are able to perform their duties to the highest level possible. Adequate financial and other resources are made available to the function and, in particular, to support the attainment of relevant qualifications and certifications in areas such as internal auditing, accounting, fraud, compliance and anti-money laundering, risk management, and information security.

BRANCH NETWORK AND PRODUCT DISTRIBUTION

Branches

As at 31 December 2019, the Bank had a network of 7 branches in Bahrain, which was subsequently reduced to 5 branches in April 2020. The Bank's branch network continues to be the principal channel through which retail and corporate customers conduct their banking business. As of the date of these Admission Particulars the Bank has 15 ATMs.

Other distribution channels

The Bank's other distribution channels have been signed to enable efficient and superior service delivery to all its banking customers. Besides the physical distribution of branches, the Bank has the following alternative channels and distribution.

- *Call centre:* The Bank's customers can call the Bank's call centre 24 hours a day, seven days a week. Customers can choose self-service banking to access account and card information or speak to qualified, highly knowledgeable service representatives to avail a variety of services including: balance enquiry, utility

bill payments, credit card payments, money transfer, account management requests, mobile top ups, transaction and credit limit management and updating bank records.

- *Internet and Mobile Banking:* The Bank's customers can perform their day-to-day banking transactions online from an internet browser and/or the Bank's mobile app 24 hours a day and 7 days a week. The Bank's online platforms provide real time updates of balances and transactions for personal accounts, convenient money transfers, account and card transaction histories, secure transactions and account and credit card statements in pdf. Customers can also apply for a variety of services including cheque book requests, financing and open new accounts.
- *SMS banking:* The Bank's customers can also utilise the Bank's SMS banking service which provides free SMS alerts for banking transactions including balance enquiry, transaction history, utility bill payments and money transfer.

RISK MANAGEMENT

The Bank always endeavours to achieve sustainable and continuously enhanced stakeholders' value at an acceptable and calculated level of risk, within the Islamic Shari'a framework, while at the same time adhering to social responsibilities of being good citizens and being fair and transparent to its stakeholders. All business decisions in the Bank are considered after thorough risk and reward analysis adequate for the size and nature of the business being considered. By the nature of its business, the Bank is exposed to risks, which include, but are not limited to, credit, market, liquidity and operational risk. The Bank aims to achieve an appropriate balance between risk and return and to minimise any potential adverse impact on its overall performance.

The Bank adopts a robust risk management framework to manage its risks. This framework is based on assessment of the risk capacity, definition of appropriate risk appetite, development of policies and procedures for managing risks, measurement of adequate return for the risk assumed, and establishment of strong business and risk cultures. The Board of Directors has the primary responsibility for managing risks in the Bank. It discharges its responsibilities through the Board Audit & Risk Management Committee (**BARMC**) and is responsible for effective implementation of the Bank's risk management framework described above. The daily management of risk is overseen by the Risk Management Division which is headed by a Chief Risk Officer who reports directly to the BARMC. The Risk Management Division is responsible for the identification, assessment and ongoing control of all material risks that could affect the Bank's business and operations. In doing so, the Risk Management Division, in coordination with the Management and the BARMC, implements a risk management process that is based on the following principles:

- alignment of business strategy and risk appetite;
- risk identification and measurement;
- risk prioritization;
- risk monitoring; and
- risk mitigation.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as financing commitments and financial guarantees.

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counterparty risk rating, industry sector, and in accordance with the guidelines of the CBB. Credit risk is

actively managed and rigorously monitored against well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The Board Investment and Credit Committee (**BICC**) has an oversight on the credit approvals with all approvals above a certain threshold to be approved by the BICC. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on actual and estimated maturities using the guidelines provided by the CBB for the estimates.

Market risk

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Division. The Bank has proper risk management policies in place to ensure that liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimise the impact of operational risks.

As a part of business continuity management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the disaster recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

Price risk

All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with the investment management policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are reviewed periodically by the management.

Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates.

The Bank's foreign exchange exposure comprises of foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management, approved by the Asset Liability Management Committee (**ALCO**), and such guidelines and policies are further followed through and executed by the Treasury department.

Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and ALCO.

Corporate governance

The Bank is governed by the Bahrain Commercial Companies Law No. 21 of 2001 and its amendments, the Kingdom of Bahrain Corporate Governance Code, volume 2 and volume 6 of the Rulebook of the CBB (in particular the High-Level Controls Module), and the Bahrain Stock Exchange Law of 1987 (collectively, the **Corporate Governance Regulations**). The Bank understands its responsibility to all of its stakeholders and is committed to the highest standards of corporate governance. The Bank believes good corporate governance enhances stakeholder value and provides appropriate guidance to the Board, its committees, and the Bank's executive management to carry out their duties in the best interests of the Bank and its stakeholders. The Bank maintains the highest levels of transparency, accountability and good management through the adoption and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes the process of dealing with conflict of interests. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. A declaration is made by the Board members prior to each Board meeting confirming that they have disclosed all external appointments and notified the Chairman if there have been any changes to their external appointments since the previous meeting. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity.

The Bank ensures compliance with the Corporate Governance Regulations applicable to an Islamic licensed bank at all times. The Bank reports any non-compliance with the guidelines should there be any. The Bank's obligations to comply with the Corporate Governance Regulations have been addressed through following a Corporate Governance Handbook in accordance with the corporate governance and the High-Level Controls Module of the CBB Rulebook. The Corporate Governance Handbook was developed to manage the Board and committees Charter, Management Committee Charters, Board and Management Code of Conduct, Conflict of Interest Policy, Whistle Blowing Policy, Corporate Governance Guidelines, Social Responsibility Guidelines, directors' appointment agreements, Board and directors' evaluation, and a Key Persons' Dealing Policy. The Bank is committed to continuously reviewing and developing its corporate governance policies to ensure compliance with the changing requirements of the Corporate Governance Regulations and to ensure compliance with international corporate governance best practices. The Bank, through its Board and board committees, endeavours to deliver the highest standards of governance for the benefit of its stakeholders.

MANAGEMENT AND EMPLOYEES

Board

The Board has overall responsibility for the operations and the financial soundness of the Bank and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders (including the CBB) are met. The Board ensures that the Bank is managed prudently and within the framework of applicable laws and regulations and the Bank's own policies. In addition, the Board sets the Bank's strategic goals as well as overseeing the senior management of the Bank. The day to day operation of the Bank is the responsibility of the senior management, but the Board as a whole ensures and certifies that internal control systems are effective and that the Bank's activities comply with the strategy, policies and procedures approved by the Board or as required by law or regulation. The Board has overall responsibility for risk management, financial reporting and corporate governance.

The Board currently consists of nine members, and is elected at the Annual General Meeting for a term of three years. The Board meets at least 4 times a year and during 2019 it met 6 times. The Chairman of the Board is elected by the members of the Board.

As at the date of these Admission Particulars, the composition of the Board is as follows:

Name of Director	Position	Year of Appointment	Appointment Expiration
Mr Jassim Mohamed Alseddiqi	Chairman	2018	Sep 2020
Sh. Ahmed Bin Isa Al Khalifa	Vice Chairman	2017	Sep 2020
Mr Fawad Tariq-Khan	Board member	2017	Sep 2020
Mr Hisham Ahmed Al Rayes	Board member	2012	Sep 2020
Mr Mohammad Abdulmohsen Al Rashed	Board member	2017	Sep 2020
Mr Mustafa Ghazi Kheriba	Board member	2018	Sep 2020
Mr Reyadh Eid Abdulla Al Yaqoob	Board member	2018	Sep 2020
Mr Yousef Ibrahim Al Ghanim	Board member	2017	Sep 2020

The business address of all members of the Board is Bahrain Financial Harbour, East Tower, P.O. Box 60002, Manama, Kingdom of Bahrain. No member of the Board has any actual or potential conflicts of interest between their duties to the Bank and their private interests and/or duties.

BIOGRAPHIES OF THE DIRECTORS

Jassim Mohamed Alseddiqi

Chairman (non-independent and executive)

Chairman of the Bank's Board of Directors since April 2018, Mr. Alseddiqi has over 15 years of experience in the fields of engineering, investment, and management. Mr. Alseddiqi is known for his dynamic and innovative approach, having pioneered many investment strategies in the region. He is the chairman of GFH Financial Group, Eshraq Properties, The Entertainer, and SALAMA Islamic Arab Insurance Company. He also serves on the boards

of First Abu Dhabi Bank, Abu Dhabi Capital Group, ADNOC Distribution and Dana Gas. Finally, he is also the CEO of SHUAA Capital.

Mr. Alseddiqi holds an MS in Electrical Engineering from Cornell University USA, as well as a BSc in Electrical Engineering from the University of Wisconsin USA.

Sh. Ahmed Bin Isa Khalifa Al Khalifa

Vice Chairman (independent and non-executive)

Member of the Bank's Board of Directors since March 2017, Sh. Ahmed has over 31 years of experience in the fields of governance and project & information management. Sh. Ahmed is currently the Assistant Undersecretary of Nationality, Passports and Residence Affairs "NPRA" at Bahrain's Ministry of Interior.

Sh. Ahmed holds a Master Certificate in Project Management from George Washington University USA, as well as a BSc in Computer Science from Saint Edwards University USA.

Fawad Tariq-Khan

Board Member (non-independent and executive)

Member of the Bank's Board of Directors since September 2017, Mr. Khan has over 15 years of experience in the fields of management and investment. Previously CEO and board director of SHUAA Capital UAE, Mr. Khan now serves as Head of Investment Banking at SHUAA, as well as the boards of Northacre Plc UK, Amwal Investment Company Kuwait, Gulf Finance Corporation psc, SHUAA Capital KSA, SHUAA Securities Egypt, and SHUAA Securities LLC.

Mr. Khan holds an MSc in Business Studies from the University College Dublin Michael Smurfit Business School in Ireland, as well as a BSc in Computer Science & Economics from the University College Cork in Ireland.

Hisham Al Rayes

Board Member (non-independent and executive)

Member of the Bank's Board of Directors since June 2012, Mr. Al Rayes has over 22 years of experience in the in the field of banking and finance. Mr. Al Rayes is currently CEO and board member of GFH Financial Group BSC, board member of Capital Limited, as well as chairman of Tunis Bay Project Company, Gulf Holding Company Kuwait, Royal Ranches Marrakesh Morocco, Balexco, Falcon Cement Company and the Global Banking Corporation.

Mr. Al Rayes holds a Masters degree with honors in Business Administration from the University of DePaul USA, as well as a Bachelor of Science in Engineering with honors from the University of Bahrain.

Mohammad Abdulmohsen Al Rashed

Board Member (non-independent and non-executive)

Member of the Bank's Board of Directors since March 2017, Mr. Al Rashed has over 11 years of experience in the fields of business and finance. Mr. Al Rashed is currently chairman of Food Capital Company, managing director of Fine Food Company KSA, and consultant for Abdulmohsen Rashid Al Rashid. He is also a board member for the KSA-based Alshifa Medical Syringe MFG Company, Orange Fuel Company, Mahra Company, Hadaf Sport Entertainment Company, Rimal Company, and Express Parcel Company.

Mr. Al Rashed holds a Bachelor in Business Management from Fairleigh Dickinson University in Canada.

Mustafa Ghazi Kheriba

Board Member (non-independent and executive)

Member of the Bank's Board of Directors since April 2018, Mr. Kheriba has over 23 years of experience in the fields of professional banking and management. Mr. Kheriba currently serves as a deputy chief executive officer and group head of asset management of SHUAA, and as an executive director of Northacre PLC. He is also a board member and managing director of Gulf Finance Corporation UAE and KSA. Furthermore, he serves on the board of GFH Financial Group BSC, Reem Finance, SALAMA Islamic Arab Insurance Company, and ADCorp Ltd.

Mr. Kheriba holds an MBA in Corporate Strategy with Magna Cum Laude Honors from Ohio Dominican University in the USA, as well as a BA in Economics and Business Communication from the University of Toronto in Canada.

Reyadh Eid Abdulla Al-Yaqoob

Board Member (independent and non-executive)

Member of the Bank's Board of Directors since October 2018, Mr. Al-Yaqoob has over 31 years of experience in the fields of leadership, management and project supervision within the government sector. He is a board member of Bahrain's Telecommunications Regulatory Authority.

Mr. Al-Yaqoob holds an MSc in Systems Management from the Naval Postgraduate School in the USA, a National Diploma in Aerospace Studies from Brunel Technical College in the UK, as well as a Certificate in Operation Research from the Royal Military College of Science in the UK.

Yousef Ibrahim Al Ghanim

Board Member (independent and non-executive)

Member of the Bank's Board of Directors since March 2017, Mr. Al Ghanim has over 12 years of experience in the field of banking and finance. He is the vice chairman and CEO of Alaman Investment Company Kuwait.

Mr. Al Ghanim holds a Bachelor in Accounting from Kuwait University, as well as a Certificate in Credit Management from the Institute of Banking Studies in Kuwait.

BOARD COMMITTEES

The Board is ultimately responsible for the conduct of the Bank's affairs but for greater efficiency, Board committees have been set up with formally delegated objectives, authorities, responsibility and tenure. The Board committees regularly report to the Board but do not substitute for the Board and its responsibilities.

Board Investment and Credit Committee (BICC)

The BICC comprises of at least three directors and a non-voting member. The BICC is responsible for investment and credit approvals, setting limits and tolerances for different risks, asset liability management, monitoring asset impairment and creation of loss provisions, maintaining banking relationships, as well as for the oversight of the off-balance sheet vehicles.

Board Audit and Risk Management Committee (BARMC)

The BARMC comprises at least three directors, of which the majority must be independent, including the Chairman. The BARMC is responsible for internal and external audit, compliance and anti-money laundering. The BARMC also has responsibility for ensuring that the Bank's overall risk management framework is effective and that key risks are managed within parameters established by the Board.

Board Nominations, Remunerations and Governance Committee (BNRGC)

The Board of Directors determines the size of the BNRGC, which is required to comprise not less than three members. The Committee includes only independent directors or alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. The BNRGC is responsible for setting policies for compensation and incentives, human resources and administration. It is also responsible for the corporate governance framework of the Bank.

Senior Management

In addition to the Board, the day-to-day management of the Bank's business is conducted by the Bank's senior management.

The business address of each member of the senior management is Bahrain Financial Harbour, East Tower, P.O. Box 60002, Manama, Kingdom of Bahrain. No member of the senior management has any actual or potential conflict of interest between his duties to the Bank and his or her private interests and/or duties.

As at the date of these Admission Particulars, the senior management of the Bank comprised:

- Sattam Sulaiman AlGosaibi – Chief Executive Officer
- Mazen Salman Sater – Assistant General Manager - Digital Banking
- Hussam Ghanem Saif - Assistant General Manager – Treasury and Investments
- Mohammed Abdulla Saleh – Assistant General Manager - Legal and Compliance
- Abdul-Nasser Omar Al-Mahmood - Head of Sharia Coordination and Implementation Department
- Aman Ullah Khan – Head of Finance and Administration
- Mohamed Hamad Fakhri - Head of Internal Audit
- Nawaf Abdulsalam Al-Hosani - Head of Internal Sharia Audit & Shari'a Supervisory Board Secretary

Biographies of Senior Management

Sattam Sulaiman Al Gosaibi - Chief Executive Officer.

He joined the Bank in 2018, having over 22 years of experience in the Islamic banking industry and holding Masters in Business Administration from DePaul University in the USA, in addition to BSc in Accounting Science from King Fahad University of Petroleum & Minerals, KSA.

Mazen Salman Sater - Assistant General Manager - Digital Banking

He joined the Bank in 2016, having over 23 years of banking experience and holding Master in Business Administration, Major Marketing & Change Management from DePaul University, USA, in addition to BSc in Business Administration, Major Marketing from St. Edward's University, USA.

Hussam Ghanem Saif - Assistant General Manager – Treasury and Investments

He joined the Bank in 2007, having over 31 years of experience in treasury and Islamic banking and holding BSc in Business Administration & Management from Western International University, UK.

Mohammed Abdulla Saleh - Assistant General Manager – Legal and Compliance

He joined the Bank in 2009, having over 18 years of experience in management, Islamic banking, corporate governance, compliance and anti-money laundering and holding Masters in IT, Media and E-Commerce Law from the University of Essex, UK, B.Sc. in Law from Dubai Police Academy, UAE, in addition to and Advanced Diploma in Islamic Finance from the Bahrain Institute of Banking and Finance, Diploma in Business Management from the University of Bahrain, and ICA International Diploma in Compliance from the International Compliance Association ICA. He has also attended the Waqf Fund - Leadership Grooming Program for Islamic Banks at Ivey Business School in Western University (Canada and Hong Kong).

Abdul-Nasser Omar Al-Mahmood - Head of Sharia Coordination & Implementation

He joined the Bank in 2008, having over 29 years of experience in Shari'a audit and Islamic banking and holding Masters in Business Administration with thesis in Shari'a control and review in Islamic banks, B.Sc. in Shari'a and Islamic Studies, Associate Diploma in Shari'a Control, in addition to and Advanced Diploma in Islamic Commercial Jurisprudence.

Aman Ullah Khan - Head of Finance & Administration

He joined the Bank in 2018, having over 15 years of extensive experience in Islamic banking, audit & consultancy and holding B.Sc. in Commerce from the University of Karachi and Chartered Financial Analyst (CFA) from the Chartered Financial Analyst (CFA) Institute, USA. He is also a fellow member (FCCA) of the Association of Chartered Certified Accountants (ACCA), UK and associate member (ACA) of Institute of Chartered Accountants of Pakistan (ICAP).

Mohamed Hamad Fakhri - Head of Internal Audit

He joined the Bank in 2012, having over 13 years of experience in internal audit, risk management, governance and controls both in Islamic retail and investments banking sectors and holding a B.Sc. in Accounting from University of Bahrain, a CFA charter from the CFA Institute, USA and a Certified Internal Auditor (CIA) qualification from the Institute of Internal Auditors, USA.

Nawaf Abdulsalam Al-Hosani - Head of Internal Sharia Audit and Shari'a Supervisory Board Secretary

He joined the Bank in 2008, having over 11 years of experience in Shari'a audit, compliance & governance of Islamic banks & investment structures and holding a Masters in Business Administration with concentration in Islamic Finance from the University College of Bahrain and a B.Sc. in Islamic Studies "Shari'a" from the University of Bahrain, in addition to being a Certified Shari'a Advisor & Auditor (CSAA) from the Accounting & Auditing Organization for Islamic Financial Institution "AAOIFI". He also holds an Advanced Diploma in Islamic Commercial Jurisprudence and is a Certified Islamic Professional Accountant (CIPA).

Senior Management committees

The Board of Directors delegates authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manages the Bank through the following management committees:

- Management Committee, which is responsible for the Bank's strategy, performance review, budget and administration;
- Asset Liability Management Committee, which is responsible for balance sheet management, funding, liquidity and banking relationships;

- Executive Investment and Credit Committee, which is responsible for review of investments, exit and credit proposals; and
- Human Resources Committee, which is responsible for planning and management of human resources, and establishing HR guidelines and policies.

Shari'a Supervisory Board

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

Effective implementation of Shari'a Governance is pivotal basis for controlling and drafting the Shari'a compliance in the Bank. The Bank endeavors to continually update and adopt best practices in the areas of Sharia governance and compliance with Islamic Shari'a rules and principles in its activities. This adherence is embodied by adopting an effective framework for Sharia Governance that commensurate and proportionate to the size and nature of the Bank's business in accordance with the Rulebook, V-2 issued by the CBB.

The SSB has adopted four main components that formed its Sharia Governance framework and is considered as the highest degree of commitment to the Shari'a Governance Framework issued by the CBB. These components are:

1. Shari'a Supervisory Board;
2. Internal Shari'a Audit function;
3. Shari'a Coordination and Implementation Function; and
4. Independent External Shari'a Compliance Audit.

This Shari'a Governance framework ensures that the Bank is in compliance with Shari'a rules and principles, SSB's fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the Central Shariah Supervisory Board (CSSB) and the regulations, resolutions and directives issued by the CBB.

Biographies of the SSB

The Bank's SSB consists of three Islamic scholars who review the Bank's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

Sh. Dr Fareed Yaqoob Al-Miftah - Chairman

Dr Al-Miftah is a member of the Supreme Council of Islamic Affairs in the Kingdom of Bahrain, undersecretary of the Ministry of Justice and Islamic Affairs, Court of Cassation and Supreme Judicial Council in Bahrain, former judge of the High Shariah Court and a former lecturer at the University of Bahrain. He is also a member of the International Islamic Fiqh Academy. Dr Al-Miftah holds a BA and Masters degree from Imam Muhammad ibn Saud University, Kingdom of Saudi Arabia, and a Ph.D. from the University of Edinburgh, United Kingdom.

Sh. Dr Fareed Mohammed Hadi - Vice Chairman and Executive Member

Dr Hadi is an Assistant Professor at the College of Business Administration and the founder of Islamic Banking and Finance B.Sc. and Master programmes at the University of Bahrain. He is also a member of the board of directors of

the Waqf Fund at the CBB and chairperson and member of a number of Shari'a Supervisory Board in Islamic banks and insurance companies. Dr Hadi holds a BA and Masters degree from Imam Muhammad ibn Saud University, Kingdom of Saudi Arabia, and a Ph.D. from the University of Edinburgh in the United Kingdom. He also holds a Ph.D. from the University of Mohammed in Morocco.

Sh. Dr Nizam Mohammed Saleh Yaqoobi - Member

Dr Yaqoobi is a member of the Shari'a Council of AAOIFI of Bahrain, member of the Centralised Shari'a Supervisory Board of the Central Bank of Bahrain and chairperson and member of a number of Shari'a Supervisory Boards in Islamic banks and insurance companies. Dr. Yaqoobi holds a BA in Economics and Comparative Religion from McGill University in Canada and a Ph.D. in Islamic Studies.

Employees

As at 31 December 2019, the Bank had 216 employees, compared to 227 as at 31 December 2018 and 218 as at 31 December 2017. As of the date of these Admission Particulars, the Bank has 166 employees.

The Bank has embarked on a number of training and employee development programmes. In particular, the Bank has continuously invested in developing its human resource capital through various training initiatives to ensure that its employees have the proper knowledge and understanding of banking functions and regulatory requirements.

As at 31 December 2019, Bahraini nationals accounted for approximately 96.8 per cent. of the Bank's employees and throughout 2019, the Bank launched a number of Bahrainisation initiatives to prioritise the employment of Bahraini nationals who have met the required skills and qualifications for each job.

BAHRAIN BANKING SECTOR AND REGULATIONS

Role of the Central Bank of Bahrain

The CBB is an independent public sector organisation established on 6 September 2006 and constituted under its own law, the Central Bank of Bahrain and Financial Institutions Law of 2006. The CBB is responsible for maintaining monetary and financial stability in Bahrain. It succeeded the Bahrain Monetary Agency (the **BMA**), which had previously carried out central banking and regulatory functions since its establishment in 1973 (shortly after Bahrain secured full independence from the United Kingdom).

The CBB inherited the BMA's wide range of responsibilities. The CBB implements Bahrain's monetary and foreign exchange rate policies, manages the government's reserves and debt issuances, issues the national currency and oversees payments and settlement systems. It is also the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The CBB performs the role of financial agent to the government, a role which principally entails advising the government in relation to financial matters generally, as well as administering government debt.

The CBB is also responsible for regulating conduct in Bahrain's capital markets. In 2002, the legislative and regulatory authority and supervision of the Bahrain Bourse was transferred from the Ministry of Commerce to the CBB, which regulates and supervises all of the Bahrain Bourse's activities. The CBB is not directly accountable to the National Assembly and is independent of the government but is accountable to the Minister of Finance. There are seven members of the board of directors of the CBB, including an independent chairman, each of whom is appointed by royal decree. The governor of the CBB serves for a five-year term (the current governor was reappointed in February 2015).

Both the GCC and Bahrain have experienced the repercussions of global market turmoil since 2007. In light of such events, the CBB took a proactive role similar to many other central banks and introduced two measures to improve market liquidity: interest rate cuts and the opening of a new foreign exchange swap facility. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini Dinar in return for U.S. dollars, as required. Additionally, in March 2009, the mandatory reserve ratio was lowered from 7.0 per cent. to 5.0 per cent. following a significant decline in inflationary pressures on consumer and asset prices. The mandatory reserve ratio has remained unchanged since 2012.

Monetary and Exchange Rate Policy

Bahrain's monetary and exchange rate policy was previously managed by the BMA pursuant to the Bahrain Monetary Agency Law (Law No. 23 of 1973) and is now managed by the CBB. The objective of Bahrain's monetary policy is to facilitate the fixed exchange rate regime. In 2001, the BMA formally pegged the Bahraini Dinar to the U.S. dollar at a rate of BHD0.376 = U.S.\$1.00. This rate had in fact been used in practice since 1980, even though, in principle, the Bahraini Dinar had been pegged to the IMF's special drawing rights. This policy is consistent with Bahrain's current and capital accounts and fits in with the regional framework of U.S. dollar-pegged exchange rates as the pricing of oil and gas is in U.S. dollars. The currencies of all GCC countries (except Kuwait) are formally pegged to the U.S. dollar.

The CBB Monetary Policy Committee (**MPC**) meets on a weekly basis throughout the year to closely evaluate economic and financial developments, monitor liquidity conditions in order to provide recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB to the banking sector. With its regular meetings and recommendations submitted to H.E. the governor, the MPC played a vital role in the CBB's efforts to mitigate the effects of the global financial crisis on Bahrain.

Money Supply

The following table sets out an analysis of Bahrain's domestic liquidity as at the dates indicated.¹

	As at 31 December				% Change
	2015	2016	2017	2018	2017-2018
	<i>(U.S.\$ millions)⁽¹⁾</i>				<i>(%)</i>
Currency in circulation ⁽²⁾	1,396.7	1,423.7	1,401.1	1,404.5	0.2
M1 ⁽³⁾	8,761.6	8,818.9	8,922.7	9,101.1	2.0
M2 ⁽⁴⁾	26,709.8	27,042.3	28,176.9	28,843.9	2.4
M3 ⁽⁵⁾	31,636.1	31,972.9	33,301.5	33,569.4	0.8

Notes:

- (1) Using the fixed conversion rate of BHD0.376 = U.S.\$1.00.
- (2) These figures exclude money held by banks.
- (3) Currency in circulation plus private demand deposits.
- (4) M1 plus private sector savings and time deposits.
- (5) M2 plus government deposits.

Source: CBB

The following table sets out an analysis of Bahrain's M1, M2 and M3 money supply as at the dates indicated.²

	2014		2015		As at 31 December 2016		2017		2018	
	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(%)⁽⁵⁾</i>	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(%)⁽⁵⁾</i>	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(%)⁽⁵⁾</i>	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(%)⁽⁵⁾</i>	<i>(U.S.\$ millions)⁽¹⁾</i>	<i>(%)⁽⁶⁾</i>
M1	8,231.6	10.7	8,761.6	6.4	8,818.9	0.7	8,922.7	1.3	9,101.1	2.0
Total private sector deposits ⁽²⁾	24,633.7	6.5	25,313.0	2.8	25,618.6	1.2	26,775.8	4.5	27,439.4	2.5
M2	25,945.5	6.5	26,709.8	2.9	27,042.3	1.2	28,176.9	4.2	28,843.9	2.4
Time and savings deposits	17,713.8	4.7	17,948.2	1.3	18,223.4	1.5	19,254.2	5.7	19,742.8	2.5
General government deposits ⁽³⁾	4,999.3	8.8	4,926.3	1.5	4,930.6	0.1	5,124.6	3.9	4,725.5	(7.8)
M3	30,944.7	3.7	31,636.1	2.2	31,972.9	1.1	33,301.5	4.3	33,569.4	0.8
Net foreign assets ⁽⁴⁾	6,089.7	48.5	2,127.4	(65.1)	612.0	(71.2)	(102.0)	—	(1,076.1)	—
Domestic assets	24,855.0	(3.4)	29,508.8	18.7	31,360.9	6.3	33,403.4	6.5	34,645.5	3.7

Notes:

- (1) Using the fixed conversion rate of BHD0.376 = U.S.\$1.00.
- (2) Includes demand deposits, as well as time and savings deposits
- (3) Includes general government deposits with both the CBB and the retail banks
- (4) Includes net foreign assets held by both the CBB and the retail banks
- (5) Year on year percentage change

Source: CBB

¹ Elham to update for 2019 if such data is available. Elham comment: For latest reports, please refer to: <https://www.cbb.gov.bh/publications/>

² Elham to update for 2019 if such data is available.

Money supply growth has been stimulated by a growth in savings. Broad money (M2) growth was mainly due to increases in private sector deposits in both domestic and foreign currency.

As at 31 December 2018, M3 increased by U.S.\$267.9 million, or 0.8 per cent., from U.S.\$33,301.5 million as at 31 December 2017 to U.S.\$33,569.4 million as at 31 December 2018. General government deposits (with both the CBB and retail banks) decreased by U.S.\$399.1 million, or 7.8 per cent., from U.S.\$5,124.6 million as at 31 December 2017 to U.S.\$4,725.5 million as at 31 December 2018. Government deposits accounted for 14.08 per cent. of M3 as at 31 December 2018. The growth in M3 was mainly due to an increase in net domestic assets. Between 31 December 2017 and 31 December 2018, total domestic assets increased by U.S.\$1,242.1 million, or 3.7 per cent., to U.S.\$34,645.5 million and net foreign assets (held by both the CBB and retail banks) decreased by U.S.\$974.1 million to U.S.\$(1,076.1) million, representing net foreign liabilities.

Foreign Direct Investment

Bahrain benefits from its reputation as a favourable business environment. Bahrain generally has had a stable economic history. In 2016, 2017 and 2018, 65.32 per cent., 65.62 per cent. and 65.6 per cent. respectively of its financial sector employees were Bahraini citizens, which demonstrates a level of local talent and a relative lack of reliance on the need to attract foreign expatriate workers from abroad. In 2017, the banking sector contributed to 52.84 per cent. of the total employment in the financial sector and 75.76 per cent. of employees in the banking sector were Bahraini citizens, as compared to 75.60 per cent. in 2016.

The cost of conducting business in Bahrain is relatively low when compared to other countries in the MENA region. There are also significant and established wholesale banking, insurance and reinsurance and fund management industries (including industries ancillary to these, such as audit firms) and an efficient and robust legal and regulatory framework.

The table below sets out Bahrain's foreign direct investment positions at the end of the years indicated.

	2015	2016	2017 ⁽¹⁾	2018 ⁽¹⁾
	<i>(U.S.\$ millions)</i>			
Direct Investment (net).....	(5,927.7)	(7,051.0)	(8,248.1)	(9,652.1)
Outward FDI flow	19,884.3	19,004.3	19,233.2	19,344.4
Inward FDI flow	25,812.0	26,055.3	27,481.4	28,996.5

Note:

(1) Preliminary Data.

Source: CBB

Bahrain's net international investment position, comprised of its outstanding international assets and liabilities, amounted to U.S.\$26.8 billion as at 31 December 2018, as compared to U.S.\$29.9 billion and U.S.\$30.9 billion as at 31 December in each of 2017 and 2016, respectively.

The Economic Development Board (the **EDB**) promotes foreign direct investment in Bahrain in order to further diversify its economy and encourage productivity-driven growth. Bahrain is a regional pioneer of diversification in the GCC context and derives more than 80 per cent. of its GDP from the non-oil sector, with its financial services sector particularly benefitting from foreign direct investment. The EDB is an independent public-sector organisation constituted under its own law which is headed by the Crown Prince and consists of seven ministers and seven prominent business leaders. In recent years, the principal source of foreign direct investment has been reinvested earnings by Bahrain's significant offshore banking sector.

Bahrain's inward foreign direct investment position stood at U.S.\$28.9 billion in 2019, which decreased compared to U.S.\$29.0 billion in 2018, compared to U.S.\$27.5 billion in 2017, with the financial sector accounting for just under U.S.\$1.1 billion of the increase. The financial services industry attracts significant foreign direct investment

in Bahrain, and a number of international financial institutions have offices in Bahrain. Bahrain's strong regulatory environment provides a base for all types of banking and financial services. A number of Islamic finance global oversight bodies are also located in Bahrain. See "*Islamic Banks*". Additionally, manufacturing, professional and industrial services, as well as logistics, have also attracted foreign investment in Bahrain. Bahrain's central location and attractive lifestyle, supply of skilled labour, as well as bilateral trade and economic agreements, make it an attractive location for foreign investments in the above sectors.

The Banking Sector

Prior to 2006, the BMA categorised its licensed banking institutions as: (i) full commercial banks; (ii) offshore banking units; or (iii) investment banks. Within each of these categories an institution could choose to subscribe to a conventional or an Islamic framework. As a result, six different types of banking institutions existed. In 2006, the categories of offshore banking unit and investment banks were effectively merged into a single new category, now described as wholesale banking. The category of full commercial banks was also renamed as retail banks. The ability to subscribe to either a conventional or an Islamic framework was retained. As a result, four types of banking institutions are now in existence.

Since the financial crisis of 2007, there has been a trend in the banking sector of Bahrain to move away from wholesale banking to retail banking. While Bahrain did not witness a generalised, systemic banking crisis, as a result of the global financial crisis, there has been a renewed focus on the retail banking sector, while wholesale banks have consolidated operations.

The aggregate balance sheet of the banking system was U.S.\$189.3 billion as at 31 December 2014, U.S.\$191.0 billion as at 31 December 2015, U.S.\$186.1 billion as at 31 December 2016, U.S.\$187.4 billion as at 31 December 2017, U.S.\$192.6 billion as at 31 December 2018 and U.S.\$204.9 billion as at 31 December 2019.

The table below sets out the annual aggregate balance sheet of all banking institutions in Bahrain (including conventional and Islamic banks).

	As at 31 December				
	2014	2015	2016	2017	2018
	<i>(U.S.\$ millions)⁽¹⁾</i>				
Wholesale Banks					
Assets					
.....	109,284.5	108,813.8	103,035.9	103,962.5	106,029.7
Domestic					
.....	7,828.1	8,642.4	9,620.1	9,844.2	12,077.9
Foreign					
.....	101,456.4	100,171.4	93,415.8	94,118.3	93,951.8
Liabilities					
.....	109,284.5	108,813.8	103,035.9	103,962.5	106,029.7
Domestic					
.....	10,116.7	9,601.9	10,250.2	10,409.5	10,471.1
Foreign					
.....	99,167.8	99,211.9	92,785.7	93,553.0	95,558.6
Retail Banks					
Assets					
.....	80,008.6	82,187.0	83,014.6	83,481.4	86,619.7
Domestic					
.....	41,430.1	43,945.6	46,141.0	47,938.7	50,370.5
Foreign					
.....	38,578.5	38,241.3	36,873.7	35,542.7	36,249.2
Liabilities					
.....	80,008.5	82,187.0	83,014.6	83,481.4	86,619.7

	As at 31 December				
	2014	2015	2016	2017	2018
	<i>(U.S.\$ millions)⁽¹⁾</i>				
Domestic	41,755.7	42,957.6	44,576.3	45,488.1	47,425.5
Foreign	38,252.9	39,229.3	38,438.3	37,993.3	39,193.1
Total	189,293.1	191,000.8	186,050.5	187,443.9	192,649.4

Note:

(1) Using the fixed conversion rate of BHD0.376 = U.S.\$1.00

Source: CBB

Conventional Banks

Retail Banks

Retail banks include domestic banks, which hold most of the assets of this category, foreign banks and six Islamic banks.

The table below sets out the aggregate balance sheet of retail banks and a breakdown of loans made by retail banks as at the dates indicated.

	As at 31 December				
	2014	2015	2016	2017	2018
Number of retail banks ⁽¹⁾	28	28	29	29	29
<i>of which: Islamic retail banks</i>	6	6	6	6	6
Aggregate balance sheet of retail banks (<i>U.S.\$ millions</i>) ⁽²⁾	80,008.6	82,187.0	83,014.6	83,481.4	86,619.7
Combined foreign and local deposits of retail banks (<i>U.S.\$ millions</i>) ⁽²⁾	41,484.4	43,489.3	44,063.8	45,169.1	47,483.2
Business loans made by retail banks (<i>% of total loans</i>)	55.8	53.0	51.6	53.3	53.5
Loans to government made by retail banks (<i>% of total loans</i>)	2.6	3.8	3.6	3.8	2.7
Personal loans made by retail banks (<i>% of total loans</i>)	41.6	43.2	44.7	42.9	43.7

Note:

(1) Including Islamic retail banks

(2) Using the fixed conversion rate of BHD0.376 = U.S.\$1.00

Source: CBB

The key performance indicators of the following Bahraini banks as at 31 December 2019 are set out below (source: annual reports published on the company website of each bank listed below).

		As at/year ended 31 December 2019		
		Bank of Bahrain and Kuwait (B.S.C.)	National Bank of Bahrain	Al Salam Bank
Total	assets			
(BHD'000)				
.....		3,865.0	3,194.5	2,038.7
Loans and advances to customers				
(BHD'000)				
.....		1,670.9	1,213.7	-
Customers' current savings and other deposits				
(BHD'000)				
.....		2,169.5	2,094.0	-
Profit for the year attributed to owners of the bank				
(BHD'000)				
.....		75.4	74.2	21.1
Capital	adequacy			
(%)	ratio			
.....		21.7	37.3	21.2
Tier 1	capital			
(%)	adequacy			
ratio				
.....		-	36.3	-

Wholesale Banks

Wholesale banks comprise locally-incorporated banks and branches of foreign commercial and investment banks which use Bahrain as a base. Locally-incorporated wholesale banks are subject to the capital or cash reserve requirements of the CBB. Branches of overseas banks may operate with significant tax benefits with regard to their home jurisdiction. Wholesale banks pay the CBB an annual licence fee and, under specific conditions and limitations, may accept deposits from residents of Bahrain.

Wholesale banks, including wholesale Islamic banks, are the most important sector in Bahrain's financial services industry. As at 31 December 2016, 2017 and 2018 there were 75, 72 and 68 wholesale banks in Bahrain, respectively, of which 19, 17 and 15, respectively, were wholesale Islamic banks.

The table below shows a breakdown of the assets and liabilities of wholesale banks as at the dates indicated.

		As at 31 December									
		2014		2015		2016		2017		2018	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabil ities
Domestic	(U.S.\$										
billions)											
.....		7.8	10.1	8.6	9.6	9.6	10.3	9.8	10.4	12.1	10.5
Foreign	(U.S.\$										
billions)											
.....		101.5	99.2	100.2	99.2	93.4	10.6	94.1	93.6	94.0	95.6
Share of GCC											
countries											
		32.1	37.8	32.8	34.8	34.6	34.5	31.9	34.4	29.8	35.7

As at 31 December										
2014		2015		2016		2017		2018		
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Liabilities
(%) ⁽¹⁾										
.....										
Share of Western Europe (%)	36.8	28.1	34.6	28.1	31.3	27.7	33.5	28.4	34.3	29.0
Share of Americas (%)	8.0	3.2	8.4	4.5	10.4	4.6	10.2	4.9	9.9	3.6
Share of Asian countries (%)	10.3	8.1	10.8	9.5	9.0	7.6	9.2	7.2	8.4	6.5
Denominated in U.S. dollars (%)	66.2	77.3	68.1	78.2	69.4	78.9	69.9	77.7	68.8	78.3
Denominated in Euros (%)	7.2	6.6	7.6	7.4	7.3	7.3	10.3	9.8	11.0	9.1
Denominated in GCC currencies (%)	13.1	7.8	12.2	8.6	11.5	8.1	9.4	7.3	9.6	7.1

Note:

(1) Excluding Bahrain.

Source: CBB

Islamic Banks

Bahrain is increasingly involved in the rapidly expanding Islamic banking business and hosts the industry's global oversight body, the Accounting and Auditing Organisation for Islamic Institutions, as well as the Islamic Rating Agency and the International Islamic Financial Market. The Islamic banking sector in Bahrain was created in 1978 with the establishment of the Bahrain Islamic Bank and expanded in the 1980s with the issue of four banking licences to Islamic banks. Eight further banking licences were issued to Islamic banks in the 1990s.

The number of Islamic banking licences has remained relatively stable for the past five years and, as at 31 December 2018, there were a total of 21 Islamic banking licences, of which six were held by retail banks and 15 were held by wholesale banks.

The aggregate total assets of Islamic banks, comprised of unrestricted investments, have been relatively stable since 2014, increasing from U.S.\$24,895.0 million in 2014 to U.S.\$25,342.5 million in 2015, U.S.\$26,290.5 million in 2016 and U.S.\$26,745.5 million in 2017, with restricted investment accounts (which are off balance sheet items) of U.S.\$1,939.4 million as at 31 December 2017. As at 31 December 2018, the aggregate total assets of Islamic banks comprised of unrestricted investments stood at U.S.\$27,928.2 million, and restricted investment accounts (which are off-balance sheet items) amounted to U.S.\$1,822.1 million.

With restricted investment accounts, the account holder may impose certain restrictions as to when and how such holder's funds are to be invested, and the Islamic bank may be restricted from combining its own funds with the restricted investment account funds for investment purposes.

As at 31 December 2014, 2015, 2016, 2017 and 2018 Islamic banks' assets accounted for 13.2 per cent., 13.3 per cent., 14.1 per cent., 14.3 per cent. and 14.5 per cent. of Bahrain's total banking sector assets, respectively.

Non-Performing Loans

The table below shows a breakdown of NPLs as a percentage of loans issued by the banking institutions in Bahrain (conventional and Islamic) as at the dates indicated.

		2014		2015		2016		2017		2018	
		Dec	June	Dec	June	Dec	June	Dec	June	Dec	
Conventional Banks	Retail										5.5
		3.7	3.5	3.9	4.8	5.3	5.8	5.5	5.8		
Conventional Banks	Wholesale										5.7
		5.9	5.8	5.2	5.2	5.7	5.6	5.4	5.3		
Islamic Banks	Retail										9.5
		12.5	11.3	12.0	12.7	11.4	9.6	10.0	10.4		
Islamic Banks	Wholesale										1.3
		4.6	4.1	4.6	3.0	3.7	2.5	2.6	1.8		
Total Sector	Banking										5.5
		5.6	5.2	5.3	5.5	5.9	5.7	5.6	5.6		

Source: CBB: Prospectus dated 4 April 2018 in relation to the Kingdom of Bahrain's (acting through the Ministry of Finance) U.S.\$1,000,000,000 Trust Certificates due 5 October 2025 issued by CBB International Sukuk Company 7 S.P.C.

Between 31 December 2017 and 31 December 2018³, the NPLs for the entire banking sector decreased from 5.6 per cent. to 5.5 per cent. NPLs of conventional retail banks remained at the same level of 5.5 per cent. as at 31 December 2017 and 31 December 2018; NPLs of conventional wholesale banks increased by 0.3 per cent., from 5.4 per cent. to 5.7 per cent. as at the same dates. NPLs of Islamic retail banks decreased by 0.5 per cent., from 10.0 per cent. as at 31 December 2017 to 9.5 per cent. as at 31 December 2018; NPLs of Islamic wholesale banks decreased from 2.6 per cent. to 1.3 per cent. as at the same dates.

Although Islamic banks significantly reduced their NPL ratios over the past four years, their NPL ratios still remain the highest amongst other banking institutions due to the nature of their financings, which involve a higher exposure to real estate. The CBB continues to work with banks in the sector to decrease their real estate exposure and NPL figures accordingly.

Capital Adequacy

The table below shows a breakdown of the Capital Adequacy Ratios (CAR) by the banking institutions in Bahrain (conventional and Islamic) as at the dates indicated.

		2014		2015		2016		2017		2018	
		Dec	June	Dec	June	Dec	June	Dec	June	Dec	
Conventional Banks	Retail										20.9
		18.3	18.9	18.6	18.4	20.1	20.2	21.0	20.0		

³ Elham to update for 2019 if such data is available. See above

		2014		2015		2016		2017		2018	
		Dec	June	Dec	June	Dec	June	Dec	June	Dec	
Conventional Banks	Wholesale									18.1	
.....		21.4	20.3	19.8	19.7	19.4	18.3	19.2	18.4		
Islamic Banks	Retail									17.6	
.....		16.9	15.7	15.9	15.7	17.2	17.0	18.6	18.1		
Islamic Banks	Wholesale									18.1	
.....		24.0	18.9	20.7	18.4	19.2	20.4	18.3	20.2		
Total Sector	Banking									18.9	
.....		<u>18.3</u>	<u>18.9</u>	<u>19.0</u>	<u>18.2</u>	<u>19.3</u>	<u>19.1</u>	<u>19.5</u>	<u>19.2</u>		

Source: CBB: Prospectus dated 4 April 2018 in relation to the kingdom of Bahrain's (acting through the Ministry of Finance) U.S.\$1,000,000,000 Trust Certificates due 5 October 2025 issued by CBB International Sukuk Company 7 S.P.C.

The CAR for the entire banking sector decreased by 0.6 per cent., from 19.5 per cent. as at 31 December 2017 to 18.9 per cent. as at 31 December 2018. The CAR of conventional retail banks decreased by 0.1 per cent., from 21.0 per cent. as at 31 December 2017 to 20.9 per cent. as at 31 December 2018; CAR of conventional wholesale banks decreased by 1.1 per cent., from 19.2 per cent. to 18.1 per cent. as at the same dates. The CAR of Islamic retail banks decreased by 1.0 per cent., from 18.6 per cent. as at 31 December 2017 to 17.6 per cent. as at 31 December 2018 and the CAR of Islamic wholesale banks decreased by 0.2 per cent. from 18.3 per cent. to 18.1 per cent. as at the same dates.

Bank Supervision

The CBB is the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The CBB's wide scope of responsibilities allows a consistent policy approach to be applied across the whole of Bahrain's financial sector. It also provides a straightforward and efficient regulatory framework for financial services firms operating in Bahrain.

Under the Central Bank of Bahrain and Financial Institutions Law of 2006, the CBB is authorised, among other things, to grant licences to persons wishing to undertake regulated services, determine the types of business which banks may or may not conduct, establish capital requirements for banks, conduct inspections of banks, stipulate reserve and liquidity ratios for banks and, in certain circumstances, to take over the administration of banks and liquidate them.

The CBB currently issues two main types of banking licence, namely retail banking licences and wholesale banking licences. All of these licences may be operated according to either conventional or Islamic banking principles.

The CBB's board of directors consists of seven members drawn from the financial services industry, one of whom is a representative of the Ministry of Finance and one of whom is the governor of the CBB. Mr. Mohammed Hussain Yateem is the chairman of the board, and Messrs Rasheed Mohammed Al Maraj, Yousif Abdulla Humood, Sheikh Mohammed bin Khalifa bin Ahmed Al-Khalifa, Mohammed Hassan Albinfalah, Fareed Ghazi Jassim Rafee and Dr. Abdullah Mansoor Radhi are all members of the board. The CBB is managed by the governor, the deputy governor, four executive directors and 16 directors and also employs support staff and specialist advisers.

The CBB has five off-site supervision directorates which undertake supervision of retail banks, wholesale banks, non-bank financial institutions, Islamic financial institutions and insurance firms, respectively. The principal objectives of these directorates are to ensure that these institutions remain adequately capitalised, have effective risk management and internal controls in place, maintain adequate liquidity and operate with integrity and skill. Supervision is conducted by these directorates in a number of ways, including through prudential meetings with banks and their auditors, monitoring of the regular reporting of banks and ensuring their compliance with a range of regulatory requirements.

A separate inspection directorate carries out on-site examinations of banks, including Islamic financial institutions. This directorate has introduced a risk-based approach whereby a particular institution's risk profile will determine the nature and frequency of inspections. A separate directorate, the compliance directorate, investigates suspicious financial transactions, money laundering, terrorist financing and unauthorised business.

In 2016, the CBB (together with the IMF) conducted a Financial Sector Assessment Programme aimed at ensuring that international standard best practices have been implemented and applied across the CBB's financial sector operations and activities. On 26 June 2016, the IMF published a comprehensive report in respect of Bahrain's financial sector, which included a number of recommendations for the development of the legislative and regulatory frameworks adopted by the CBB, as well as detailed technical reports of, amongst other topics, banking supervision, inspection, insurance, financial stability, and macro-prudential policy, contingency planning and anti-money laundering. The CBB has implemented many of these recommendations, including establishing the Financial Stability Committee tasked with creating a macro-prudential policy framework for the CBB, making changes to the deposit protection scheme and to the risk modules in the CBB Rulebook for conventional and Islamic banks, and is continuing to work on the implementation of certain other recommendations.

Conventional banks and non-bank financial institutions

The retail and wholesale banking supervision directorates are responsible for the off-site supervision of all conventional banks and financing companies. The financial institutions supervision directorate is responsible for all conventional non-bank financial institutions (including money changers and money and foreign exchange brokers).

The banking supervision directorates deal with the prudential supervision of banks and require the published accounts of all banks, whether locally incorporated or branches of foreign banks, to comply with IFRS. Locally incorporated banks and branches of foreign banks operating under a commercial bank licence in Bahrain are required to publish their financial statements on a quarterly and a semi-annual basis, respectively. The year-end financial statements and the interim financial statements of all banks must be audited and reviewed, respectively by external auditors. In addition, all banks operating in Bahrain are required to submit prudential information returns on a quarterly basis and statistical returns on a monthly basis to the CBB.

As the banking regulator, the CBB sets and monitors capital requirements on both a consolidated (group) basis and on a solo (parent company only) basis. The CBB implemented the new standards for capital and liquidity requirements proposed in accordance with Basel III guidelines in Bahrain starting from 1 January 2015. Local banks or banking groups are required to maintain a minimum capital adequacy ratio of 12.5 per cent. (on a consolidated basis) and 8.0 per cent. (on a stand-alone basis) which exceeds the minimum ratio requirements set by Basel III. All Bahraini banks are currently following the standardised approach to Credit Risk under Pillar I of Basel III. The basic indicator and standardised approaches are permitted for operational risk, while the standardised and internal model approaches are permitted for market risk. As part of Basel III implementation, Pillar III Disclosure requirements came into effect for all locally-incorporated banks' financial statements dated 30 June 2015 onward. Additionally, the CBB requires all locally-incorporated banks to report *pro forma* Basel III ratios on leverage and liquidity on a quarterly basis.

The CBB has established a deposit protection scheme (the **Scheme**) for compensating eligible depositors (any natural person holding an eligible account with a conventional bank or an Islamic bank in Bahrain) when conventional retail and Islamic banks licenced by the CBB are unable, or are likely to be unable, to satisfy claims against them. The Scheme was established by the CBB at the beginning of 2011 to replace the old post-funded scheme. The Scheme has created two funds (one conventional and one Islamic) which are used to compensate eligible depositors in the event that their bank defaults.

The body established to operate and administer the Scheme is the Deposit Protection Board. The Deposit Protection Board's role is to consider if and when compensation will be available in relation to a particular bank, set out the procedures and rules of operation of the Scheme and be responsible for calculating the amounts of compensation payable.

The Scheme applies to eligible deposits held with the Bahraini offices of CBB licensees, whether in Bahraini Dinar or other currencies, held by persons who are either residents or non-residents of Bahrain. In the event of default, such deposits are protected up to a maximum of BHD20,000 (U.S.\$53,191.50).

Islamic Banking

As the charging of interest is prohibited under Shari'a rules and regulations, Islamic banking institutions operate, *inter alia*, on the principle of profit and loss sharing. Rather than charging interest, they participate in the yield resulting from use of the funds. Depositors also share in the profits of the bank according to a pre-determined ratio.

Due to the different manner in which Islamic banking operates and the specific risks inherent in the system, the CBB has developed a regulatory framework for Islamic banks which is separate from that for the conventional banking system. This was first implemented in March 2002 with the introduction of the Prudential Information and Regulatory Framework for Islamic banks (**PIRI**) by the Islamic financial institutions directorate. The objective of the PIRI is to provide an Islamic banking regulatory framework which is based on the Basel III standards and addresses the specific features of Islamic financial products.

Among other measures, PIRI requires Islamic banks to maintain a 12.5 per cent. consolidated capital adequacy ratio (8.0 per cent. on a solo basis) and to take a capital charge equal to 30.0 per cent. of assets financed by unrestricted profit sharing investments accounts in order to calculate their capital adequacy requirements. Islamic banks, like conventional banks, must also submit prudential returns on a quarterly basis. The Basel III capital adequacy requirements are applicable to Islamic banking institutions, however, such requirements are customised to fit the nature of the relevant Islamic bank in accordance with Islamic Financial Services Board requirements. The deposit protection scheme described above also applies in respect of deposits held with Islamic banks licensed by the CBB.

Banking Sector Liquidity

The impact of the global financial crisis on the Bahraini financial system has been relatively modest so the government and the CBB have not considered it necessary to resort to some of the exceptional measures adopted elsewhere in the world such as unlimited deposit or interbank guarantees or asset purchases by the state. Nonetheless, the CBB introduced two measures to improve market liquidity: opening a new foreign exchange swap facility and the acceptance of a wider range of collateral. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini Dinar in return for U.S. dollars, as required. The CBB enhanced its monitoring of bank liquidity during the financial crisis, requiring all locally-incorporated banks to report their liquidity positions on a daily basis and to report their risk exposures on a weekly basis.

As part of its implementation of Basel III, the CBB issued the Liquidity Risk Management Module in August 2018 setting out the CBB's requirements for the management of liquidity risk by Bahraini banks. Currently the CBB receives *pro forma* Basel III ratios (liquidity coverage ratio and net stable funding ratio) on a quarterly basis.

Covid-19 response

The CBB has announced various measures to combat the effect of the Covid-19 pandemic to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measures include the following:

- payment holiday for 6 months to eligible customers;
- concessionary repo to eligible banks at zero per cent.;
- reductions of LCR and NSFR from 100 per cent. to 80 per cent.;
- aggregate of modification loss and incremental ECL provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021 (this amount is to be deducted proportionally from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024);
- reduction of the one-week deposit facility rate from 1.75 per cent. to 1.0 per cent.;
- reduction of the overnight deposit rate from 2.0 per cent. to 0.75 per cent.;

- reduction of the overnight lending rate from 4.0 per cent. to 2.45 per cent.;
- reduction of the cash reserve ratio for retail banks from 5 per cent. to 3 per cent.;
- loan-to-value ratios for new residential mortgages were relaxed; and
- fees on debit cards have been capped.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust was entered into on the Issue Date between the Bank, the Trustee and the Delegate and is governed by English law.

Pursuant to the Declaration of Trust, the Trustee has declared a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets comprise:

- (a) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by the Bank pursuant to the Declaration of Trust); and
- (d) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust provides that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5.3 (*The Trust*). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee has irrevocably and unconditionally appointed the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order

to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee and have all the protections of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the Delegation of the Relevant Powers), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

- (a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so directed by an Extraordinary Resolution of the Certificateholders or if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of Bahrain, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*)) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and
- (b) without prejudice to Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) and the provisions of clause 16 (*Enforcement of Rights*) of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*) if so directed by an Extraordinary Resolution of the Certificateholders or if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*), and in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account has been established in London in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5.3 (*The Trust*).

Mudaraba Agreement

The Mudaraba Agreement was entered into on the Issue Date between the Bank (as the Mudareb) and KHCB Tier 1 Sukuk Limited (as Trustee and Rab-al-Maal) and is governed by English law save that Clause 2.4 (*Status*) of the Mudaraba Agreement will be governed by the laws of Bahrain.

The Mudaraba commenced on the date of payment of the Mudaraba Capital to the Mudareb and will end on (i) the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the **Mudaraba End Date**) or (ii) if earlier, and in the case of a Conversion in whole only, on the Non-Viability Event Conversion Date.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates have been contributed by the Rab-al-Maal to the Mudareb and form the Mudaraba Capital. The Mudaraba Capital is invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in its general business activities carried out through the General Mudaraba Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the **Investment Plan**). The Mudareb has acknowledged and agreed in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledged that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Mudaraba Pool does not include any other investment pool maintained by the Bank.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities carried out through the General Mudaraba Pool, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned (including, for the avoidance of doubt, any profit earned in respect of the proceeds of all current savings and investment deposit accounts forming part of the General Mudaraba Pool) for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

- (a) the Trustee: 90 per cent.; and
- (b) the Mudareb: 10 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Trustee's share of the Mudaraba Profit (the **Rab-al-Maal Mudaraba Profit**) or the Trustee's share of the Final Mudaraba Profit (the **Rab-al-Maal Final Mudaraba Profit**) (as applicable) payable to the Trustee is:

- (a) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to the Mudaraba Reserve and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or
- (b) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall (the **Shortfall Cover Amount**).

The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes as an incentive fee, provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit not paid as a result of a Non-Payment Event and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Event, then, from the date of such Non-Payment Event (the **Dividend Stopper Date**), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, Rab-al-Maal Final Mudaraba Profit, in each case following a Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

- (a) on any date, on or after the First Call Date by giving not less than 30 days' prior notice to the Trustee; or
- (b) on any date, on or after the Issue Date, by giving not less than 30 days' prior notice to the Trustee:
 - (i) upon the occurrence of a Tax Event; or
 - (ii) upon the occurrence of a Capital Event.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b) above and the proceeds to be returned to the Trustee which would be generated upon such liquidation are less than the Required Liquidation Amount, the Mudareb shall either continue investing the Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the Required Liquidation Amount in which case there shall be a final constructive liquidation of the Mudaraba. The **Required Liquidation Amount** means: (a) the Mudaraba Capital and, in the case of a final liquidation following the occurrence of a Capital Event pursuant to paragraph (b)(ii) above only, the Capital Event Profit Amount; (b) subject to a Non-Payment Event not having occurred and being continuing and provided that a Non-Payment Event will not occur as a result of such payments, the Rab-Al-Maal Final Mudaraba Profit (being an amount equal to the Periodic Distribution Amount payable on the redemption of the Certificates in full); and (c) the Shortfall Cover Amount (if any).

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if at any time an order is made, or an effective resolution is passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the Mudareb and/or if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that, if a Non-Viability Event occurs, a Conversion (in whole or in part, as applicable) will take place. In such circumstances, in the case of a Conversion in whole only, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets) and in the case of a Conversion in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be converted and the Certificateholders' rights

to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally cancelled and converted in the same manner as the Certificates.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb has agreed in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, Taxes, unless such withholding or deduction is required by law, and provide for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term), but excluding the Mudareb's obligations (if any) to pay any Taxes and/or Additional Amount, will be borne by the Mudaraba itself.

Agency Agreement

The Agency Agreement was entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee ; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar has (i) authenticated (or procured the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) delivered the Global Certificate to the Common Depositary.

The Bank shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent has agreed that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5.3 (*The Trust*).

Shari'a Compliance

Each Transaction Document provides that each of KHCB Tier 1 Sukuk Limited and Khaleeji Commercial Bank BSC agrees that it has accepted the *Shari'a* compliant nature of each Transaction Document to which it is a party and, to the extent permitted by law, further agreed that:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party; and

(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Subscription Agreement and the Transaction Documents to which it is a party are not compliant with the principles of *Shari'a*.

TAXATION

The following is a general description of certain Bahrain, Cayman Islands, European Union and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere, *nor does it address the considerations that are dependent on individual circumstances*. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of these Admission Particulars and is subject to any change in law that may take effect after such date.

BAHRAIN

Under the current laws of Bahrain, there are no corporate or personal income taxes, withholding or capital gains taxes or stamp duties that would apply in respect of the Certificates.

CAYMAN ISLANDS

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any Certificateholder, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if executed in or brought into the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies, which is calculated by reference to the nominal amount of its authorised share capital. At current rates, this annual registration fee is approximately U.S.\$854.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Commission Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Trustee is a foreign financial institution for these purposes. A number of jurisdictions (including Bahrain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and the Certificates if characterised as debt (or if not otherwise characterised as equity) for U.S. federal tax purposes are expected to be "grandfathered" for purposes of FATCA withholding unless materially modified after such date.

Certificateholders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

SELLING RESTRICTIONS

United States

The Certificates have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Certificates have not been and will not be offered or sold (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Certificates and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and each dealer to which the Certificates are sold during the distribution compliance period will receive a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons.

The Certificates are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the offering of the Certificates) may violate the registration requirements of the Securities Act.

United Kingdom

- (a) Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any Certificates shall only be made in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and
- (b) all applicable provisions of the FSMA shall be complied with in relation to any offer or sale of the Certificates in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

The Certificates have not been offered, sold or otherwise made available and will not be offered, sold or otherwise make available to any retail investor in the EEA. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

UAE (excluding the Dubai International Financial Centre)

The Certificates have not been and will not be offered, sold or publicly promoted or advertised in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Cayman Islands

No offer or invitation to the public in the Cayman Islands to subscribe for the Certificates shall be made, whether directly or indirectly.

Dubai International Financial Centre

The Certificates have not been offered and will not be offered to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (DFSA) rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017 (the **KSA Regulations**), made through an authorised person licensed to carry out arranging activities by the Capital Market Authority and following a notification to the Capital Market Authority under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Any offer of Certificates to a Saudi Investor will be made in compliance with Article 11 and either Article 9 or Article 10 of the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

State of Kuwait

The Certificates have not been and will not be offered, marketed and/or sold in Kuwait, except through a licensed person duly authorised to undertake such activity pursuant to the CMA Rules and unless all necessary approvals from the CMA pursuant to the CMA Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature), or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and/or sale of the Certificates. The Certificates may not be offered onshore in Kuwait except to Professional Clients as defined in the CMA Rules.

Kingdom of Bahrain

The Certificates have not been offered or sold, and will not be offered or sold except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an accredited investor means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person's principal place of residence;

- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Hong Kong

- (a) The Certificates have not been offered or sold and will not be offered or sold in Hong Kong by means of any document, other than: (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the C(WUMP)O) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) whether in Hong Kong or elsewhere, no advertisement, invitation or document relating to the Certificates shall be issued, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

These Admission Particulars have not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Certificates have not been offered or sold or made the subject of an invitation for subscription or purchase, and will not be offered or sold or made the subject of an invitation for subscription or purchase, and these Admission Particulars have not been circulated or distributed, nor will be circulated or distributed, or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, will not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;

- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Malaysia

These Admission Particulars have not been registered as a prospectus with the Securities Commission of Malaysia (the SC) under the Capital Markets and Services Act 2007 (the CMSA).

Accordingly, the Certificates have not been and will not be offered, sold or delivered and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed by it in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 275(3)) of the CMSA, read together with Schedule 9 (or Section 257(3)) of the CMSA, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and the Manager is not responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Switzerland

(i) The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland, (ii) neither these Admission Particulars nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations, and (iii) neither these Admission Particulars nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

General

None of the Trustee, the Bank nor the Manager has made any representation that any action will be taken in any jurisdiction by the Manager or the Trustee or the Bank that would permit a public offering of the Certificates, or possession or distribution of these Admission Particulars (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Manager agrees that it will comply to the best of its knowledge and belief with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers any Certificates or has in its possession or distributes these Admission Particulars (in preliminary, proof or final form) or any such other offering or publicity material relating to the Certificates, in all cases at its own expense.

GENERAL INFORMATION

Admission to trading

Application has been made to the London Stock Exchange for the Certificates to be admitted to trading on the ISM. The ISM is a market designated for professional investors. The Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of these Admission Particulars. It is expected that the admission of the Certificates to trading on the ISM will be granted on or around ● 2020. The total expenses related to the admission to trading are estimated at £●.

Authorisation

The issue of the Certificates was duly authorised by a resolution of the Board of Directors of the Trustee dated 29 June 2020 and 28 July 2020. KHCB Tier 1 Sukuk Limited, in its capacity as the Issuer and the Trustee, has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue of the Certificates and the entry into the Transaction Documents.

The entry by the Bank into the Transaction Documents was authorised by the directors of the Bank on 27 June 2020, 30 June 2020 and 27 July 2020 2020.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 219961146 and ISIN XS2199611463.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

Save as disclosed in "*Risk Factors - The Bank's business, financial condition and results of operations are materially affected by conditions in regional and global financial markets and economic conditions*" and "*Financial Review - Significant Factors Affecting Results of Operations*", there has been no significant change in the financial or trading position of the Bank since 30 June 2020 and there has been no material adverse change in the prospects of the Bank since 31 December 2019.

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

The Bank has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) during the 12 months preceding the date of these Admission Particulars that may have or have in such period had a significant effect on the financial position or profitability of the Bank.

Independent Auditors

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by the laws of the Cayman Islands, and does not intend, to publish audited financial statements or appoint any auditors.

The Bank's appointed independent auditors are KPMG Fakhro whose business address is P.O. Box 710, 12th floor, Fakhro Tower, Manama, Bahrain. KPMG is regulated in Bahrain by the Central Bank of Bahrain and the Ministry of Industry, Commerce and Tourism in Bahrain.

The Annual Financial Statements have been audited by KPMG in accordance with International Standards on Auditing as stated in their reports included herein.

The Interim Financial Statements have been reviewed by KPMG in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as stated in their review report included herein.

With respect to the Interim Financial Statements, the independent auditors reported that they have applied limited procedures in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Auditor of the Entity". However, their review report dated 9 August 2020, included herein, states that they did not audit and they do not express any audit opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Documents Available

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours at the specified office for the time being of the Principal Paying Agent:

- (a) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of the Bank;
- (b) the Financial Statements;
- (c) a copy of these Admission Particulars together with any supplement to these Admission Particulars; and
- (d) the Transaction Documents.

Manager Transacting with the Bank

In the ordinary course of their business activities, the Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Manager or its affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, the Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Shari'a Approvals

The transaction structure relating to the Certificates (as described in these Admission Particulars) has been approved by the Shari'a Supervisory Board of the Bank.

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KHALEEJI COMMERCIAL BANK BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 JUNE 2020

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour Harbour Tower East PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Abdulla Abdulkarim Showaiter (resigned on 25 March 2020) Dr. Khalid Mohammed Al Khazraji (resigned on 25 March 2020) Mustafa Ghazi Kheriba Fawad Tariq Khan Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed
Chief Executive Officer	:	Sattam Sulaiman Algozaibi
Company secretary	:	Mohammed Abdulla Saleh
Reviewing Auditors	:	KPMG Fakhro, Bahrain

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the six months ended 30 June 2020

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 August 2020

To
The Board of Directors
Khaleeji Commercial Bank BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 June 2020 condensed consolidated interim financial information of Khaleeji Commercial Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2020;
- the condensed consolidated income statement for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2020;
- the condensed consolidated statement of changes in restricted investment accounts for the six-month period ended 30 June 2020;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the six-month period ended 30 June 2020; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation stated in note 2 of the condensed consolidated interim financial information. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2020 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation stated in note 2 of the condensed consolidated interim financial information.


CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION


As at 30 June 2020

BD 000's

	Note	30 June 2020 (Reviewed)	31 December 2019 (Audited)
ASSETS			
Cash and bank balances		96,327	104,376
Placements with financial institutions		10,036	65,508
Financing assets	8	309,081	324,355
Investment in sukuk	9	225,256	195,050
Assets acquired for leasing		121,265	129,097
Lease rentals receivables		21,390	17,102
Investment in equity securities at fair value through equity		40,766	43,989
Investment in associate		29,012	4,524
Investment in real estate		17,781	17,781
Development property		57,418	6,251
Other assets		24,936	23,969
Property and equipment		7,545	7,750
Total assets		960,813	939,752
LIABILITIES			
Placements from financial institutions		108,143	117,098
Placements from non-financial institutions and individuals		165,516	134,654
Term borrowing		79,636	-
Customers' current accounts		51,136	58,105
Other liabilities		14,028	19,798
Total liabilities		418,459	329,655
Equity of investment account holders	10		
From financial institutions		16,856	22,367
From non-financial institutions and individuals		382,070	499,823
		398,926	522,190
OWNERS' EQUITY			
Share capital	12	89,212	105,000
Subordinated mudaraba (AT 1)	11	47,060	-
Statutory reserve		8,225	8,225
Treasury shares		(11,765)	(11,730)
Employee share incentive scheme		-	-
Investment fair value reserve		(226)	-
Retained earnings		8,746	(15,788)
Total owners' equity		141,252	85,707
Non-controlling interest		2,176	2,200
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		960,813	939,752

The Board of Directors approved the condensed consolidated interim financial information on 9 August 2020 and signed on its behalf by:


Jassim Mohamed Alseddiqi
Chairman


Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman



Sattam Sulaiman Algosabi
Chief Executive Officer


The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2020

BD 000's

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
Income from financing assets and assets acquired for leasing	15,558	14,613
Income from placements with financial institutions	352	1,421
Income from sukuks	6,035	4,814
Income from equity securities	174	299
Other income	1,197	4,051
15	23,316	25,198
Total income before return to investment account holders		
Less: return to investment account holders before Bank's share as Mudarib	(11,477)	(13,542)
Bank's share as a Mudarib	5,453	4,050
Net return to investment account holders	(6,024)	(9,492)
Expense on placements from financial institutions, non-financial institutions and individuals	(5,767)	(3,928)
Finance expense on term borrowing	(156)	(1,051)
Total income	11,369	10,727
Staff cost	3,472	3,944
Other expenses	2,093	2,351
Total expenses	5,565	6,295
Profit before impairment allowances	5,804	4,432
Impairment allowances	(119)	(4,265)
16	5,685	167
PROFIT FOR THE PERIOD		
Attributable to:		
Shareholders of the Bank	5,709	199
Non-controlling interest	(24)	(32)
	5,685	167
Earnings per share		
Basic and diluted earnings per share (fills)	6.521	0.211


 Jassim Mohamed Alseddiqi
 Chairman


 Sh. Ahmed Bin Isa Al Khalifa
 Vice Chairman


 Sattam Sulaiman Algosaibi
 Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2020

BD 000's

	Equity attributable to shareholders of the Bank							Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Investment fair value reserve	Subordinated mudaraba (AT1)	Retained earnings			Total
30 June 2020 (reviewed)										
Balance at 1 January 2020	105,000	8,225	(11,730)	-	-	-	(15,788)	85,707	2,200	87,907
Profit for the period	-	-	-	-	-	-	5,709	5,709	(24)	5,685
Total recognised income and expense for the period	-	-	-	-	-	-	5,709	5,709	(24)	5,685
Issuance of AT1(Note 11)	-	-	-	-	-	60,000	12,000	72,000	-	72,000
Issuance costs of AT1 (Note 11)	-	-	-	-	-	(12,940)	-	(12,940)	-	(12,940)
Modification loss (Note 2a & 8)	-	-	-	-	-	-	(9,536)	(9,536)	-	(9,536)
Government grant (Note 2b)	-	-	-	-	-	-	791	791	-	791
Capital reduction (Note 12)	(15,788)	-	-	-	-	-	15,788	-	-	-
Purchase of Treasury shares	-	-	(35)	-	-	-	-	(35)	-	(35)
Issue of shares under incentive scheme	-	-	-	-	-	-	-	-	-	-
Fair value revaluation movement	-	-	-	-	(226)	-	-	(226)	-	(226)
Transfer to Zakah fund	-	-	-	-	-	-	(218)	(218)	-	(218)
Balance at 30 June 2020	89,212	8,225	(11,765)	-	(226)	47,060	8,746	141,252	2,176	143,428

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 (Continued)

BD 000's

	Equity attributable to shareholders of the Bank					Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Accumulated losses			Total
30 June 2019 (reviewed)								
Balance at 1 January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Profit for the period	-	-	-	-	199	199	(32)	167
Total recognised income and expense for the period	-	-	-	-	199	199	(32)	167
Purchase of Treasury shares	-	-	(420)	-	-	(420)	-	(420)
Issue of shares under incentive scheme	-	-	-	76	20	96	-	96
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 30 June 2019	105,000	8,225	(11,715)	47	(697)	100,860	2,258	103,118

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2020

BD 000's

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
OPERATING ACTIVITIES		
Disbursements to financing assets, net	(127)	(10,937)
Receipts from/(disbursements for) assets acquired for leasing, net	4,932	(13,348)
Income from short-term placements received	352	1,421
Returns paid to investment account holders	(9,502)	(5,616)
(Withdrawals) / proceeds from investment account holders, net	(123,265)	110,656
Payment for expenses	(8,510)	(6,644)
Other receipts	1,209	2,329
Contributions paid to charitable organisations	(46)	(18)
Withdrawals from customers' current accounts, net	(6,969)	(5,074)
Withdrawals from financial institutions, net	(8,955)	(6,315)
Placements from non-financial institutions, net	30,861	8,264
Net receipts from/(payment) to CBB reserve account	12,696	(5,950)
Finance expense on placements paid	(5,767)	(6,208)
Income from sukuk received	6,084	4,701
Net cash (used in) / from operating activities	(107,007)	67,261
INVESTING ACTIVITIES		
Purchase of sukuk	(45,971)	(23,831)
Proceed from redemption / sale of sukuk	10,431	3,269
Dividend from equity securities received	202	9
Purchase of equity securities	(18)	-
Proceeds from disposal of development property	728	-
Purchase of property and equipment, net	(83)	(103)
Net cash used in investing activities	(34,711)	(20,656)
FINANCING ACTIVITIES		
Treasury shares, net	(35)	(420)
Drawdown / (repayment) of term borrowing	79,480	(7,837)
Cash from injection of AT1 Capital	11,447	-
Net cash from / (used in) financing activities	90,892	(8,257)
Net (decrease) / increase in cash and cash equivalents	(50,826)	38,348
Cash and cash equivalents at beginning of the period	144,454	121,171
Cash and cash equivalents at end of the period	93,628	159,519
Cash and cash equivalents comprise:		
Cash and bank balances (excluding CBB reserve)	83,592	49,501
Placement with financial institutions	10,036	110,018
	93,628	159,519

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the six months ended 30 June 2020

BD 000's

30 June 2020 (reviewed)

	Balance at 1 January 2020			Movements during the period						Balance at 30 June 2020		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

30 June 2019 (reviewed)

	Balance at 1 January 2019			Movements during the period						Balance at 30 June 2019		
	No of units (000)	Average value per share BD	Total BD 000's	Investment / (withdrawals) BD 000's	Revaluation BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS 12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information .

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the six months ended 30 June 2020

BD 000's

	Six months ended 30 June 2020 (reviewed)	Six months ended 30 June 2019 (reviewed)
Sources of zakah and charity fund		
At 1 January	714	708
Contributions by the bank	218	187
Non-Islamic income	36	8
Total sources	968	903
Uses of zakah and charity fund		
Contributions to charitable organisations	(46)	(18)
Total uses	(46)	(18)
Undistributed zakah and charity fund at end of the period	922	885

The accompanying notes 1 to 21 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**for the six months ended 30 June 2020**

BD 000's

1 Reporting entity

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail license granted by the Central Bank of Bahrain ("CBB"). The Bank is listed on the Bahrain Bourse.

The Bank is 55.41% owned by GFH Financial Group BSC (the "Parent"), a Bahraini incorporated investments bank operating under an Islamic wholesale banking license issued by the Central Bank of Bahrain ("CBB") and listed on Bahrain Bourse, Kuwait Stock Exchange and Dubai Financial Markets ("DFM").

The condensed consolidated interim financial information comprises financial information of the Bank and its subsidiaries (together "the Group").

Subsidiaries and associates

- i. During the period, the Group acquired the 86% stake in a property held by HH Hospitality SPC, a Bahraini incorporated company operating in the hospitality business, through an asset swap transaction with the parent. The transaction did not result in any gain or loss for the Bank. Note 18.
- ii. During the period, the Bank also acquired 50% stake in Al Areen Hotel SPC, a Bahraini incorporated company operating in the hospitality business from the parent as part of the parent's subscription in a subordinated Modaraba (additional Tier One Capital securities) issued by the Bank (Note 11). The investment is regarded as joint venture based on a shareholders' agreement and accordingly accounted for under the equity method.

2 Basis of preparation and presentation

The condensed consolidated interim financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), except for:

- a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Please refer to note 8 for further details; and
- b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss amount, the balance amount is recognized in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of FAS.

The above framework for basis of preparation of the condensed consolidated interim financial information is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

The modification to accounting policies have been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020**

BD 000's

2 Basis of preparation and presentation (continued)

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered by AAOIFI standards, the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Accordingly, the condensed consolidated interim financial information of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using 'Financial Accounting Standards as modified by CBB'.

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the Group's last audited consolidated financial statements for the year ended 31 December 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual audited consolidated financial statements as at and for the year ended 31 December 2019.

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's last audited consolidated financial statements as at and for the year ended 31 December 2019, except as described in Note 2 'basis of preparation and presentation' above and those arising from adoption of the following standards and amendments to standards not yet effective but early adopted by the Group.

a. Early adoption of standards issued but not yet effective**i) FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)**

The Group has early adopted FAS 31 as issued by AAOIFI in 2019 effective 1 January 2021.

The objective of this standard is to establish the principles of accounting and financial reporting for investment agency (Al- Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives.

The Group uses Wakala structure to raises funds from interbank market and from customers, and these were reported as liabilities under placements from financial institutions and placements from non-financial institutions and individuals, respectively as of 31 December 2019. All funds raised using Wakala structure, together called "Wakala pool" are comingled with the Bank's jointly financed pool of funds based on an underlying equivalent Mudaraba arrangement. This comingled pool of funds is invested in a common pool of assets of in the manner which the Group deems appropriate without any restrictions as to where, how and for what purpose the funds should be invested. After adopting FAS 31 on 1 January 2020, the Wakala pool is now classified as part of the Mudaraba pool of funding under equity of investment account holders and the profit paid on these contracts is reported as part of determination of return on investment of equity of investment account holders.

As per the transitional provisions of FAS 31, the entity may choose not to apply this standard on existing transactions executed before 1 January 2020 and have an original contractual maturity before 31 December 2020. However, the Bank decided to apply the standard retrospectively, thereby reclassifying all transactions outstanding as of the period end and the corresponding previous period end. The adoption of this standard has resulted in a change in classification of all Wakala based funding contracts as part of equity of investment accountholders and additional associated disclosures (refer note 10).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

- 3 *Significant accounting policies (continued)*
 a. *Early adoption of standards issued but not yet effective (continued)*

ii) FAS 33 Investment in sukuks, shares and similar instruments

The Group has adopted FAS 33 as issued by AAOIFI effective 1 January 2021.

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institution's investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments.

The standard classifies investments into equity type, debt-type and other investment instruments. Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

Investments in equity instruments must be at fair value and those classified as fair value through equity will be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

The standard is effective 1 January 2021 with an option to early adopt and is applicable on a retrospective basis. However, the cumulative effect, if any, attributable to owners' equity, equity of investment account holders relating to previous periods, shall be adjusted with investments fair value pertaining to assets funded by the relevant class of stakeholders.

The adoption of FAS 33 has resulted in changes in accounting policies for recognition, classification and measurement of investment in sukuku, shares and other similar instruments, however, the adoption of FAS 33 had no significant impact on any amounts previously reported in the condensed consolidated interim financial information for the period ended 30 June 2019 and the consolidated financial statement of the Group for the year ended 31 December 2019. Set out below are the details of the specific FAS 33 accounting policies applied in the current period.

Changes in accounting policies

Categorization and classification

FAS 33 sets out classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as either investment in:

- i) equity-type instruments;
- ii) debt-type instruments, including:
 - monetary debt-type instruments; and
 - non-monetary debt-type instruments; and
- iii) other investment instruments

Unless irrevocable initial recognition choices as per the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

- the Bank's business model for managing the investments; and
- the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

3 *Significant accounting policies (continued)*

Reclassification of assets and liabilities

The adoption of FAS 33 has resulted in the following change in the classification of investments based on the reassessment of business model classification of the assets at 1 January 2020:

	Original classification under FAS 25	New classification under FAS 33	Original carrying amount under FAS 25	New carrying amount under FAS 33
Investment securities				
Investment in Sukuk	Amortised cost	Amortised cost	225,256	225,256
Investment in shares	FVTPL	FVTE	8,205	8,205
Investment in shares	FVTE	FVTE	32,561	32,561

b. New standards, amendments and interpretations issued but not yet effective

FAS 32 - Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices.

This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Group is currently evaluating the impact of this standard.

4 **Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the last audited consolidated financial statements for the year ended 31 December 2019 except as described below:

Credit Risk

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Also, the volatility in oil prices during the early part of 2020, will have a regional impact due to its contribution to regional economies.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors.

Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease in of other revenue.

The Group has updated its inputs and assumptions for computation of ECL (refer note 5).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020**

BD 000's

4 Financial risk management (continued)**Liquidity risk and capital management**

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in banking sector. Following are some of the significant measures that have an impact on the liquidity risk and regulatory capital profile of the Group:

- payment holiday for 6 months to eligible customers;
- for stage 1 ECL, increase in the number of days from 30 days to 74 days;
- concessionary repo to eligible banks at zero percent;
- reduction of cash reserve ratio from 5% to 3%;
- reduction in LCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 for the period from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements.

In response to COVID-19 outbreak, the Group invoked its liquidity contingency plan and continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 30 June 2020 have been disclosed below.

Operational risk management

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has carried out a review of the existing control environment and has considered whether to update the risk registers by identifying potential loss events based on their review of the business processes in the current environment.

As of 30 June 2020, the Group did not have any significant issues relating to operational risks.

IBOR reforms

IBOR reforms are heading to second phase, which relates to the replacement of benchmark rates with alternative risk-free rates. The impact of rate replacement on the Group's products and services is one of the critical drivers of this project. With an aim to achieve an orderly transition and to mitigate the risks resulting from the transition, the Group's management is in the process of planning for the Group's transition project and continues to engage with various stakeholders.

This project is expected to have a pervasive impact on the entity, in terms of scale and complexity and will impact products, internal systems and processes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

4 *Financial risk management (continued)***Regulatory ratios***a. Net stable funding Ratio (NSFR)*

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding".

The Consolidated NSFR calculated as per the requirements of the CBB rulebook, as of 30 June 2020 is as follows:

	Total weighted value	
	30 June 2020	31 December 2019
Available stable funding (ASF)	632,245	585,803
Required stable funding (RSF)	681,738	540,123
NSFR %	92.7%	108.5%
Minimum required by CBB	80%	100%

b. Capital Adequacy Ratio

	30 June 2020	31 December 2019
CET 1 Capital before regulatory adjustments	105,878	97,215
Less: regulatory adjustments	(11,765)	(14,356)
<i>CET 1 Capital after regulatory adjustments</i>	94,113	82,859
<i>T1 Capital</i>	47,060	-
T 2 Capital adjustments	7,783	5,726
Regulatory Capital	148,956	88,585
Risk weighted exposure:		
Credit Risk Weighted Assets	622,632	458,075
Market Risk Weighted Assets	65,315	65,315
Operational Risk Weighted Assets	7,679	9,403
Total Regulatory Risk Weighted Assets	695,626	532,793
Investment risk reserve (30% only)	-	-
Profit equalization reserve (30% only)	-	-
Total Adjusted Risk Weighted Exposures	695,626	532,793
Capital Adequacy Ratio	21.41%	16.63%
Tier 1 Capital Adequacy Ratio	20.29%	16.63%
Minimum required by CBB	12.5%	12.5%

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020**

BD 000's

5 Estimates and judgements

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The areas of significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2019. However, the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements.

Expected credit Losses

The economic uncertainties caused by COVID-19, and the volatility in oil prices impacting the Middle East economic forecasts have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 30 June 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, an assessment has been conducted on the corporate portfolio based on various factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc.

Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn, and the qualitative adjustments have considered these variables accordingly. Given the fact that the client base is primarily based in Bahrain and the region, all Government relief efforts to mitigate the impact of COVID-19 is also expected to have a mitigating impact on ECL assessment. The Group has factored the impact of these efforts in the likely severity of its ongoing ECL assessment.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020**

BD 000's

5 *Estimates and judgements (continued)**Significant increase in credit risk (SICR) (continued)*

During the period, in accordance with CBB instructions the Group has granted payment holidays to its eligible/impacted customers by deferring up to six months instalments. These deferrals are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk.

Reasonableness of forward-looking information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. The Group derives a forward looking "base case" economic scenario which reflects the Group's view of the most likely future macro-economic conditions. Any changes made to ECL to estimate the overall impact of COVID-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on an annual basis.

The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to COVID-19.

Probability weights

Management Judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario.

In light of the current uncertain economic environment, the Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the period ended 30 June 2020. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis (that includes upside, based case and downside scenarios) and changed the downside weightings through to 100%.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

6 Comparatives

The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2019 and comparatives for the condensed consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the six-months ended 30 June 2019.

7 Seasonality of operations

The Bank does not have significant income of a seasonal nature.

8 Financing Assets

	30 June 2020 (reviewed)	31 December 2019 (audited)
Murabaha	317,498	354,510
Musharaka	104	104
Wakala	5,007	5,007
Mudaraba	1,047	1,047
Istisna	2,463	1,733
	326,119	362,401
Less: Impairment allowances	(17,038)	(38,046)
	309,081	324,355

Murabaha financing receivables are net of deferred profits of BD 19,971 thousand (2019: BD 25,724 thousand) and un-amortised day one loss of BD 1,968 thousand (page 4).

The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The Group provided payment holidays on financing exposures amounting to BD 44,630 thousand as part of its support to impacted customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

8 *Financing Assets(continued)*

The movement on impairment allowances is as follows:

2020	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	4,581	2,730	30,735	38,046
Net movement between stages	1,354	(1,524)	170	-
<i>Charge for the period</i>	212	640	1,165	2,017
<i>Write back for the period</i>	-	-	(1,841)	(1,841)
Net charge for the period	212	640	(676)	176
Write off	-	-	(10,149)	(10,149)
Disposal	-	-	(11,035)	(11,035)
At 30 June 2020	6,147	1,846	9,045	17,038

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(763)	(492)	1,255	-
<i>Charge for the period</i>	54	226	3,090	3,370
<i>Write back for the period</i>	-	-	(3)	(3)
Net charge for the period	54	226	3,087	3,367
At 30 June 2019	4,053	3,429	17,908	25,390

9 **Investment in Sukuk**

	30 June 2020 (Reviewed)	31 December 2019 (Audited)
Debt type instruments - at amortised cost		
- Quoted sukuk *	225,323	195,061
- Unquoted sukuk	1,317	1,317
Less: impairment allowance	(1,384)	(1,328)
	225,256	195,050

* As of 30 June 2020, Sukuk of BD 124,806 thousand (31 December 2019: NIL) pledged against term borrowings of BD 79,636 thousand (31 December 2019: NIL).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**for the six months ended 30 June 2020**

BD 000's

10 Equity of investment account holders

The funds received from Wakala pool and Mudaraba pool together "IAH" have been commingled and jointly invested with the Group in the following asset classes and reported under equity of investment account holders:

	30 June 2020 (Reviewed)	30 June 2019 (Reviewed)
Placements and borrowings from financial institutions – Wakala	-	10,355
Placements from non-financial institutions and individuals – Wakala	-	-
Mudaraba	398,926	511,835
	398,926	522,190

The funds received from Wakala pool and Mudaraba pool together "IAH" have been commingled and jointly invested with the Group in the following asset classes and reported under equity of investment account holders:

	30 June 2020	31 December 2019
Balances with banks	38,078	42,601
CBB reserve account	12,734	25,430
Placements with financial institutions	10,036	65,508
Debt type instruments – sukuk	225,322	195,050
Financing assets	112,756	193,601
	398,926	522,190

11 Subordinated mudaraba

In order to meet minimum regulatory requirements relating to total equity, during the period, the Bank issued a Subordinated Mudaraba (Basel III compliant Additional Tier 1 capital securities) of US\$ 159 million (BD 60 million) at a premium of BD 12 million. The issue was fully subscribed for by the Parent through a combination of cash of BD 23.6 million and in-kind of BD 48.4 million comprising of a stake in a joint venture of BD 24.5 million (Note 1), properties of BD 5.5 million, and financing assets of BD 18.4 million. The in-kind contribution was recognised at the fair value of the consideration received on the date of transfer. The premium received has been added to retained earnings and recognized as part of the total equity attributable to AT1.

Issuance costs of BD 12.9 million representing BD 12.1 million underwriting fee to the Parent and BD 0.8 million other transaction costs have been adjusted against the AT1 issued capital.

Profits on these securities shall be distributed on a semi-annual basis subject to and in accordance with terms and conditions on the outstanding nominal value of the securities at an expected rate of 10% p.a. The Subordinated Mudaraba is recognized under the owners' equity in the condensed interim consolidated statement of financial position and the profits paid to rab al-maal (security holder) are accounted for as appropriation of profits. Security holder will not have a right to claim the profits and such event will not be considered as event of default

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**for the six months ended 30 June 2020**

BD 000's

12 Paid up share capital

In their Extra -ordinary meeting on 25 March 2020, the shareholders resolved to write-off losses of BD 15,788 thousand against paid up capital by reducing the number of shares.

13 Commitments and contingencies:

	30 June 2020 (Reviewed)	31 December 2019 (Audited)
Undrawn commitments to extend finance	45,539	68,876
Financial guarantees	10,320	11,836

14 Appropriations of net profit, if any, are made only after obtaining approval of the shareholders.

15 Other income

Includes recovery during the period of BD 17 thousand (2019: BD 2,738 thousand) from financing assets written-off in prior years.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

16 Impairment allowances

	30 June 2020 (Reviewed)	30 June 2019 (Reviewed)
Balances and placements with banks and financial institutions	1	(48)
Financing Assets (note 8)	176	3,367
Investments in sukuk	59	12
Assets acquired for leasing (including lease rentals receivables)	(124)	812
Commitments and financial guarantees	7	(82)
Investments in equity securities at fair value through equity	-	204
	119	4,265

Movement on ECL in various stages during the period:

30 June 2020	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	720,766	24,291	57,427	802,484
Opening ECL balance at 1 January	4,909	3,123	34,833	42,865
Transfer to Stage 1	1,704	(1,160)	(544)	-
Transfer to Stage 2	(44)	772	(728)	-
Transfer to Stage 3	(20)	(1,384)	1,404	-
Net movement	1,640	(1,772)	132	-
Charge for the period (net)	170	599	(650)	119
Write off	-	-	(10,154)	(10,154)
Disposal	-	-	(11,035)	(11,035)
Closing ECL balance as at 30 June	6,719	1,950	13,126	21,795
Net carrying amount	714,047	22,341	44,301	780,689
30 June 2019	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	720,835	58,780	99,453	879,068
Opening ECL balance at 1 January	5,099	3,918	17,214	26,231
Transfer to Stage 1	401	(293)	(108)	-
Transfer to Stage 2	(302)	426	(124)	-
Transfer to Stage 3	(867)	(700)	1,567	-
Net movement	(768)	(567)	1,335	-
Charge for the period (net)	(54)	773	3,342	4,061
Closing ECL balance as at 30 June	4,277	4,124	21,891	30,292
Net carrying amount	716,558	54,656	77,562	848,776

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**for the six months ended 30 June 2020**

BD 000's

17 Assets under management

The Bank provides corporate administration, investment management and advisory services to its investment entities, 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 BD 262.4 million (31 December 2019: BD 263.25 million). During the year, the Bank has not charged any management fees (2019: BD NIL for the management of these assets).

18 Significant related party transactions

The significant related party transactions and balances included in this condensed consolidated interim financial information are as follows:

During the period, the Group has entered into a swap transaction with its Parent at agreed terms by transferring financing assets of BD 27.7 million, Sukuk of BD 7.5 million and equity investment of BD 11.2 million of a total of BD 46.4 million in exchange of a controlling stake in HH Hospitality SPC, refer to note 1(i). The financing assets were recognised at the fair value of the asset received on the date of transfer.

**30 June 2020
(Reviewed)****Transactions with related parties**

Underwriting fee on Subordinated Mudaraba
Sub-ordinated Mudaraba
Investment in associates
Acquisition of development property
Sale of financial assets
Transfer of financial assets

	Significant shareholders / entities in which directors are interested	Total
Associates		
	12,100	12,100
	60,000	60,000
24,500	-	24,500
-	51,896	51,896
-	46,376	46,376
	18,433	18,433

**30 June 2020
(Reviewed)****Assets**

Financing assets
Investment in equity securities
Investment in associate
Other assets

Liabilities

Placement with financial institutions, non-FIs and individuals
Customers' current accounts
Equity of investment account holders
Other Liabilities

	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Financing assets	-	3,096	6,670	-	9,766
Investment in equity securities	-	-	2,284	17,996	20,280
Investment in associate	29,012	-	-	-	29,012
Other assets	117	-	-	784	901
Placement with financial institutions, non-FIs and individuals	-	2,616	19,569	-	22,185
Customers' current accounts	171	146	4,537	1,217	6,071
Equity of investment account holders	409	251	88,519	344	89,523
Other Liabilities	-	-	1,277	-	1,277

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

18 *Significant related party transactions (continued)*

Six months ended 30 June 2020 (Reviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	80	417	-	497
Other losses	(12)	-	2	-	(10)
Expenses					
Expense on placements from financial institutions, non-financial institutions and individuals	-	46	291	-	337
Return to investment account holders	7	-	965	4	976
Investment related expenses	-	-	-	21	21
Staff cost	-	1,143	-	-	1,143

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

18 Significant related party transactions (continued)

31 December 2019 (Audited)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	2,017	5,710	-	7,727
Investment securities	-	-	2,284	18,051	20,335
Other assets	4,645	-	-	865	5,510
Liabilities					
Placement with financial institutions	-	1,784	-	-	1,784
Customers' current accounts	194	61	5,634	1,207	7,096
Equity of investment account holders	404	598	122,880	380	124,262

Six months ended 30 June 2019 (Reviewed)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	64	185	-	249
Other losses	(42)	-	-	-	(42)
Expenses					
Expense on placements from financial institutions, non-financial institutions and individuals	-	43	2,074	-	2,117
Return to investment account holders	8	12	1,633	5	1,658
Investment related expenses	-	-	-	17	17
Staff cost	-	614	-	-	614

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

19 Segment information**30 June 2020
(Reviewed)**

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Segment revenue	31	23,285	-	23,316
Segment results	(346)	9,502	(3,471)	5,685
Segment assets	158,450	788,259	14,104	960,813

**30 June 2019
(Reviewed)**

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Segment revenue	254	24,944	-	25,198
Segment results	(394)	4,437	(3,876)	167
Segment assets	93,836	849,826	13,416	957,078

20 Financial instruments**Fair values**

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

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

(i) Financial instruments at fair value:

The table below analyses the financial instruments carried at fair value, by valuation method.

30 June 2020

Unquoted equity type securities
carried at fair value through equity

	Level 1	Level 2	Level 3	Total
	-	-	40,766	40,766
	-	-	40,766	40,766

31 December 2019

Unquoted equity type securities
carried at fair value through equity

	Level 1	Level 2	Level 3	Total
	-	-	43,989	43,989
	-	-	43,989	43,989

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

20 *Financial instruments (continued)*

The following table analyses the movement in Level 3 financial assets during the six month period ended 30 June 2020:

	30 June 2020 (reviewed)	30 June 2019 (reviewed)
At 1 January	43,989	13,148
Total losses in income statement	(254)	-
Purchases	8,205	-
Disposals	(11,174)	-
Transfers into (out) of Level 3	-	-
	40,766	13,148

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2 fair value measurements. Upon early adoption of FAS 33, all investments in equity shares which were classified at cost less impairment were reclassified into fair value through equity and measured as level 3 financial assets.

(ii) Fair value of financial instruments not measured at fair value

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

30 June 2020	Carrying amount	Fair value
Financial assets		
Financing assets	309,787	309,787
Investment in sukuk	225,256	225,256
Investment in equity securities	40,766	40,766
Assets acquired for leasing	121,265	121,265
Lease rentals receivables	21,445	21,445
	718,519	718,519
Financial liabilities		
Customers' current accounts	51,136	51,136
	51,136	51,136

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2020

BD 000's

20 *Financial instruments (continued)*

31 December 2019	Carrying amount	Fair value
Financial assets		
Financing assets	324,355	324,355
Investment in sukuk	195,050	195,050
Investment in equity securities	43,989	43,989
Assets acquired for leasing	129,097	129,097
Lease rentals receivables	17,102	17,102
	709,593	709,593
Financial liabilities		
Customers' current accounts	58,105	58,105
	58,105	58,105

Valuation techniques

Investment securities

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

For certain unquoted investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease / increase in the market multiple would increase / decrease the reported fair value by BD 410 thousand (2019: BD 657 thousand). The corresponding impact would be on the profit or loss reported by the Group.

Financing assets

In case of financing assets and assets acquired for leasing, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges, it is expected that the current value would not be materially different from fair value of these assets.

Other financial instruments

Placements with financial institutions and placements from financial institutions are for short term tenure hence their carrying value is not different from the fair value. Placements from non-financial institutions and individuals which are not short term are re-priced at regular intervals hence carrying value reflects the fair value. Fair value of other financial assets and liabilities are not significantly different from their carrying values due to their short term nature.

21 **Comparative Figures**

The comparative figures have been regrouped in order to conform with the presentation for current year. Such regrouping did not affect previously reported profit for the period or total equity.

(The attached information do not form part of the condensed consolidated interim financial information)

UNREVIEWED SUPPLEMENTARY DISCLOSURE TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared, a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global slowdown with uncertainties in the economic environment. This included disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The Central Bank of Bahrain (CBB) announced various measures to combat the effect of COVID-19 to ease liquidity conditions in the economy as well as to assist banks in complying with regulatory requirements. These measure include the following:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero Percent;
- Reduction of cash reserve ratio from 5% to 3%;
- Reductions of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- Aggregate of modification loss and incremental expected credit losses (ECL) provisions for stage 1 and stage 2 from March to December 2020 to be added to Tier 1 capital for two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionality from Tier 1 capital on an annual basis for three years ending December 2022, 31 December 2023 and 31 December 2024.

The aforementioned measures have resulted in the following effects to the Group:

- The CBB mandated 6-month payment holiday requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the carrying value of the financial assets on the date of modification.
- The Government of Kingdom of Bahrain has announces various economic stimulus programmes (“Packages”) to support business in these challenging times. The Group received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waives of fees, levies and utility charges and zero cost funding received from the government and/or regulators, in response to its COVID-19 support measures. This has been recognized directly in the Group’s equity.
- The mandated 6 months payments holiday included the requirement to suspend minimum payments and service fees and outstanding credit card balances, this resulted in a significant decline in the Group’s fees income.
- The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.
- The strain caused by COVID-19 on the local economy resulted in a slow-down in the booking of new financing assets by the Group. During the 6 months ended 30 June 2020, financing assets bookings were 26.3% lower than the same period of the previous year.
- Decreased consumer spending caused by the economic slow-down in the booking of new financing assets by the Bank, whereas, deposit balances decreased compared to the same period of the previous year. These effects partly alleviated the liquidity stress faced by the Group due to the mandated 6 months payments holiday.

SUPPLEMENTARY DISCLOSURE

BD 000's

- The stressed economic situation resulted in the Bank recognizing incremental ECL on its exposure.

A summary of the financial impact of the impact of the above effects is as follows:

	Net Impact on the Group's consolidated income statement BD '000	Net Impact on the Group's consolidated financial position BD '000	Net Impact on the Group's consolidated owners' equity BD '000
Average reduction of cash reserve	-	8,606	-
Concessionary repo at 0%	-	48,888	-
Modification loss	-	(9,536)	(9,536)
Government grants	-	-	791
Credit card income	(313)	-	-
ECL attributable to COVID-19	(1,275)	(1,275)	-
	<u>(1,588)</u>	<u>46,683</u>	<u>(8,745)</u>

The above supplementary information is provided to comply with CBB circular number OG/259/2020 (reporting of Financial Impact of COVID-19), dated 14 July 2020. This information should not be considered as indication of the results if the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above impact is as of date of preparation of this information. Circumstances may change which may result in this information to be out-of-date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.

KHALEEJI COMMERCIAL BANK BSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour East Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Abdulla Abdulkarim Showaiter Dr. Khalid Mohammed Al Khazraji Mustafa Ghazi Kheriba Fawad Tariq Khan Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed
Chief Executive Officer	:	Sattam Sulaiman Algozaibi
Company secretary	:	Mohammed Abdulla Saleh
Auditors	:	KPMG Fakhroo, Bahrain

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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Board of Directors Report
For the Year Ended 31 December 2018
Khaleeji Commercial Bank BSC

*In the name of Allah, the beneficent, the merciful,
Prayers and peace upon the last apostle and messenger, our prophet Muhammad.*

Dear Shareholders,

On behalf of the Board of Directors, It is my pleasure to present the annual financial statements of Khaleeji Commercial Bank (the "Bank") for the year ended 31 December 2018.

Throughout this year, the Bank has continued to generate annual profits attributable to the shareholders of the parent company that is despite the challenges the financial sector and market are currently facing due to the continuation of low oil prices. The Bank continued to be profitable during the year, with 2018 positioning the Bank on an upward trend in terms of enhancing its liquidity and asset quality.

Despite the prevailing market situation that continued during the year, the Bank was able to overcome various challenges attributed to the implementation of our approach and strategic direction. Whereby the Bank, as an upcoming Islamic financial institution, was able to provide various innovative financial solutions that added value to all stakeholders. The Bank will continue to pursue its expansion strategy through adopting several initiatives and progressive strategies that are directed towards enhancement of the Bank's positioning, market share/reach and competitive advantage.

Overall Performance

The Bank, during 2018, was able to achieve the strategic goals set by the board. This was achieved by implementation of a work structure that studies the market, invest in available opportunities and offer products and services that are aligned with the clients' expectation. Such enhancement in its products and services was the result of investing in the Bank's positioning locally and regionally.

A positive indicator of the Bank's performance this year is the growth of total assets from BD 785.2 million in 2017 to BD 850.9 million in 2018, a growth of 8.4%. Customer Deposits grew to BD 537.3 million in 2018 compared to BD 496.0 million in 2017, a growth of 8.3%. Corporate financing reached BD 301.2 million in 2018 compared to BD 298.7 million in 2017, a growth of 0.8%.

Furthermore, the Bank was able to achieve growth in liquid assets which currently comprises of 30% of Total Assets while the Capital Adequacy Ratio reached 16.2%. This has in turn allowed the Bank to invest the liquidity in prominent Sukuk investments that are characterised with high yield and low risk. Such investments resulted in a considerable increase in the Sukuk portfolio reaching BD 161.3 million in 2018 compared to BD 113.3 million in 2017, a growth of 42.3%. As a result, the Bank, thanks to Allah, in 2018 achieved a net profit attributable to the shareholders of the parent BD 0.659 million. As the Bank

continued to execute its strategic plan, the Board and the Management conducted a review to ensure that assets, especially those acquired prior to the new business model reflect realisable and fair value. Based on this review the Board decided to take an amount of BD 6.3 million as provisions for the year ended 31 December 2018, such conservative approach has been taken in order to enhance the Bank's financial positioning and to further support its growth in 2019.

Such results were a factor of the continued expansion of financial activities and efforts of the management that have applied with the organisations' strategic goals. The Bank, throughout this year, worked on improving the Bank's balance sheet by way of booking a strong high quality asset base in addition to improving the services provided to the Bank's clients. In addition, the Bank adopted a strategy of enhancing the revenues targeting both short and long term tenors. This has resulted in the management's focus towards targeting the liquidity and balance sheet towards local and regional projects that are characterised with having strong and adequate collaterals.

Looking Ahead

The Board believes that the Bank is moving steadily towards enhancing its advanced positioning among other Islamic Bank in the Kingdom of Bahrain. The same is evident from the increase in the number of clients of the Bank in 2018. This has in turn driven the Bank toward adopting important and expansionary initiatives that the Bank aims to achieve in 2019 and the years to follow which include the Bank's plans to continue improving the financing portfolio at both the Corporate and Retail level.

Further, the Bank aims to invest the positioning it has achieved both local and regionally to help achieve the strategic goals set. In order to achieve this, the Bank will work on growing and diversifying its products and services that are offered through the branches and electronic channels in order to reach and widen the customers' base along with focus on the service/product quality that will reflect on improving the Bank's competitive advantage. This will further lead to focus on investment in Information Technology and enhancing the risk management.

Appreciation


On behalf of the Board, I would like to express my gratitude to His Majesty King Hamad Bin Isa Al Khalifa; His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister for their encouragement of the growth of the private sector and the development of the banking and finance industry in Bahrain. I also extend my thanks to all government ministries, the Central Bank of Bahrain, and Bahrain Bourse for their continued guidance and support.



Board of Directors Report
For the Year Ended 31 December 2018
Khaleeji Commercial Bank BSC

Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty; and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.


Mr. Jassim Mohamed Alseddiqui
Chairman



بسم الله الرحمن الرحيم

**SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
KHALEEJI COMMERCIAL BANK B.S.C.
MANAMA, KINGDOM OF BAHRAIN**

Prayers and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board "SSB" hereby present the following report to the Shareholder on the activities of Khaleeji Commercial Bank "KHCB" and its subsidiaries for the financial year ending on 31/12/2018:

The SSB has reviewed the Bank's activities and subsidiaries which includes the Bank investments, financing, contracts, agreements, structures and products. In addition to the consolidated financial statement as of 31/12/2018, in order to ensure that KHCB adheres to fatwas and decisions issued by SSB and the Shari'a Standers issued by Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI".

The SSB appreciates the effort done by the managements in order to comply with the Shari'a Governance issued by the Central Bank of Bahrain.

Respective responsibilities of Board of Directors and "SSB"

The SSB believes that as a general principle and practice, KHCB's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

Basis of opinion

Based on SSB's Fatwas and decisions, AAOIFI standards and Shari'a Audit Plan, the SSB conducted Shari'a audit and review through its periodic meetings and its executive member, in coordination with the Shari'a Compliance Department through the examination of documents and transactions by conducting samples test method. Moreover, the distribution of profits and loss 'if any' on investment accounts is compatible with established AAOIFI standard. The SSB is further satisfied that any income that is prohibited by the provisions and principles of Islamic Shari'a has been transferred to charity account. In addition, Zakah pool was calculated on the basis of net asset method. The shareholders are responsible of payment of their portion of Zakah on their shares.

Opinion

The SSB is satisfied that the Bank's activities, services, Financing and Investments are in compliance with the Islamic Shari'a rules and principles.

We pray Allah the almighty to grant us all success and prosperity.

وصلى اللهم على سيدنا محمد وعلى آله وصحبه وسلم

Shaikh Dr. Fareed Al-Muftah
Chairman

Shaikh Dr. Fareed Hadi
Executive Member

Shaikh Dr. Nizam Yaqoobi
Board Member



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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
KHALEEJI COMMERCIAL BANK BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Khaleeji Commercial Bank B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of income, the changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

Report on other regulatory requirements

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

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

KPMG Fakhro
Partner Registration No. 100
6 February 2019


CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

BD 000's

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and bank balances	6	99,401	75,787
Placements with financial institutions	7	43,637	33,989
Financing assets	8	327,640	354,504
Investment in sukuk	9	161,324	113,347
Assets acquired for leasing	10	108,678	97,103
Lease rentals receivables		11,525	8,590
Investment in equity securities	11	50,039	52,203
Investment in real estate	12	18,081	19,621
Development property		6,251	6,251
Other assets		10,498	10,000
Property and equipment	13	7,065	7,755
Total assets		850,939	785,220
LIABILITIES			
Placements from financial institutions		150,349	124,265
Placements from non-financial institutions and individuals	14	120,470	61,359
Medium-term borrowing	15	41,357	41,308
Customers' current accounts		70,416	74,833
Other liabilities	16	10,512	7,953
Total liabilities		401,104	309,718
Equity of investment account holders	17	346,373	359,818
OWNERS' EQUITY			
Share capital	18	105,000	105,000
Statutory reserve		8,225	8,159
Treasury shares		(11,295)	(10,212)
Employee share incentive scheme		(29)	(70)
(Accumulated losses) / retained earnings		(729)	10,162
Total equity attributable to shareholders of the parent (page 7)		101,172	113,039
Non-controlling interest		2,290	2,645
Total liabilities, equity of investment account holders and owners' equity		850,939	785,220

The consolidated financial statements were approved by the Board of directors on 6 February 2019 and signed on its behalf by:


Jassim Mohamed Alseddqi
Chairman


Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman


Sattam Sulaiman Algosabli
Chief Executive Officer

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018

BD 000's

	Note	2018	2017
Income from financing assets and assets acquired for leasing		26,565	27,368
Income from placements with financial institutions		955	761
Income from sukuk	19	6,377	4,736
Income from equity securities		1,422	(1,658)
Fees and other income		2,842	2,644
Total income before return to investment account holders		38,161	33,851
Less: Return to investment account holders before Bank's share as Mudarib	17	(14,221)	(14,884)
Bank's share as a Mudarib	17	5,619	7,436
Return to investment account holders		(8,602)	(7,448)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(8,190)	(5,334)
Finance expense on medium-term borrowing		(2,054)	(648)
Total income		19,315	20,421
Staff cost	20	7,175	6,674
Other operating expenses	21	5,252	5,459
Total expenses		12,427	12,133
Profit for the year before impairment allowances		6,888	8,288
Net impairment charge	22	(6,288)	(7,470)
PROFIT FOR THE YEAR		600	818
Attributable to:			
Shareholders of the parent		659	1,969
Non-controlling interest		(59)	(1,151)
		600	818
Earnings per share			
Basic and diluted earnings per share (fils)	27	0.69	2.04

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

BD 000's

2018

	Equity attributable to shareholders of the parent					Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses) / retained earnings			Total
Balance at 1 January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684
Impact of adopting FAS 30	-	-	-	-	(11,069)	(11,069)	-	(11,069)
Restated balance at 1 January 2018	105,000	8,159	(10,212)	(70)	(907)	101,970	2,645	104,615
Profit for the year	-	-	-	-	659	659	(59)	600
Total recognised income and expense for the year	-	-	-	-	659	659	(59)	600
Transfer to statutory reserve	-	66	-	-	(66)	-	-	-
Net treasury shares purchased	-	-	(1,083)	-	-	(1,083)	-	(1,083)
Issue of shares under incentive scheme	-	-	-	41	42	83	-	83
Loss of Control	-	-	-	-	(16)	(16)	(296)	(312)
Transfer to Zakah fund	-	-	-	-	(441)	(441)	-	(441)
Balance at 31 December 2018	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018 *(continued)*

BD 000's

2017	Equity attributable to shareholders of the parent					Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Retained earnings			Total
Balance at 1 January 2017	105,000	7,962	(8,832)	(182)	8,751	112,699	3,796	116,495
Profit for the year	-	-	-	-	1,969	1,969	(1,151)	818
Total recognised income and expense for the year	-	-	-	-	1,969	1,969	(1,151)	818
Transfer to statutory reserve	-	197	-	-	(197)	-	-	-
Net treasury shares purchased	-	-	(1,380)	-	-	(1,380)	-	(1,380)
Issue of shares under incentive scheme	-	-	-	112	-	112	-	112
Transfer to Zakah fund	-	-	-	-	(361)	(361)	-	(361)
Balance at 31 December 2017	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

BD 000's

	Note	2018	2017
OPERATING ACTIVITIES			
Receipts relating to financing assets, net		40,392	23,286
Payment for asset acquired for leasing, net		(15,145)	(10,543)
Receipt of profit on short-term placements		955	760
Returns paid to investment account holders		(7,184)	(7,533)
Withdrawals from investment account holders, net		(13,444)	(44,834)
Payment of profit on placements		(8,190)	(4,612)
Payment for expenses		(10,642)	(13,228)
Other receipts		2,878	2,643
Payment for charity		(422)	(427)
Withdrawals in customers' current accounts, net		(4,341)	(981)
Placements from financial institutions, net		34,084	65,186
Placements from non-financial institutions and individuals, net		59,111	(39,290)
Net (payment to) / withdrawal from CBB reserve account		(3,360)	2,395
Income from sukuk received		5,937	4,015
Placements with financial institutions		-	(1,048)
Net cash generated from / (used in) operating activities		80,629	(24,211)
INVESTING ACTIVITIES			
Purchase of sukuk		(63,205)	(59,054)
Proceed from redemption / sale of sukuk		15,135	19,465
(Purchase) / disposal of equity securities		(97)	92
(Purchase) / disposal of Investment in real estate, net		(105)	452
Receipt of dividends / income from equity securities		1,478	399
(Purchase) / disposal of property and equipment, net		(674)	41
Net cash used in investing activities		(47,468)	(38,605)
FINANCING ACTIVITIES			
Purchase of treasury shares, net		(1,234)	(1,380)
Drawdown of medium-term borrowing, net		50	41,004
Finance expense paid on medium-term borrowing		(2,054)	(425)
Net cash (used in) / generated from financing activities		(3,238)	39,199
Net increase / (decrease) in cash and cash equivalents		29,923	(23,617)
Cash and cash equivalents at 1 January		91,248	114,865
Cash and cash equivalents at 31 December		121,171	91,248
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	6	78,581	58,327
Placements with financial institutions with original maturities of 90 days or less	7	42,590	32,921
		121,171	91,248

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2018

BD 000's

2018

	Balance at 1 January 2018			Movements during the year						Balance at 31 December 2018		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revalua- tion BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra- tion expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,529	1.00	3,529	(95)	-	117	(117)	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,776	(95)	-	117	(117)	-	-			10,681

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2018 (continued)

BD 000's

2017

	Balance at 1 January 2017			Movements during the year						Balance at 31 December 2017		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revalua- tion BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra- tion expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,304	1.00	6,304	(50)	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,652	1.00	3,652	(123)	-	-	-	-	-	3,529	1.00	3,529
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,949	(173)	-	-	-	-	-			10,776

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2018

BD 000's

	2018	2017
Sources of zakah and charity fund		
At 1 January	674	723
Contributions by the Bank	441	361
Non-Islamic income	15	17
Total sources	1,130	1,101
Uses of zakah and charity fund		
Contributions to charitable organisations	(422)	(427)
Total uses	(422)	(427)
Undistributed zakah and charity fund at 31 December	708	674

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

1. REPORTING ENTITY

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain ("CBB") on 20 October 2003. The Bank's shares are listed on the Bahrain Bourse and Dubai Financial Markets.

The Bank's activities are regulated by the Central Bank of Bahrain (CBB) and supervised by a Religious Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together "the Group"). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding 2018	% holding 2017	Nature of business
Hawafiz Khaleeji Management Company BSC (c)	Bahrain	100%	100%	To hold shares for the beneficial interest of the employee incentive scheme. (refer note 20)
Harbour West 2 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Harbour West 4 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Surooh Limited	Cayman Islands	19.08%	19.08%	To construct and sell properties at "Oryx Hills".

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

The consolidated financial statements are presented in Bahraini Dinars, which is also the principal currency of the Bank's operations. They have been prepared on the historical cost basis except for the measurement at fair value of certain investments carried at fair value.

The Group classifies its expenses in the income statement by the nature of expense method.

4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

BD 000's

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for the effect of early adoption of FAS 30.

i) Standards issued but not yet effective from 1 January 2018

There were no new standards and / or amendments issued and effective during the year

ii) Standards issued but not yet effective

EARLY ADOPTION OF FAS 30 – IMPAIRMENT, CREDIT LOSSES, AND ONEROUS COMMITMENTS

AAOIFI issued FAS 30 Impairment, Credit losses and onerous commitments in 2017 with effective date of 1 January 2020 with early adoption permitted. The Group early adopted the standard as of 1 January 2018 as mandated by the CBB. The objective of this standard is to establish the principles of assessing impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets. FAS 30 will replace FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach (“NRV”) and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

- Assets and exposures subject to credit risk (subject to credit losses approach):
 - Receivables; and
 - Off-balance sheet exposures.
- Inventories (subject to net realizable value approach); and
- Other financing and investment assets subject to risks other than credit risk (subject to impairment approach).

Credit losses approach for receivables and off- balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expected credit losses

FAS 30 replaces FAS 11 and introduces the credit losses approach with a forward-looking ‘expected credit loss’ model. The new impairment model will apply to exposures which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing segments of similar financial assets for the purposes of measuring ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)**EARLY ADOPTION OF FAS 30 – IMPAIRMENT, CREDIT LOSSES, AND ONEROUS COMMITMENTS**
(Continued)

Impairment loss is the amount by which the carrying amount of asset exceeds its recoverable amount.

The adoption of FAS 30 has resulted in changes in accounting policies for impairment of exposures subject to credit risk and adjustments to the amounts previously recognised in the consolidated financial statements as of the year ended 31 December 2017. As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of exposures subject to credit risk as at the date of transition were recognised in the opening balance of retained earnings.

Disclosure of FAS 30 transition impacts set out below:

(a) Changes in Accounting Policies

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised in Note 5 (i) (b). Since the comparative financial information has not been restated, the accounting policies in respect of the exposures subject to credit risk for comparative periods are based on respective standards as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

(b) impact of adopting FAS 30

- (i) The following table reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 on 1 January 2018.

	FAS 11 carrying amount at 31 December 2017	Re-Measurement	FAS 30 carrying amount at 1 January 2018
Balances and placements with banks and financial institutions	109,756	2	109,758
Financing assets	354,504	8,833	363,337
Investment in sukuk	113,347	3	113,350
Assets acquired for leasing (including lease rental receivables)	105,783	1,717	107,500
Commitments and financial guarantees	67,137	514	67,651
	750,527	11,069	761,596

- (ii) Impairment of exposures subject to credit risk

Impairment allowance at 31 December 2017 under FAS 11**12,645**

Additional impairment recognised at 1 January 2018 on:

Balances and placements with banks and financial institutions

2

Financing assets

8,833

Assets acquired for leasing (including lease rental receivables)

1,717

Sukuk – Debt-type securities at amortised cost

3

Commitments and financial guarantees

514

Impairment allowance at 1 January 2018 under FAS 30**23,714**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) EARLY ADOPTION OF FAS 30 – IMPAIRMENT, CREDIT LOSSES, AND ONEROUS COMMITMENTS (Continued)

- iii) The following table shows the carrying amounts of exposures subject to credit risk as of 1 January 2018 by stage:

1 January 2018	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks	75,787	-	-	75,787
Placements with financial institutions	33,969	-	-	33,969
Financing Assets	232,045	83,337	39,122	354,504
Assets acquired for leasing (including lease rentals receivables)	79,215	16,406	10,162	105,783
Investment in sukuk	113,200	-	147	113,347
Commitments and financial guarantees	46,903	18,950	1,284	67,137
	581,119	118,693	50,715	750,527

- iv) Movement of ECL in various stages during the year is as follows:

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	2,860	10,537	10,317	23,714
Transfer to Stage 1	3,188	(3,086)	(102)	-
Transfer to Stage 2	(316)	398	(82)	-
Transfer to Stage 3	(229)	(2,463)	2,692	-
Net transfers	2,643	(5,151)	2,508	-
Write-off	-	-	(1,566)	(1,566)
Charge for the period (net)	(404)	(1,468)	5,955	4,083
Closing balance as at 31 December	5,099	3,918	17,214	26,231

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Group owns more than 50% of voting rights on an entity.

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 and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)*(a) Basis of consolidation (continued)**(i) Subsidiaries (continued)*

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 SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 25.

(ii) Associates

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are initially recognised at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The carrying amount of the equity accounted investment is tested for impairment in accordance with the policy described in note 5 (k) (iii).

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

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

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

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

(c) Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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5 SIGNIFICANT ACCOUNTING POLICIES (continued)

*(c) Investment securities (continued)***(i) Classification**

The Group segregates its investment securities into debt-type and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type.

Debt-type Instruments

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investment in sukuk.

Equity-type investments:

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

The Group has one investment in equity securities that is designated at FVTIS. The rest are classified as investments at fair value through equity.

(ii) Recognition and de-recognition

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

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement 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. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles*Amortised cost measurement*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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5 SIGNIFICANT ACCOUNTING POLICIES (continued)*(c) Investment securities (continued)**(iv) Measurement principles (continued)**Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measure the fair value of an instruments using the quoted price in an active market for that instrument.

For unquoted investments at fair value, the Group uses recognised valuation techniques for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

When there is no quoted price or other appropriate methods from which to derive a reliable fair value, equity investments are carried at cost less impairment.

(d) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna and Wakala contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, if any.

(e) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less 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.

(g) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customers, takes into consideration the credit evaluation of the respective customer in addition to other factors.

(h) Investment in real estate

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are carried at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment in real estate includes plots of land held for capital appreciation purposes, villas and buildings held for earning rentals. Land is not depreciated. Buildings are depreciated over 25 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Development properties**

Development property consists of villas being developed for sale in the ordinary course of business and costs incurred in bringing such property to its saleable condition.

Development property is stated at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(j) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(k) Impairment of financial instruments***Policy applicable from 1 January 2018*****i) Exposures subject to credit risk**

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)*(k) Impairment of financial instruments (continued)*

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financing assets and assets acquired for leasing 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 Group expects to receive).
- Financing assets and assets acquired for leasing 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;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ECLs are discounted at the effective profit rate of the financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)*(k) Impairment of financial instruments (continued)***Credit-impaired exposures**

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the exposure have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and assets acquired for leasing are deducted from the gross carrying amount of the assets.

ii) Equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, 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 if the estimated recoverable amount is below the carrying value of the investment.

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is objective evidence a financial asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of financing facility 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 an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)*(k) Impairment of financial instruments (continued)***(i) Financial assets carried at amortised cost**

These include financing assets, Sukuk (debt-type instruments), and other receivables. 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 income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. Recovery of written off financial assets is credited to impairment charge for the year. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

(ii) Equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, 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 if the estimated recoverable amount is below the carrying value of the investment.

(l) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. 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. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. 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. As at December 2018, the Group did not have any goodwill recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Customers' current accounts

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

(n) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group charges specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

(o) 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 Mudharaba contract or 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 Group in the consolidated financial statements.

(p) Financial guarantees

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

(q) Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised in the income statement on sale of treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Statutory reserve

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

(s) Revenue recognition

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Group's share in **Musharaka and Mudharaba financing** transaction that commence and end during a single financial period are recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka and Mudharaba financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the agreements.

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

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

Rental income is recognised on a straight line basis over the term of the contract.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

(t) 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 Group uses these funds for charitable purposes.

(u) Zakah

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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) Post-employment benefits

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

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

These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

The Group also operates a voluntary employees saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(w) Dividends and board remuneration

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

(x) Trade date accounting

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

(y) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari'a based enforceable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) 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.

(aa) URIA Protection Scheme

Funds held with the Group in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(bb) Repossessed assets

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

(cc) Medium term Borrowing

Medium-term borrowing represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

6. CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash	8,130	8,134
Balances with banks	55,551	24,461
Balances with the Central Bank:		
- Current account	14,950	25,732
- Reserve account	20,820	17,460
Less: Impairment allowance	(50)	-
	99,401	75,787

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Gross Murabaha and Wakala receivable	43,689	33,998
Less: Deferred profits	(50)	(27)
Less: Impairment allowance	(2)	(2)
	43,637	33,969

The average profit rate on placement with financial institutions for 2018 was 2.92% per annum (31 December 2017: 1.59% per annum). Placements with financial institutions with original maturities of 90 days or less is BD 42,590 (31 December 2017: BD 32,921)

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for the year ended 31 December 2018

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8. FINANCING ASSETS

	31 December 2018	31 December 2017
Murabaha	338,012	335,064
Musharaka	3,541	6,918
Wakala	5,007	21,482
Mudharaba	1,049	1,137
Istisna	2,054	-
	349,663	364,601
Less: Impairment allowances	(22,023)	(10,097)
	327,640	354,504

Murabaha financing receivables are net of deferred profits of BD 25,088 thousand (2017: BD 23,039 thousand).

The movement on impairment allowances is as follows:

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	2,647	9,621	7,778	20,046
Net movement between stages	2,545	(4,792)	2,247	-
Write-off	-	-	(1,566)	(1,566)
Net charge for the year	(430)	(1,134)	5,107	3,543
At 31 December 2018	4,762	3,695	13,566	22,023

2017	Specific	Collective	Total
At 1 January 2017	15,164	3,404	18,568
Net charge for the year	4,794	(37)	4,757
Write-off	(13,228)	-	(13,228)
At 31 December 2017	6,730	3,367	10,097

9. INVESTMENT IN SUKUK

	31 December 2018	31 December 2017
Debt type instruments – at amortized cost		
- Quoted sukuk *	161,327	112,971
- Unquoted sukuk	1,317	1,565
Less: Impairment allowances	(1,320)	(1,189)
	161,324	113,347

* Includes Sukuk of BD 48,888 thousand (2017: BD 48,888 thousand) pledged against medium-term borrowing of BD 41,357 thousand (2017: BD 41,308 thousand) (refer note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

10. ASSETS ACQUIRED FOR LEASING

	2018	2017
Cost		
At 1 January	119,995	104,816
Additions during the year	31,446	21,873
Settlements/adjustments during the year	(12,489)	(6,694)
At 31 December	138,952	119,995
Accumulated depreciation		
At 1 January	22,802	11,977
Charge for year	11,400	13,415
Settlements during the year	(3,928)	(2,590)
At 31 December	30,274	22,802
Net book value at 31 December	108,678	97,193

At 31 December 2018, accrued lease rental receivable amounted to BD 11,525 thousand (2017: BD 8,590 thousand). Lease rental receivable is net of stage 1 and 2 ECL of BD 245 thousand (2017: BD 1,052 thousand) and Stage 3 ECL of BD 2,211 thousand (2017: 79 thousand). During the year, an impairment allowance of BD 725 thousand (2017: BD 173 thousand) was provided on the lease rental receivables.

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 85,644 thousand (2017: BD 88,984 thousand).

11. INVESTMENT IN EQUITY SECURITIES

	31 December 2018	31 December 2017
<i>At fair value through income statement</i>		
- Unquoted equity securities (at fair value)	13,148	13,148
<i>At fair value through equity</i>		
- Gross Unquoted equity securities carrying amount (carried at cost less impairment)*	51,972	51,931
Less: Impairment allowances	(15,081)	(12,876)
	50,039	52,203

* Unquoted equity securities at fair value through equity comprise investments in closed companies managed by external investment managers or represent investments in projects promoted by the Group. These investments are carried at cost less impairment in the absence of a market price or a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs or sale of underlying assets.

During the year, impairment charge of BD 2,205 thousand (31 December 2017: BD 1,311 thousand) was recognised on equity securities carried at cost.

During the year, the Group has written off fully provided investments of NIL (2017: BD 2,988 thousand).

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12. INVESTMENT IN REAL ESTATE

	Land	Building	2018 Total	2017 Total
Cost				
At 1 January	19,167	1,825	20,992	22,866
Additions	105	-	105	-
Disposals	(1,191)	(1,825)	(3,016)	(1,084)
Impairment (note 22)	-	-	-	(790)
At 31 December	18,081	-	18,081	20,992
Accumulated Depreciation				
At 1 January	-	1,371	1,371	1,358
Charge for year	-	-	-	73
Disposals	-	(1,371)	(1,371)	(60)
At 31 December	-	-	-	1,371
Net book value at 31 December	18,081	-	18,081	19,621

13. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and Other equipment	2018 Total	2017 Total
Cost						
At 1 January	6,714	4,423	4,490	542	16,169	16,216
Additions	-	49	595	30	674	391
Disposals	-	-	-	-	-	(438)
At 31 December	6,714	4,472	5,085	572	16,843	16,169
Accumulated Depreciation						
At 1 January	-	4,208	3,800	406	8,414	8,008
Charge for year	-	77	434	53	564	411
Disposals	-	-	-	-	-	(5)
At 31 December	-	4,285	4,234	459	8,978	8,414
Net book value at 31 December 2018	6,714	187	851	113	7,865	7,755
Net book value at 31 December 2017	6,714	215	690	136	7,755	

14. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2018	31 December 2017
Non-financial institutions	48,325	14,853
Individuals	72,145	46,506
	120,470	61,359

These represent placements in the form of Murabaha and Wakala contracts. These are net of deferred profit of BD 4,188 thousand (2017: BD 1,856 thousand).

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15. MEDIUM-TERM BORROWING

Comprise two medium-term Murabaha facilities of BD 41,357 thousand (2017: BD 41,308 thousand) secured by pledge over sukuk of BD 48,888 thousand (2017: BD 48,888 thousand).

16. OTHER LIABILITIES

	31 December 2018	31 December 2017
Mudaraba profit accrual	4,278	2,860
Employee related accruals	245	189
Zakah and charity payable	708	674
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses	5,254	4,203
	10,512	7,953

17. EQUITY OF INVESTMENT ACCOUNT HOLDERS

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes:

	31 December 2018	31 December 2017
Balances with banks	55,550	24,461
CBB reserve account	20,820	17,460
Placements with financial institutions	43,637	33,969
Debt type instruments – sukuk	161,327	113,199
Financing assets	65,039	170,729
	346,373	359,818

As at 31 December 2018, the balance of profit equalisation reserve and investment risk reserve was Nil (2017: Nil).

Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2018		2017	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	78.66%	21.34%	73.34%	26.66%
3 months Mudharaba	54.41%	45.59%	58.58%	41.42%
6 months Mudharaba	49.31%	50.69%	55.30%	44.70%
12 months Mudharaba	29.50%	70.50%	37.99%	62.01%
18 months Mudharaba	23.28%	76.72%	80.55%	19.45%
24 months Mudharaba	21.15%	78.85%	25.63%	74.37%
36 months Mudharaba	14.70%	85.30%	12.22%	87.78%

* Includes savings, Al Waffer and Call Mudaraba accounts.

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17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

During the year, average mudarib share as a percentage of total income allocated to IAH was 41.82% (2017: 41.86%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 20.38% (2017: 16.94%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

18. SHARE CAPITAL

	31 December 2018	31 December 2017
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	300,000	300,000
Issued and fully paid up:		
1,050,000,000 ordinary shares (2016: 1,050,000,000) of BD 0.100 each	105,000	105,000

The Group has only one class of equity shares and the holders of these shares have equal voting rights. At 31 December 2018, the Group holds 101,081,714 as treasury shares (2017: 90,644,113 shares).

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

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Khaleeji Commercial Bank B.S.C	Bahrain	98,334,755	9.37
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41

*As at 31 December 2018, these shares representing 47% (2017: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

19. INCOME FROM SUKUK

	2018	2017
Profit earned on debt-type Sukuk	6,489	4,628
(Loss) / Gain on sale of Sukuk	(112)	108
	6,377	4,736

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20. STAFF COST

	2018	2017
Salaries and short-term benefits	6,075	5,679
Social insurance expenses	929	852
Other staff expenses	171	143
	7,175	6,674

21. OTHER OPERATING EXPENSES

	2018	2017
Premises cost	1,037	1,114
Advertisement and marketing expenses	437	534
Professional fees	825	757
Information technology expenses	483	446
Board expenses	441	356
Communication expenses	300	313
Distribution channel expenses	495	537
Other administrative expenses	670	991
Depreciation expenses	564	411
	5,252	5,459

22. NET IMPAIRMENT CHARGE

	2018	2017
Balances and placements with banks and financial institutions	50	-
Financing assets (note 8)	3,543	4,757
Investments in Sukuk	(100)	396
Assets acquired for leasing (including lease rentals receivables)	725	173
Investments at fair value through equity (note 11)	2,205	1,311
Investment in real estate (note 12)	-	790
Other assets	-	43
Commitments and financial guarantees	(135)	-
	6,288	7,470

23. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

The Group has incorporated a Trust, Khaleeji Commercial Bank Employee Benefit Trust ("Trust"), to hold the beneficial interest of the shares under the scheme. Prior to this the shares were held in Hawafiz Khaleeji Management Company BSC (c).

The shareholders, in their annual general meeting held on 30 March 2015, approved the employee share based incentive scheme (the "scheme") which is in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Group's shares as compensation for their performance.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank Nomination, Remuneration and

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23. SHARE-BASED EMPLOYEE INCENTIVE SCHEME (continued)

Governance Committee ("BNRGC") to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31 December 2018, 2,746,957 shares were held by the Trust (2017: 4,643,765 shares were held by Hawafiz). During the year 917,628 shares (2017: 1,091,962 shares) shares were awarded to the employees as awards under the terms of the scheme subject to a three year deferment period. During the year the Group transferred 1,896,808 shares (2017: 1,633,866 shares) to the employees.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements***Applicable to 2018 only***

- Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5(k) and Note 34.

Applicable to 2018 and 2017***Classification of investments***

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) debt type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 5 (c) (i)).

Estimations***Applicable to 2018 only******Impairment of financing assets at amortised cost***

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in Note 5(k) and Note 34.

Applicable to 2018 and 2017***Impairment of equity investments at fair value through equity***

The Group determines that equity securities carried at fair value are impaired when there is an objective evidence of impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

For unquoted equity investments carried at cost less impairment, 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 if the estimated recoverable amount is assessed to be below the cost of the investment. 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.

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24 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
(continued)*Estimations (continued)**Determining fair value of unquoted equity securities*

The Group determines the fair value of unquoted investments by using valuation techniques. This includes using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis or market multiples for similar instruments. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Significant judgment is required to be made by the Group and the Board of Directors in the selection of an approach that would reflect the best measure of fair value of the investments. The choice of the models used for valuation on each reporting period may have a significant impact on the fair value of investments and the amounts reported in the consolidated financial statements. The Group has adopted price earning multiple approach for valuation of its unquoted equity security.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease/increase in the market multiple would increase/decrease the reported fair value by BD 657 thousand (31 December 2017: BD 657 thousand). The corresponding impact would be on the profit or loss reported by the Group.

25. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves 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 BD 230.72 million (31 December 2017: BD 240.97 million). During the year, the Group has not charged any management fees (2017: BD Nil) for the management of these assets.

26. 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 the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, sharia board members and executive management of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	1,050,763	1

* Expressed as a percentage of total outstanding shares of the Bank.

Compensation of key management personnel

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

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26. RELATED PARTY TRANSACTIONS (continued)

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

	2018	2017
Board member fees and allowances	391	314
Salaries and other short-term benefits	1,402	1,328

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2018

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	2,268	5,710	-	7,978
Investment in equity securities	-	-	2,284	20,719	23,003
Other assets	117	-	-	853	970
Liabilities					
Placement from financial institutions and others	-	-	93,917	-	93,917
Customers' current accounts	67	798	695	1,205	2,765
Equity of investment account holders	480	1,370	10,779	468	13,097

31 December 2017

	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	967	5,710	1,388	8,065
Investment in equity securities	-	-	2,284	23,794	26,078
Other assets	4,727	-	-	1,029	5,756
Liabilities					
Placement from financial institutions and others	-	-	15,091	-	15,091
Customers' current accounts	55	-	595	1,359	2,009
Equity of investment account holders	592	241	21,034	875	22,742

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26. RELATED PARTY TRANSACTIONS (continued)

2018	Associates	Directors / Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	133	373	-	506
Income from equity securities	-	-	-	143	143
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,278	-	2,278
Return to investment account holders	12	31	350	11	404
Staff cost	-	1,402	-	-	1,402
Other expenses	-	-	-	59	59
(Recoveries)/Impairment	-	-	-	-	-
2017					
	Associates	Directors / Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	48	334	87	469
Income from equity securities	-	-	-	-	-
Fees and other income	7	-	-	-	7
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	369	-	369
Return to investment account holders	30	7	302	25	364
Staff cost	-	1,328	-	-	1,328
Other expenses	-	-	-	-	-
(Recoveries)/Impairment	-	-	-	842	842

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27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2018	2017
Profit attributable to parent for the year (BD 000's)	659	1,969
Weighted average number of equity shares (Nos. in 000's)	956,400	963,071
Basic earnings per share (in fils)	0.69	2.04

The Group did not have any dilutive instruments as of 31 December 2018 and December 2017.

28. SHARI'A SUPERVISORY BOARD

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

29. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 191 thousand (2017: BD 556 thousand) of which BD 187 thousand (2017: 431 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2018, payable by the Group. The remaining Zakah balance amounting to BD 4 thousand or 0.4 fils per share (2017: BD 125 thousand or 12 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 0.4 thousand (2017: BD 11 thousand) on the treasury shares held as of 31 December 2018 based on 0.4 fils per share.

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30. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking

Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group

Investment banking

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

The Group is winding down in investment banking business.

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30. SEGMENT REPORTING (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis

31 December 2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	99,400	-	99,401
Placements with financial institutions	1,175	42,462	-	43,637
Financing assets	-	327,640	-	327,640
Investment in sukuk	-	161,324	-	161,324
Assets acquired for leasing (including lease rentals receivables)	-	120,203	-	120,203
Investment in equity securities	50,039	-	-	50,039
Investment in real estate	18,081	-	-	18,081
Development property	6,251	-	-	6,251
Other assets	11,320	3,958	1,220	16,498
Property and equipment	-	-	7,865	7,865
Total segment assets	86,867	754,987	9,085	850,939
Placements from financial institutions	-	158,349	-	158,349
Placements from non- financial institutions and individuals	-	120,470	-	120,470
Medium-term borrowing	-	41,357	-	41,357
Customers' current accounts	1,175	69,241	-	70,416
Other liabilities	2,171	6,220	2,121	10,512
Total segment liabilities	3,346	395,637	2,121	401,104
Equity of investment account holders	-	346,373	-	346,373
Restricted investment accounts	10,681	-	-	10,681

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30. SEGMENT REPORTING (continued)

2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	-	26,565	-	26,565
Income from placements with financial institutions	25	930	-	955
Income from sukuk	-	6,377	-	6,377
Income from equity securities	1,422	-	-	1,422
Fees and other income	(35)	2,877	-	2,842
Total income before return to investment account holders	1,412	36,749	-	38,161
Less: Return to investment account holders before Bank's share as Mudarib	-	(14,221)	-	(14,221)
Bank's share as a Mudarib	-	5,619	-	5,619
Return to investment account holders	-	(8,602)	-	(8,602)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(8,190)	-	(8,190)
Finance expense on medium-term borrowing	-	(2,054)	-	(2,054)
Total segment income	1,412	17,903	-	19,315
Staff cost	718	2,870	3,587	7,175
Other expenses	92	951	4,209	5,252
Total segment expenses	810	3,821	7,796	12,427
Segment results before impairment allowances	602	14,082	(7,796)	6,888
Net impairment allowances	(2,205)	(4,083)	-	(6,288)
Segment results	(1,603)	9,999	(7,796)	600

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30. SEGMENT REPORTING (continued)

31 December 2017

	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	7	75,780	-	75,787
Placements with financial institutions	1,094	32,875	-	33,969
Financing assets	-	354,504	-	354,504
Investment in sukuk	-	113,347	-	113,347
Assets acquired for leasing (including lease rentals receivables)	-	105,783	-	105,783
Investment in equity securities	52,203	-	-	52,203
Investment in real estate	19,621	-	-	19,621
Development property	6,251	-	-	6,251
Other assets	10,635	3,541	1,824	16,000
Property and equipment	-	-	7,755	7,755
Total segment assets	89,811	685,830	9,579	785,220
Placements from financial institutions	-	124,265	-	124,265
Placements from non- financial institutions and individuals	-	61,359	-	61,359
Medium-term borrowing	-	41,308	-	41,308
Customers' current accounts	1,094	73,739	-	74,833
Other liabilities	2,002	4,435	1,516	7,953
Total segment liabilities	3,096	305,106	1,516	309,718
Equity of investment account holders	-	359,818	-	359,818
Restricted investment accounts	10,776	-	-	10,776

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30. SEGMENT REPORTING (continued)

2017	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	-	27,368	-	27,368
Income from placements with financial institutions	25	736	-	761
Income from sukuk	-	4,736	-	4,736
Income from equity securities	(1,658)	-	-	(1,658)
Fees and other income	(92)	2,736	-	2,644
Total income before return to investment account holders	(1,725)	35,576	-	33,851
Less: Return to investment account holders before Bank's share as Mudarib	-	(14,884)	-	(14,884)
Bank's share as a Mudarib	-	7,436	-	7,436
Return to investment account holders	-	(7,448)	-	(7,448)
Less:				
Expense on placements from financial institutions, non- financial institutions and individuals	-	(5,334)	-	(5,334)
Finance expense on medium- term borrowing	-	(648)	-	(648)
Total segment income	(1,725)	22,146	-	20,421
Staff cost	667	2,670	3,337	6,674
Other expenses	349	1,103	4,007	5,459
Total segment expenses	1,016	3,773	7,344	12,133
Segment results before impairment allowances	(2,741)	18,373	(7,344)	8,288
Net impairment allowances	(2,101)	(5,369)	-	(7,470)
Segment results	(4,842)	13,004	(7,344)	818

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31. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/settlement profile of the respective assets and liabilities.

31 December 2018	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	87,253	3,591	6,065	2,492	-	99,401
Placements with financial institutions	42,590	-	1,047	-	-	43,637
Financing assets	73,057	26,731	69,848	119,405	38,599	327,640
Investment in sukuk	112,436	-	48,888	-	-	161,324
Assets acquired for leasing (including lease rentals receivables)	4,805	3,549	7,069	34,572	70,208	120,203
Investment in equity securities	-	-	-	25,273	24,766	50,039
Investment in real estate	-	-	-	-	18,081	18,081
Development property	-	-	-	-	6,251	6,251
Other assets	1,939	-	9	12,028	2,522	16,498
Property and equipment	-	-	-	-	7,865	7,865
Total assets	322,080	33,871	132,926	193,770	168,292	850,939
Liabilities						
Placements from financial institutions	31,312	17,664	109,373	-	-	158,349
Placements from non-financial institutions and individuals	35,172	38,057	34,314	10,108	2,819	120,470
Medium-term borrowing	-	-	41,357	-	-	41,357
Customers' current account	21,649	6,853	7,442	8,505	25,967	70,416
Other liabilities	3,233	1,304	1,131	4,844	-	10,512
Total liabilities	91,366	63,878	193,617	23,457	28,786	401,104
Equity of investment account holders	69,089	43,815	98,703	55,512	79,254	346,373
Restricted investment accounts	-	-	-	10,681	-	10,681
Commitments and financial guarantees	20,284	3,986	16,204	5,577	6	46,057

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31. MATURITY PROFILE (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	66,167	3,212	4,821	1,587	-	75,787
Placements with financial institutions	32,921	-	1,048	-	-	33,969
Financing assets	71,931	31,456	54,039	115,068	82,010	354,504
Investment in sukuk	64,459	-	-	48,888	-	113,347
Assets acquired for leasing (including lease rentals receivable)	1,898	1,710	3,313	20,089	78,773	105,783
Investment in equity securities	-	-	-	52,203	-	52,203
Investment in real estate	-	-	-	-	19,621	19,621
Development property	-	-	-	-	6,251	6,251
Other assets	10,605	931	93	397	3,974	16,000
Property and equipment	-	-	-	-	7,755	7,755
Total assets	247,981	37,309	63,314	238,232	198,384	785,220
Liabilities						
Placements from financial institutions	91,652	14,319	11,505	6,789	-	124,265
Placements from non-financial institutions and individuals	21,341	11,090	27,641	-	1,287	61,359
Medium-term borrowing	-	-	-	41,308	-	41,308
Customers' current account	46,997	10,566	6,418	3,760	7,092	74,833
Other liabilities	2,393	638	739	4,183	-	7,953
Total liabilities	162,383	36,613	46,303	56,040	8,379	309,718
Equity of investment account holders	175,109	32,670	47,852	15,192	88,995	359,818
Restricted investment accounts	-	4,522	-	6,254	-	10,776
Commitments and financial guarantees	3,863	19,336	17,242	26,695	1	67,137

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32. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 December 2018

	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	99,401	-	-	99,401
Placements with financial institutions	43,637	-	-	43,637
Financing assets	10,358	51,630	265,652	327,640
Investment in sukuk	11,795	7,540	141,989	161,324
Assets acquired for leasing (including lease rentals receivables)	-	118,615	1,588	120,203
Investment in equity securities	13,148	33,223	3,668	50,039
Investment in real estate	-	18,081	-	18,081
Development property	-	6,251	-	6,251
Other assets	1,040	6,822	8,636	16,498
Property and equipment	-	6,739	1,126	7,865
Total assets	179,379	248,901	422,659	850,939
Liabilities				
Placements from financial institutions	158,349	-	-	158,349
Placements from non-financial institutions and individuals	101	-	120,369	120,470
Medium-term borrowing	41,357	-	-	41,357
Customers' current accounts	4,920	7,832	57,664	70,416
Other liabilities	-	27	10,485	10,512
Total liabilities	204,727	7,859	188,518	401,104
Equity of investment account holders	14,543	12,894	318,936	346,373
Restricted investment accounts	-	9,668	993	10,681
Commitments and financial guarantees	513	12,913	32,631	46,057

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32. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

31 December 2017	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	75,787	-	-	75,787
Placements with financial institutions	33,969	-	-	33,969
Financing assets	11,011	75,688	267,805	354,504
Investment in sukuk	11,857	146	101,344	113,347
Assets acquired for leasing (including lease rentals receivables)	-	105,715	68	105,783
Investment in equity securities	13,147	35,387	3,669	52,203
Investment in real estate	-	19,621	-	19,621
Development property	-	6,251	-	6,251
Other assets	1,050	5,535	8,875	16,000
Property and equipment	-	6,715	1,040	7,755
Total assets	146,821	255,598	382,801	785,220
Liabilities				
Placements from financial institutions	124,265	-	-	124,265
Placements from non-financial institutions and individuals	-	-	61,359	61,359
Medium-term borrowing	41,308	-	-	41,308
Customers' current accounts	2,688	11,448	60,697	74,833
Other liabilities	-	2,003	5,950	7,953
Total liabilities	168,261	13,451	128,006	309,718
Equity of investment account holders	29,990	16,552	313,276	359,818
Restricted investment accounts	-	9,783	993	10,776
Commitments and financial guarantees	619	24,645	41,873	67,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector

31 December 2018	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	73,827	7,230	18,306	38	-	99,401
Placements with financial institutions	43,637	-	-	-	-	43,637
Financing assets	313,642	13,960	-	38	-	327,640
Investment in sukuk	161,324					161,324
Assets acquired for leasing (including lease rentals receivables)	120,162	-	-	41	-	120,203
Investment in equity securities	29,320	-	-	17,051	3,668	50,039
Investment in real estate	18,081	-	-	-	-	18,081
Development property	6,251	-	-	-	-	6,251
Other assets	15,794	15	-	689	-	16,498
Property and equipment	7,865	-	-	-	-	7,865
Total assets	789,903	21,205	18,306	17,857	3,668	850,939
Liabilities						
Placements from financial institutions	158,349	-	-	-	-	158,349
Placements from non-financial institutions and individuals	120,470	-	-	-	-	120,470
Medium-term borrowing	41,357	-	-	-	-	41,357
Customers' current accounts	69,916	274	-	226	-	70,416
Other liabilities	10,512	-	-	-	-	10,512
Total liabilities	400,604	274	-	226	-	401,104
Equity of investment account holders	343,589	545	-	2,231	8	346,373
Restricted investment accounts	9,688	-	-	993	-	10,681
Commitments and financial guarantee	45,801	256	-	-	-	46,057

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

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32. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector (continued)

31 December 2017

	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	61,083	2,933	11,761	10	-	75,787
Placements with financial institutions	33,969	-	-	-	-	33,969
Financing assets	337,937	16,531	-	36	-	354,504
Investment in sukuk	113,347	-	-	-	-	113,347
Assets acquired for leasing (including lease rentals receivables)	105,783	-	-	-	-	105,783
Investment in equity securities	29,279	-	-	19,256	3,668	52,203
Investment in real estate	19,621	-	-	-	-	19,621
Development property	6,251	-	-	-	-	6,251
Other assets	15,175	15	-	810	-	16,000
Property and equipment	7,755	-	-	-	-	7,755
Total assets	730,200	19,479	11,761	20,112	3,668	785,220
Liabilities						
Placements from financial institutions	124,265	-	-	-	-	124,265
Placements from non-financial institutions and individuals	61,359	-	-	-	-	61,359
Medium-term borrowing	41,308	-	-	-	-	41,308
Customers' current accounts	67,332	6,921	-	580	-	74,833
Other liabilities	7,953	-	-	-	-	7,953
Total liabilities	302,217	6,921	-	580	-	309,718
Equity of investment account holders	354,290	3,043	-	2,485	-	359,818
Restricted investment accounts	9,783	-	-	-	993	10,776
Commitments and financial guarantee	65,893	1,244	-	-	-	67,137

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33. FAIR VALUE*a) Fair value of financial instruments*

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

The fair value of quoted Sukuk carried at amortised cost of BD 161,327 thousand (31 December 2017: BD 113,199 thousand) is BD 161,644 thousand as at 31 December 2018 (31 December 2017: BD 112,077 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments carried at cost of BD 36,891 thousand (2017: BD 39,056 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) 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).

31 December 2018

Unquoted equity type securities carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	-	-	13,148	13,148
	-	-	13,148	13,148

31 December 2017

Unquoted equity type securities carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	-	-	13,148	13,148
	-	-	13,148	13,148

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33. FAIR VALUE (continued)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2018	2017
At 1 January	13,148	15,148
Fair value loss in income statement	-	(2,000)
At 31 December	13,148	13,148

34. RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Management Committee (operational risks), Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure, control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

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for the year ended 31 December 2018

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34. *RISK MANAGEMENT (continued)***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 exposures to placements with financial institutions, financing assets, assets acquired for leasing (including lease rental receivable), investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: in consultation with business units, credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross boarder business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. All credit applications are independently reviewed by Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Sharia Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are 5 main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.
- Managing concentrations. The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, The Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.

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34. RISK MANAGEMENT (continued)

- **Credit Measurement Methodologies.** The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress testing on its portfolio.
- **Credit risk rating.** An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- **Classifications and identification of non-performing exposures.** The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due exceeding 90 days are classified as non-performing.
- **Remedial management.** All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimize the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or Unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including: dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

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34. RISK MANAGEMENT (continued)
CREDIT RISK (continued)

Exposures subject to credit risk

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Financing facilities				
Grade 8 -10 Impaired	1,071	70	71,628*	72,769
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,158	10,732	3,349*	42,239
Grade 7 Watch list	14	15,403	-	15,417
<u>Past due comprises:</u>				
Up to 30 days	27,287	15,866	-	43,153
30-60 days	885	1,743	-	2,628
60-90 days	-	8,526	3,349*	11,875
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	196,925	18,829	-	215,754
Grade 7 Watch list	139	3,345	-	3,484
Gross carrying amount	226,307	48,379	74,977	349,663
Less expected credit losses	(4,762)	(3,695)	(13,566)	(22,023)
Net carrying amount	221,545	44,684	61,411	327,640
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	-	316	18,613	18,929
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,990	2,388	-	15,378
Grade 7 Watch list	-	3,846	-	3,846
<u>Past due comprises:</u>				
Up to 30 days	12,212	1,926	-	14,138
30-60 days	778	3,227	-	4,005
60-90 days	-	1,080	-	1,080
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	82,417	2,041	-	84,458
Grade 7 Watch list	-	48	-	48
Gross carrying amount	95,407	8,639	18,613	122,659
Less expected credit losses	(106)	(139)	(2,211)	(2,456)
Net carrying amount	95,301	8,500	16,402	120,203

* Includes facilities of BD 31,133 thousand which is under cooling off period.

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34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,317	1,317
Grade 1-6 Low-Fair Risk	161,327	-	-	161,327
Gross carrying amount	161,327	-	1,317	162,644
Less: expected credit losses	(3)	-	(1,317)	(1,320)
Net carrying amount	161,324	-	-	161,324
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	134,960	-	-	134,960
Gross carrying amount	134,960	-	-	134,960
Less: expected credit losses	(52)	-	-	(52)
Net carrying amount	134,908	-	-	134,908
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	1,670	1,670
Grade 1-6 Low-Fair Risk	41,733	2,639	-	44,372
Grade 7 Watch list	-	15	-	15
Gross carrying amount	41,733	2,654	1,670	46,057
Less: expected credit losses	(176)	(84)	(120)	(380)
Net carrying amount	41,557	2,570	1,550	45,677
Total net carrying amount	654,635	55,754	79,363	789,752

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34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk (continued)

31 December 2017	Placements with financial institutions	Financing assets	Assets acquired for leasing (including lease rentals receivables)	Investment in sukuk	Other financial assets	Total
<u>Impaired</u>						
Grade 8-10						
Impaired	-	55,045	5,926	1,564	-	62,535
Unrated	-	-	-	-	5,869	5,869
Allowance for impairment	-	(6,730)	(79)	(1,417)	(997)	(9,223)
Carrying amount	-	48,315	5,847	147	4,872	59,181
<u>Past due but not impaired</u>						
Grade 1-6						
Low-Fair Risk	-	19,965	8,432	-	-	28,397
Grade 7 Watch list	-	8,690	10,599	-	-	19,289
<u>Past due comprises:</u>						
Up to 30 days	-	18,235	10,512	-	-	28,747
30-60 days	-	7,332	2,793	-	-	10,125
60-90 days	-	3,088	5,726	-	-	8,814
Carrying amount	-	28,655	19,031	-	-	47,686
<u>Neither past due nor impaired</u>						
Grade 1-6						
Low-Fair Risk	33,969	272,260	79,612	113,200	-	499,041
Grade 7 Watch list	-	8,641	2,345	-	-	10,986
Unrated	-	-	-	-	11,128	11,128
Carrying amount	33,969	280,901	81,957	113,200	11,128	521,155
Less:						
Collective impairment provisions	-	(3,367)	(1,052)	-	-	(4,419)
Total	33,969	354,504	105,783	113,347	16,000	623,603

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34. RISK MANAGEMENT (continued)
CREDIT RISK (continued)**Significant increase in credit risk**

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

BD 000's

34. RISK MANAGEMENT (continued)**CREDIT RISK (continued)****Credit risk grades (continued)****Retail exposures**

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group 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 changes in key 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: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Risk Management Department and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group 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 and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards and commercial real estate.

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BD 000's

34. *RISK MANAGEMENT (continued)*
*CREDIT RISK (continued)**Determining whether credit risk has increased significantly (continued)*

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee ("ALCO") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

BD 000's

34. RISK MANAGEMENT (continued)**CREDIT RISK (continued)***Incorporation of forward looking information (continued)*

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

Modified financial assets and assets acquired for leasing

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate financings are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

BD 000's

34. RISK MANAGEMENT (continued)
CREDIT RISK (continued)**Measurement of ECLs**

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

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

- probability of default (PD);
- loss given default (LGD);
- 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.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. 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. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. *RISK MANAGEMENT (continued)*
CREDIT RISK (continued)
Incorporation of forward looking information (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balance at 1 January	2,860	10,537	10,317	23,714
Transfer to 12-month ECL	3,188	(3,086)	(102)	-
Transfer to lifetime ECL non-credit-impaired	(316)	398	(82)	-
Transfer to lifetime ECL credit-impaired	(229)	(2,463)	2,692	-
Net transfers	2,643	(5,151)	2,508	-
Net re-measurement of loss allowance	(404)	(1,468)	7,668	5,796
Recoveries / write backs	-	-	(1,713)	(1,713)
Write-offs	-	-	(1,566)	(1,566)
Balance at 31 December	5,099	3,918	17,214	26,231

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Cash and balances with banks	50	-	-	50
Placements with financial institutions	2	-	-	2
Financing assets	4,762	3,695	13,566	22,023
Assets acquired for leasing (including lease rental receivables)	106	139	2,211	2,456
Investment in sukuk	3	-	1,317	1,320
Commitments and financial guarantees	176	84	120	380
	5,099	3,918	17,214	26,231

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

Past due but not impaired exposures

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

BD 000's

34. *RISK MANAGEMENT (continued)**CREDIT RISK (continued)***Renegotiated facilities**

During the year, facilities of BD 16,896 thousands (2017: BD 25,160 thousand) were renegotiated, out of which BD 8,806 thousand (2017: BD 2,000 thousand) are classified as neither past due nor impaired as of 31 December 2018. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 142,895 thousand (2017: BD 117,168 thousand) only instalments of BD 39,269 thousand (2017: BD 13,352 thousand) are past due as at 31 December 2018.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to BD 1,566 thousand (2017: BD 13,228 thousand) which were fully impaired. The Group has recovered BD 99 thousand from a financing facility written off in previous years (2017: 38 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

	As at 31 December 2018			As at 31 December 2017		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	40,471	16,587	57,058	28,545	5,844	34,389
Other	2,193	-	2,193	2,175	-	2,175
<u>Against past due but not impaired</u>						
Property	21,397	19,232	40,629	23,193	21,428	44,621
Other	2,929	-	2,929	5,182	-	5,182
<u>Against neither past due nor impaired</u>						
Property	87,637	82,680	170,317	94,368	78,575	172,943
Other	12,416	-	12,416	25,566	20	25,586
Total	167,043	118,499	285,542	179,029	105,867	284,896

The average collateral coverage ratio on secured facilities is 136.05% at 31 December 2018 (31 December 2017: 126.86%).

For analysis of concentration of total assets and liabilities refer note 32.

Further, for financing assets and Sukuk, the Group monitors concentrations of credit risk by sector and by geographic location.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 December 2018			As at 31 December 2017		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	10,358	-	10,358	11,011	-	11,011
Real estate	51,630	118,615	170,245	39,771	105,715	145,486
Construction	54,803	-	54,803	35,917	-	35,917
Trading	78,009	-	78,009	90,691	-	90,691
Manufacturing	13,880	-	13,880	45,090	-	45,090
Others	118,960	1,588	120,548	132,024	68	132,092
Total carrying amount	327,640	120,203	447,843	354,504	105,783	460,287

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

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 assets.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. *RISK MANAGEMENT (continued)**LIQUIDITY RISK (continued)***Exposure to liquidity risk**

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against medium-term borrowing less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2018 %	2017 %
At 31 December	16.79	9.3
Average for the period	13.09	18.26
Maximum for the period	19.55	29.97
Minimum for the period	6.60	5.15

For maturity profile of assets and liabilities refer note 31.

MARKET RISK

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. The Group has no trading positions in equity or commodities and the main source of market risk for the Group is its foreign exchange exposure and profit rate gap.

The Group does not do any trading in foreign exchange. The Group does not engage in proprietary trading of foreign exchange derivatives. All foreign exchange income/ losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury operations. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approval authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

A summary of the Group's profit rate gap position at 31 December 2018 is as follows:

31 December 2018	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	42,590	-	1,047	-	-	43,637
Financing assets	40,881	9,345	36,588	66,003	174,823	327,640
Assets acquired for leasing (including lease rentals receivables)	15	7	230	7,528	112,423	120,203
Investments securities (sukuk)	-	-	-	16,227	145,097	161,324
Total profit rate sensitive assets	83,486	9,352	37,865	89,758	432,343	652,804
Liabilities and investment accounts						
Placements from financial institutions	31,312	17,664	109,373	-	-	158,349
Medium-term borrowing	-	-	41,357	-	-	41,357
Placements from non-financial institutions and individuals	37,180	21,163	27,722	34,405	-	120,470
Customers' current accounts	1,199	-	-	-	-	1,199
Equity of investments account holders	154,133	73,102	98,830	20,308	-	346,373
Total profit rate sensitive liabilities and investment accounts	223,824	111,929	277,282	54,713	-	667,748
Profit rate gap	(140,338)	(102,577)	(239,417)	35,045	432,343	(14,944)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

MARKET RISK (continued)

31 December 2017	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	32,921	-	1,048	-	-	33,969
Financing assets	51,219	12,275	53,402	62,832	174,776	354,504
Assets acquired for leasing (including lease rentals receivables)	-	7	-	7,777	97,999	105,783
Investments securities (sukuk)	-	-	284	147	112,916	113,347
Total profit rate sensitive assets	84,140	12,282	54,734	70,756	385,691	607,603
Liabilities and investment accounts						
Placements from financial institutions	91,652	14,319	11,505	6,789	-	124,265
Medium-term borrowing	-	-	-	41,308	-	41,308
Placements from non-financial institutions and individuals	7,630	9,660	24,606	19,463	-	61,359
Customers' current accounts	1,286	-	-	-	-	1,286
Equity of investments account holders	190,691	66,559	88,789	13,778	1	359,818
Total profit rate sensitive liabilities and investment accounts	291,259	90,538	124,900	81,338	1	588,036
Profit rate gap	(207,119)	(78,256)	(70,166)	(10,582)	385,690	19,567

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

At 31 December 2018

At 31 December 2017

100bp parallel increase/ decrease
--

± 149

±196

50bp increase/ decrease
--

± 67

±98

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

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for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

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 had the following significant net exposures denominated in foreign currency as of 31 December.

	2018 BHD Equivalent	2017 BHD Equivalent
US Dollars*	28,905	12,236
Other GCC Currencies *	20,226	(7,707)
Euros	(402)	(297)
Australian Dollars	4,627	4,607
Kuwaiti Dinars	3,379	3,544
Sterling Pounds	(579)	480
Indian Rupee	38	9

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2018 BHD Equivalent	2017 BHD Equivalent
Euros	±20	±15
Australian Dollars	±231	±230
Kuwaiti Dinars	±169	±177
Sterling Pounds	±29	±24
Indian Rupees	±2	-

Exposure to other price risks–non–trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 24 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. *RISK MANAGEMENT (continued)**MARKET RISK (continued)***OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

CAPITAL MANAGEMENT

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

The Group'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 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

for the year ended 31 December 2018

BD 000's

34. RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2016 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December 2018, the Group has made regulatory adjustments of BD 13,725 thousand (2017: 11,325 thousand) in line with the CBB requirements.

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.

The Group's regulatory capital position at 31 December was as follows:

	31 December 2018	31 December 2017
Total risk weighted exposure	653,067	683,784
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	112,401	123,141
- Less: regulatory adjustments	(13,725)	(11,325)
CET 1 after regulatory adjustments	98,676	111,816
AT 1	-	-
Tier 2 capital:	7,286	4,419
Total regulatory capital	105,962	116,235
Total regulatory capital expressed as a percentage of total risk weighted assets	16.23%	17.00%
Liquidity coverage ratio	395.03%	111.99%
Net stable funding ratio	88.31%	196.01%
Leverage ratio	4.77	3.80

The Group has complied with all externally imposed capital requirements throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

BD 000's

34. *RISK MANAGEMENT (continued)**CAPITAL MANGEMENT (continued)***Capital allocation**

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

35. **COMMITMENTS**

The commitments contracted in the normal course of business of the Group:

	2018	2017
Undrawn commitments to extend finance *	33,193	48,747
Financial guarantees	12,864	18,390
	46,057	67,137

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2018 due to the performance of any of its projects.

36. **SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through donations to charitable causes and organisations.

37. **COMPARITIVES**

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.

KHALEEJI COMMERCIAL BANK BSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour East Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Jassim Mohamed Alseddiqi – Chairman Sh. Ahmed Bin Isa Khalifa Al Khalifa – Vice Chairman Hisham Ahmed Al Rayes Reyadh Eid Al Yaqoob Abdulla Abdulkarim Showaiter Dr. Khalid Mohammed Al Khazraji Mustafa Ghazi Kheriba Fawad Tariq Khan Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed
Chief Executive Officer	:	Sattam Sulaiman Algozaibi
Company secretary	:	Mohammed Abdulla Saleh
Auditors	:	KPMG Fakhroo, Bahrain

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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*In the name of Allah, the beneficent, the merciful,
Prayers and peace upon the last apostle and messenger, our prophet Muhammad.*

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual financial statements of Khaleeji Commercial Bank (the "Bank") for the year ended 31 December 2019.

We are pleased to share certain strategic decisions taken by the Bank in 2019 aimed at significantly transforming the Bank's operations and market approach. The management focused on increasing the asset quality by booking high quality assets and strategically adopted a conservative stance against legacy assets by taking further provisions. In addition, key decisions include the cost rationalization initiative and strategically reevaluating distribution channels while still maintaining operational effectiveness, efficiency and profound customer experience.

On all fronts, it has been a year full of challenges and opportunities. The Bank have accepted these challenges and was able to implement a new strategic approach and was able to provide various innovative financial solutions that added value to all stakeholders. This is evident by Bank's initiative to support the growth in the local market by financing and providing financial solutions to key local landmark projects. Moreover, the Bank is also extending support to the local consumer finance sector by participation in the Mazaya housing program. The Bank will continue to pursue its expansion strategy through adopting several initiatives and progressive strategies that are directed towards enhancement of the Bank's positioning, market reach and competitive advantage.

We are pleased to report that the bank continues to progress with plans to become a leading Islamic retail bank. Despite a challenging environment, these plans are fast taking shape and, already started showing tangible results and the management are continuously working to achieve the full benefits of the bank's strategic initiatives, cost synergies and rationalization.

Meanwhile, new products and enhanced services are the key drivers of our business growth and increase in assets, therefore, the bank continues to invest heavily in developing its products and services. The Bank continues to grow closer to its customers, listening closely to their needs and providing tailored financial solutions.

**Chairman's Report
For the Year Ended 31 December 2019
Khaleeji Commercial Bank BSC**

Overall Performance

The Bank, during 2019, was able to achieve the strategic goals set by the Board. This was achieved by providing innovative financial solutions and quickly adapting to the ever-changing market and understanding customer needs and requirements.

A positive indicator of the Bank's performance this year is the growth of total assets from BD 850.9 million in 2018 to BD 939.8 million in 2019, a growth of 10.4%. Customer Deposits grew to BD 704.6 million in 2019 compared to BD 537.3 million in 2018, a growth of 31.1%. Corporate financing assets reached BD 342.6 million in 2019 compared to BD 299.7 million in 2018, a growth of 14.3%.

Furthermore, the Bank was able to achieve growth in liquid assets which currently comprises of 38.8% of Total Assets while the Capital Adequacy Ratio ("CAR") reached 16.63%. In addition to this, the Bank is maintaining healthy Liquidity Coverage Ratio ("LCR") of 733.93% and Net Stable Funding Ratio ("NSFR") of 108.5% as of 31 December 2019. This has in turn allowed the Bank to invest the liquidity in prominent Sukuk investments that are characterized with high yield and low risk. Such investments resulted in a considerable increase in the Sukuk portfolio reaching BD 195.1 million in 2019 compared to BD 161.3 million in 2018, a growth of 20.9%.

The Bank reported a net loss attributable to the shareholders of the parent BD 14.9 million. As the Board decided to take an amount of BD 22.4 million as provisions and fair value losses for the year ended 31 December 2019, such conservative approach has been taken in order to enhance the Bank's financial positioning and to further support its growth in 2020.

The new cost rationalization measures will continue to control expenses and further measures are taken to ensure improvement in the efficiency of the Bank in the future.

Looking Ahead

The Bank's inclination towards digital banking would be key in increasing customer acquisition through digital channels which would reduce acquisition cost and time. Digital banking will empower customers to perform transactions at any moment thereby enhancing their experience.

Technology, risk management and controls are the backbone that support business growth and ensure competitiveness in the market place. The Bank continues to invest in further enhancing them by implementing new solutions for risk, compliance, core banking and others. The Bank continues to align risk management with business to contribute in the creation, optimization and protection of enterprise value by managing business risks while creating value in the marketplace and continuous asset management of investment portfolio by establishing strategic investment exits.

The Bank is driven towards adopting important expansionary initiatives that it aims to achieve in 2020 and the years to follow which include the Bank's plans to continue improving the financing portfolio at both the Corporate and Retail level, with special consideration to the sovereign exposures, while maintaining appropriate liquidity buffers and financial ratios.

Further, the Bank is rationalizing the number of branches with potential to reevaluate the branches network in the following years while increasing customer acquisition through digital channels and reduce acquisition cost, time and widen its customer base. The Bank is focusing on continuously working on reengineering and automation of controls to ensure higher efficiency and effectiveness.

Appreciation

On behalf of the Board, I would like to express my gratitude to his Majesty King Hamad Bin Isa Al Khalifa; His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister for their encouragement of the growth of the private sector and the development of the banking and finance industry in Bahrain. I also extend my thanks to all government ministries, the Central Bank of Bahrain, and Bahrain Bourse for their continued guidance and support.

Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty; and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.



Jassim Mohamed Alseddiqi
Chairman

SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
On the Activities of Khaliji Commercial Bank H.S.C.,
For the financial year ending 31 December 2019

Prayer and Peace upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and Companions.

In compliance with our terms of appointment, the Shari'a Supervisory Board ("SSB") hereby presents the following report to the Shareholders on the activities of Khaliji Commercial Bank ("KHCBS") and its subsidiaries for the financial year ending 31st December 2019.

Respective responsibility of the Board of Directors and the SSB

The SSB confirms that as a general principle and practice, KHCBS's management is responsible for ensuring that it conducts its business in accordance with Islamic Shari'a rules and principles. The SSB's responsibility is to form an independent Shari'a opinion based on our review of the Bank's operations and to prepare this report.

Basis of opinion


In compliance with the Shari'a Governance and based on SSB's Fatwas, decisions and the AAOIFI Standards, the SSB through its periodic meetings and its executive member have reviewed the internal Shari'a audit plan and Shari'a audit reports and examined the documents and transactions by conducting a sample-test method to ensure its compliance with the Shari'a rules and principles. In addition, the SSB has reviewed the ILSCA report for 2019. The SSB in collaboration with Shari'a coordination and implementation department has reviewed contracts, agreements, financings and investment structures, products, related policies, consolidated Financial Statements and attached notes for the year ended 31st December 2019.

Opinion


Based on our review, The SSB is satisfied that:

- 1- The contracts, agreements and transactions entered into by the Bank that have been reviewed by the SSB are in compliance with the Shari'a rules and principles.
- 2- The allocation of profits and charging of losses 'if any' on investment accounts conform to the basis that had been approved by the SSB and in accordance with Shari'a rules and principles.
- 3- Any earnings resulted by means prohibited by the Shari'a rules and principles have been channeled to charity account.
- 4- Zakah was calculated in accordance with Shari'a rules and principles based on net assets method according to AAOIFI standards. Each shareholder is responsible to pay their relevant zakah portion related to their respected shares as per zakah guide.
- 5- The Bank is in compliance with Shari'a rules and principles, SSB's Fatwas and decisions, Shari'a related policies and procedures, AAOIFI's Shari'a standards, relevant rulings of the CSSB and the regulations, resolutions and directives issued by the CBB.

We pray to Allah the almighty to grant us all success and prosperity.



Shaikh Dr. Faysal Al-Muftah
Chairman



Shaikh Dr. Faysal Hadi
Vice-Chairman & Executive
Member



Shaikh Dr. Nizam Yagoubi
Board Member



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Kingdom of Bahrain

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Website: www.kpmg.com/bh
CR No. 6220

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
KHALEEJI COMMERCIAL BANK BSC
Manama, Kingdom of Bahrain**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Khaleeji Commercial Bank B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, the changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements, which describes that as at 31 December 2019 the Bank's shareholders' equity is below the minimum requirement of BD 100 million as prescribed by the Central Bank of Bahrain and the Board's action plan to address this. Our opinion is not modified in respect of this matter.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 2 of the 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 chairman's report is consistent with the consolidated financial statements;
- c) Except for the matter referred to in the Emphasis of Matter paragraph above, we are not aware of any other instances of violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

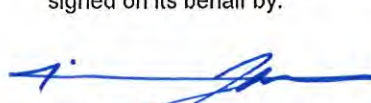
KPMG Fakhro
Partner Registration No. 100
9 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

BD 000's

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and bank balances	6	104,376	99,401
Placements with financial institutions	7	65,508	43,637
Financing assets	8	324,355	327,640
Investment in sukuk	9	195,050	161,324
Assets acquired for leasing	10	129,097	108,678
Lease rentals receivables		17,102	11,525
Investment in equity securities	11	43,989	50,039
Investment in real estate	12	17,781	18,081
Development property		6,251	6,251
Other assets	13	28,493	16,498
Property and equipment	14	7,750	7,865
Total assets		939,752	850,939
LIABILITIES			
Placements from financial institutions		127,453	158,349
Placements from non-financial institutions and individuals	15	134,654	120,470
Medium-term borrowing	16	-	41,357
Customers' current accounts		58,105	70,416
Other liabilities	17	19,798	10,512
Total liabilities		340,010	401,104
Equity of investment account holders	18	511,835	346,373
OWNERS' EQUITY			
Share capital	19	105,000	105,000
Statutory reserve		8,225	8,225
Treasury shares		(11,730)	(11,295)
Employee share incentive scheme		-	(29)
Accumulated losses		(15,788)	(729)
Total owners' equity		85,707	101,172
Non-controlling interest		2,200	2,290
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		939,752	850,939

The consolidated financial statements were approved by the Board of directors on 09 February 2020 and signed on its behalf by:


Jassim Mohamed Alseddiqi
Chairman


Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman



Sattam Sulaiman Algosaibi
Chief Executive Officer

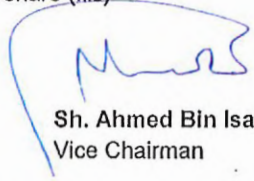
The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2019

BD 000's

	Note	2019	2018
Income from financing assets and assets acquired for leasing		31,334	26,565
Income from placements with financial institutions		2,183	955
Income from sukuk	20	10,031	6,377
Income from equity securities		(1,687)	1,422
Fees and other income		5,726	2,842
Total income before return to investment account holders		47,587	38,161
Less: Return to investment account holders before Bank's share as Mudarib	18	(23,544)	(14,221)
Bank's share as a Mudarib	18	8,457	5,619
Return to investment account holders		(15,087)	(8,602)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(11,703)	(8,190)
Finance expense on medium-term borrowing		(1,241)	(2,054)
Total income		19,556	19,315
Staff cost	21	8,158	7,175
Other operating expenses	22	6,036	5,252
Total expenses		14,194	12,427
Profit before impairment allowances		5,362	6,888
Net impairment charge	23	(20,389)	(6,288)
(LOSS)/PROFIT FOR THE YEAR		(15,027)	600
Attributable to:			
Shareholders of the parent		(14,937)	659
Non-controlling interest		(90)	(59)
		(15,027)	600
Earnings per share			
Basic and diluted earnings per share (fiis)	28	(15.86)	0.69


Jassim Mohamed Alseddiqi
Chairman


Sh. Ahmed Bin Isa Al Khalifa
Vice Chairman


Sattam Sulaiman Algosaihi
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

BD 000's

2019

	Equity attributable to shareholders of the parent					Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses)			Total
Balance at 1 January 2019	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462
Loss for the year	-	-	-	-	(14,937)	(14,937)	(90)	(15,027)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Net treasury shares purchased	-	-	(435)	-	-	(435)	-	(435)
Issue of shares under incentive scheme	-	-	-	29	65	94	-	94
Transfer to Zakah fund	-	-	-	-	(187)	(187)	-	(187)
Balance at 31 December 2019	105,000	8,225	(11,730)	-	(15,788)	85,707	2,200	87,907

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019 (continued)

BD 000's

2018

	Equity attributable to shareholders of the parent					Non-Controlling interest	Total Equity	
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	(Accumulated losses) / retained earnings			Total
Balance at 1 January 2018 (as previously reported)	105,000	8,159	(10,212)	(70)	10,162	113,039	2,645	115,684
Impact of adopting FAS 30	-	-	-	-	(11,069)	(11,069)	-	(11,069)
Restated balance at 1 January 2018	105,000	8,159	(10,212)	(70)	(907)	101,970	2,645	104,615
Profit for the year	-	-	-	-	659	659	(59)	600
Transfer to statutory reserve	-	66	-	-	(66)	-	-	-
Net treasury shares purchased	-	-	(1,083)	-	-	(1,083)	-	(1,083)
Issue of shares under incentive scheme	-	-	-	41	42	83	-	83
Loss of Control	-	-	-	-	(16)	(16)	(296)	(312)
Transfer to Zakah fund	-	-	-	-	(441)	(441)	-	(441)
Balance at 31 December 2018	105,000	8,225	(11,295)	(29)	(729)	101,172	2,290	103,462

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

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

BD 000's

	Note	2019	2018
OPERATING ACTIVITIES			
Receipts from financing assets, net		9,621	40,392
Payment for asset acquired for leasing, net		(17,786)	(15,145)
Receipt of profit on short-term placements		2,183	955
Returns paid to investment account holders		(10,454)	(7,184)
Receipts / (Withdrawals) from investment account holders, net		165,461	(13,444)
Payment of profit on placements		(11,703)	(8,190)
Payment for expenses		(19,441)	(10,642)
Other receipts		3,964	2,878
Payment for charity		(235)	(422)
Withdrawals from customers' current accounts, net		(12,311)	(4,341)
(Payments) toward / Receipts from placements from financial institutions, net		(29,839)	34,084
Receipts from placements from non-financial institutions and individuals, net		14,184	59,111
Net payment to CBB reserve account		(4,610)	(3,360)
Income from sukuk received		10,006	5,937
Net cash generated from operating activities		99,040	80,629
INVESTING ACTIVITIES			
Purchase of sukuk		(37,407)	(63,205)
Proceeds from redemption / sale of sukuk		3,269	15,135
Disposal / (Purchase) of equity securities		1,438	(97)
Purchase of Investment in real estate, net		-	(105)
Receipt of dividends / income from equity securities		343	1,478
Purchase of property and equipment, net		(452)	(674)
Net cash used in investing activities		(32,809)	(47,468)
FINANCING ACTIVITIES			
Purchase of treasury shares, net		(350)	(1,234)
(Repayment) / drawdown of medium-term borrowing, net		(41,357)	50
Finance expense paid on medium-term borrowing		(1,241)	(2,054)
Net cash used in financing activities		(42,948)	(3,238)
Net increase in cash and cash equivalents		23,283	29,923
Cash and cash equivalents at 1 January		121,171	91,248
Cash and cash equivalents at 31 December		144,454	121,171
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	6	78,946	78,581
Placements with financial institutions with original maturities of 90 days or less	7	65,508	42,590
		144,454	121,171

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2019

BD 000's

2019

	Balance at 1 January 2019			Movements during the year						Balance at 31 December 2019		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revalua- tion BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra- tion expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,434	1.00	3,434	-	-	-	-	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993							2,633	0.38	993
			10,681	-	-	-	-	-	-			10,681

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2019 (continued)

BD 000's

2018	Balance at 1 January 2018			Movements during the year						Balance at 31 December 2018		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revalua- tion BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra- tion expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,254	1.00	6,254	-	-	-	-	-	-	6,254	1.00	6,254
Shaden Real Estate Investment WLL (RIA 5)	3,529	1.00	3,529	(95)	-	117	(117)	-	-	3,434	1.00	3,434
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,776	(95)	-	117	(117)	-	-			10,681

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2019

BD 000's

	2019	2018
Sources of zakah and charity fund		
At 1 January	708	674
Contributions by the Bank	187	441
Non-Islamic income	54	15
Total sources	949	1,130
Uses of zakah and charity fund		
Contributions to charitable organisations	(235)	(422)
Total uses	(235)	(422)
Undistributed zakah and charity fund at 31 December	714	708

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

BD 000's

1. REPORTING ENTITY

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain ("CBB") on 20 October 2003. The Bank's shares are listed on the Bahrain Bourse and Dubai Financial Markets.

The Bank's activities are regulated by the Central Bank of Bahrain (CBB) and supervised by a Religious Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together "the Group"). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding 2019	% holding 2018	Nature of business
Harbour West 2 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Harbour West 4 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Surooh Limited	Cayman Islands	19.08%	19.08%	To construct and sell properties at "Oryx Hills".

Going concern:

As of 31 December 2019, the total equity of the Bank was below the minimum BD 100 million required under LR module of volume 2 of the rule book issued by CBB. The Board of directors has mandated an international bank to assist it with issuing additional tier 1 capital (AT1) of BD 37.7 million to help strengthen its equity and meet the regulatory requirements.

The Bank is in the process of obtaining regulatory approval for this issue. Notwithstanding this, the Bank's regulatory capital adequacy ratio as of 31 December 2019 was 16.25%, well above the minimum ratio required by the CBB. Accordingly, the financial statements have been prepared on going concern basis.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

The consolidated financial statements are presented in Bahraini Dinars, which is also the principal currency of the Bank's operations. They have been prepared on the historical cost basis except for the measurement at fair value of certain investments carried at fair value.

The Group classifies its expenses in the income statement by the nature of expense method.

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4. USE OF SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 25.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

i) Standards issued and effective from 1 January 2019

There are no new AAOIFI standards and interpretations effective for financial year beginning on or after 1 January 2019 that would be expected to have a material impact on the Group.

ii) Standards issued but not yet effective

a) FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicable, for the Islamic financial institutions from both perspectives i.e. the principal (investor) and the agent.

Principal (Investor)

The standard requires the principal either to follow the Pass through approach (as a preferred option) or the Wakala venture approach.

Pass through approach

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. There is a rebuttable assumption that in all investment agency arrangements, the investor takes direct exposure on the underlying assets (including a business) at the back end. As a result, the investor shall account for the assets (including the business) in its books directly, according to appropriate accounting policies applicable on such assets (or business) in line with respective FAS or the generally accepted accounting principles in absence of a specific FAS on the subject.

Wakala venture approach

Wakala venture approach can be adopted when the, if the investment agency contracts meets the conditions of the instrument being transferable and the investment is subject to frequent changes at the discretion of the agent. In case of this approach, the principal accounts for the investment in Wakala venture by applying the equity method of accounting.

Agent

The standard requires the agent either to follow the off- balance sheet approach or the on- balance sheet approach (only on exceptions by virtue of additional considerations attached to the investment agency contract).

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5. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**ii) Standards issued but not yet effective (continued)**a) FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar) (continued)***Off-balance sheet approach**

At inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach whereby, since the agent does not control the related assets / business and hence does not record the assets and related income and expenditure in its books of account. The agent shall not recognize the assets and / or liabilities owned by the investor(s) (principal(s)) in its books of account.

If the agent previously owned such assets directly or through on-balance sheet equity of investment accountholders or similar instruments, the agent shall de-recognize the assets (and liabilities) from its books of account.

On-balance sheet approach

An agent may maintain multi-level investment arrangements based on independent permissible transactions with the agent itself. Notwithstanding the requirements of this standard with regard to investment agency arrangements, such secondary transactions shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The agent shall consider the investment agency arrangement as a quasi-equity instrument for accounting purposes, if the investment agency instrument, by virtue of additional considerations attached to the instrument, is subordinated to all liabilities of the agent.

This standard is not expected to have a significant impact on the bank. This standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions

An entity may opt not to apply this standard only on such transactions:

- a. which were already executed before the adoption date of this standard for the entity; and
- b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

b) FAS 33 - Investment in Sukuk, shares and similar instruments

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institutions investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments and produces revised guidance for classification and measurement of investments to align with international practices.

The standard classifies investments into equity type, debt type and other investment instruments. Investments in equity instruments must be at fair value and will not be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) *Standards issued but not yet effective (continued)*

b) *FAS 33 - Investment in Sukuk, shares and similar instruments (continued)*

Transitional provisions

The standard shall be applicable on a retrospective basis. However, the cumulative effect, if any, attributable to profit and loss taking stakeholders, including investment accountholders related to previous periods, shall be adjusted with the investments fair value reserve pertaining to such class of stakeholders.

The Bank is still in the process of estimating the impact of adoption of this standard on the consolidated financial statements. This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

c) FAS 34 - Financial Reporting for Sukuk-holders

The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-holders.

This standard shall apply to Sukuk in accordance with Shari'ah principles and rules issued by an IFI or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard.

The standard classifies Sukuk as Business Sukuk and Non-business sukuk and lays down accounting treatment for Business and Non- business Sukuk.

This standard is not expected to have an impact on the bank. This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions

An entity may opt not to apply this standard only on following transactions:

- a. which were already executed before the adoption date of this standard for the entity; and
- b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(a) Basis of consolidation****(i) Subsidiaries**

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Group owns more than 50% of voting rights on an entity.

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 and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as 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 SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 26.

(ii) Associates

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies. These are accounted for under the equity method.

Investments in associates are initially recognised at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The carrying amount of the equity accounted investment is tested for impairment in accordance with the policy described in note 5 (k).

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for the year ended 31 December 2019

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(a) Basis of consolidation (continued)***(iii) Transactions eliminated on consolidation**

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

(b) Foreign currency transactions

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

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

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange difference.

(c) Investment securities

Investment securities comprise investments in equity securities and investments in debt-type securities, sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 5(a)).

(i) Classification

The Group segregates its investment securities into debt-type and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type.

Debt-type Instruments:

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investment in sukuk.

Equity-type investments:

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

The Group has one investment in equity securities that is designated at FVTIS. The rest are classified as investments at fair value through equity.

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for the year ended 31 December 2019**

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(c) Investment securities (continued)***(ii) Recognition and de-recognition**

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

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement 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. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Subsequent to initial recognition, debt-type securities, other than those carried at FVTIS, are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles*Amortised cost measurement*

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

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investment securities (continued)

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measure the fair value of an instruments using the quoted price in an active market for that instrument.

For unquoted investments at fair value, the Group uses recognised valuation techniques for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

When there is no quoted price or other appropriate methods from which to derive a reliable fair value, equity investments are carried at cost less impairment.

(d) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna and Wakala contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, if any.

(e) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less 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.

(g) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customers, takes into consideration the credit evaluation of the respective customer in addition to other factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investment in real estate

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are carried at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment in real estate includes plots of land held for capital appreciation purposes, villas and buildings held for earning rentals. Land is not depreciated. Buildings are depreciated over 25 years.

(i) Development properties

Development property consists of villas being developed for sale in the ordinary course of business and costs incurred in bringing such property to its saleable condition.

Development property is stated at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(j) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(k) Impairment of financial instruments**i) Exposures subject to credit risk**

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing (including lease rental receivable);
- Investments in Sukuk - debt-type securities at amortised cost; and
- Undrawn financing commitments and financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(k) Impairment of financial instruments (continued)**i) Exposures subject to credit risk (continued)*

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL on exposures subject to credit risk. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures subject to credit risk on initial recognition and that do not have a significant increase in risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial instruments (continued)

i) Exposures subject to credit risk (continued)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financing assets and assets acquired for leasing 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 Group expects to receive).
- Financing assets and assets acquired for leasing 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;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ECLs are discounted at the effective profit rate of the financial instrument.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the exposure have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost and assets acquired for leasing are deducted from the gross carrying amount of the assets. Loss on undrawn commitments and financial guarantees are disclosed in other liabilities.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial instruments (continued)

ii) Equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, 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 if the estimated recoverable amount is below the carrying value of the investment.

(l) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. 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. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. 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. As at December 2019, the Group did not have any goodwill recognised.

(m) Customers' current accounts

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

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Equity of investment account holders

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

The Group charges specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Group out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

(o) 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 Mudharaba contract or 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 Group in the consolidated financial statements.

(p) Financial guarantees

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

(q) Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised in the income statement on sale of treasury shares.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Statutory reserve

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

(s) Revenue recognition

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Group's share in **Musharaka and Mudharaba financing** transaction that commence and end during a single financial period are recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka and Mudharaba financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the agreements.

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

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

Rental income is recognised on a straight line basis over the term of the contract.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

(t) 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 Group uses these funds for charitable purposes.

(u) Zakah

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

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) 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) Post-employment benefits

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

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

These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

The Group also operates a voluntary employees saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(w) Dividends and board remuneration

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

(x) Trade date accounting

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

(y) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari'a based enforceable 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.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) 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.

(aa) URIA Protection Scheme

Funds held with the Group in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the Group subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(bb) Repossessed assets

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

(cc) Medium term Borrowing

Medium-term borrowing represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

6. CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash	5,299	8,130
Balances with banks	42,601	55,551
Balances with the Central Bank:		
- Current account	31,047	14,950
- Reserve account	25,430	20,820
Less: Impairment allowance	(1)	(50)
	104,376	99,401

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Gross Murabaha and Wakala receivable	65,524	43,689
Less: Deferred profits	(15)	(50)
Less: Impairment allowance	(1)	(2)
	65,508	43,637

The average profit rate on placement with financial institutions for 2019 was 3.07% per annum (31 December 2018: 2.92% per annum). Placements with financial institutions with original maturities of 90 days or less is nil (31 December 2018: BD 42,590).

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8. FINANCING ASSETS

	31 December 2019	31 December 2018
Murabaha	354,510	338,012
Musharaka	104	3,541
Wakala	5,007	5,007
Mudharaba	1,047	1,049
Istisna	1,733	2,054
	362,401	349,663
Less: Impairment allowances	(38,046)	(22,023)
	324,355	327,640

Murabaha financing receivables are net of deferred profits of BD 25,724 thousand (2018: BD 25,088 thousand).

The movement on impairment allowances is as follows:

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	4,762	3,695	13,566	22,023
Net movement between stages	(20)	(1,221)	1,241	-
Net charge for the year	(161)	256	15,928	16,023
Write-off	-	-	-	-
At 31 December 2019	4,581	2,730	30,735	38,046

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	2,647	9,621	7,778	20,046
Net movement between stages	2,545	(4,792)	2,247	-
Net charge for the year	(430)	(1,134)	5,107	3,543
Write-off	-	-	(1,566)	(1,566)
At 31 December 2018	4,762	3,695	13,566	22,023

9. INVESTMENT IN SUKUK

	31 December 2019	31 December 2018
Debt type instruments – at amortized cost		
- Quoted sukuk *	195,061	161,327
- Unquoted sukuk	1,317	1,317
Less: Impairment allowances	(1,328)	(1,320)
	195,050	161,324

* Sukuk of BD 48,888 thousand were pledged against medium-term borrowings of BD 41,357 thousand which was repaid during the year (refer note 16).

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10. ASSETS ACQUIRED FOR LEASING

	2019	2018
Cost		
At 1 January	138,952	119,995
Additions during the year	53,688	31,446
Settlements/adjustments during the year	(24,331)	(12,489)
At 31 December	168,309	138,952
Accumulated depreciation		
At 1 January	30,274	22,802
Charge for year	16,714	11,400
Settlements during the year	(7,776)	(3,928)
At 31 December	39,212	30,274
Net book value at 31 December	129,097	108,678

At 31 December 2019, accrued lease rental receivable amounted to BD 17,102 thousand (2018: BD 11,525 thousand). Lease rental receivable is net of stage 1 and 2 ECL of BD 516 thousand (2018: BD 245 thousand) and Stage 3 ECL of BD 2,705 thousand (2018: 2,211 thousand). During the year, an impairment allowance of BD 765 thousand (2018: BD 725 thousand) was provided on the lease rental receivables (note 23).

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 84,958 thousand (2018: BD 85,644 thousand).

11. INVESTMENT IN EQUITY SECURITIES

	31 December 2019	31 December 2018
<i>At fair value through income statement</i>		
- Unquoted equity securities	11,174	13,148
<i>At fair value through equity</i>		
- Gross Unquoted equity securities carrying amount (carried at cost less impairment)*	50,563	51,972
Less: Impairment allowances	(17,748)	(15,081)
	43,989	50,039

* Unquoted equity securities at fair value through equity comprise investments in closed companies. These investments are carried at cost less impairment in the absence of a market price or a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs or sale of underlying assets.

During the year, impairment charge of BD 2,667 thousand (31 December 2018: BD 2,205 thousand) was recognised on equity securities carried at cost (note 23).

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for the year ended 31 December 2019

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12. INVESTMENT IN REAL ESTATE

	Land	Building	2019 Total	2018 Total
Cost				
At 1 January	18,081	-	18,081	20,992
Additions	-	-	-	105
Disposals	-	-	-	(3,016)
Impairment (note 23)	(300)	-	(300)	-
At 31 December	17,781	-	17,781	18,081
Accumulated Depreciation				
At 1 January	-	-	-	1,371
Charge for year	-	-	-	-
Disposals	-	-	-	(1,371)
At 31 December	-	-	-	-
Net book value at 31 December	17,781	-	17,781	18,081

13. OTHER ASSETS

	31 December 2019	31 December 2018
Repossessed assets	13,513	853
Investment in associates	4,524	4,575
Profit accrued on Sukuk	3,250	2,820
Due from investments	985	1,070
Prepaid expenses	776	765
Other receivables	5,445	6,415
	28,493	16,498

Other receivables is net of impairment allowance of BD 1,742 thousand (2018: BD 954 thousands).

14. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and Other equipment	Work-in- progress	2019 Total	2018 Total
Cost							
At 1 January	6,714	4,472	5,085	572	-	16,843	16,169
Additions	-	6	267	4	175	452	674
Disposals	-	(7)	(98)	-	-	(105)	-
At 31 December	6,714	4,471	5,254	576	175	17,190	16,843
Accumulated Depreciation							
At 1 January	-	4,285	4,234	459	-	8,978	8,414
Charge for year (note 22)	-	72	447	48	-	567	564
Disposals	-	(7)	(98)	-	-	(105)	-
At 31 December	-	4,350	4,583	507	-	9,440	8,978
Net book value							
At 31 December 2019	6,714	121	671	69	175	7,750	7,865
At 31 December 2018	6,714	187	851	113	-	7,865	

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15. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2019	31 December 2018
Non-financial institutions	51,660	48,325
Individuals	82,994	72,145
	134,654	120,470

These represent placements in the form of Murabaha and Wakala contracts. These are net of deferred profit of BD 5,218 thousand (2018: BD 4,188 thousand).

16. MEDIUM-TERM BORROWING

During 2018, the Bank had two medium-term Murabaha facilities of BD 41,357 thousand secured by pledge over sukuk of BD 48,888 thousand. These borrowings were repaid during the year.

17. OTHER LIABILITIES

	31 December 2019	31 December 2018
Mudaraba profit accrual	8,911	4,278
Advance received from customers	3,274	361
Employee related accruals*	1,251	245
Zakah and charity payable	714	708
Payable for Istisna'a contracts	27	27
Other payables and accrued expenses	5,621	4,893
	19,798	10,512

* During the fourth quarter, the Bank has offered a voluntary retirement scheme to its employees. As of 31 December 2019, the total retrenchment cost amounted to BD 825 thousand.
Other payables and accrued expenses is net of impairment allowance of BD 268 thousand (2018: BD 380 thousand).

18. EQUITY OF INVESTMENT ACCOUNT HOLDERS

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes:

	31 December 2019	31 December 2018
Balances with banks	42,601	55,550
CBB reserve account	25,430	20,820
Placements with financial institutions	65,508	43,637
Debt type instruments – sukuk	195,050	161,327
Financing assets	183,246	65,039
	511,835	346,373

As at 31 December 2019, the balance of profit equalisation reserve and investment risk reserve was Nil (2018: Nil).

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18. EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)

The Group does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity.

Recoveries from non-performing financial assets are also not allocated to IAH accountholders.

Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Group did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2019		2018	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	80.61%	19.39%	78.66%	21.34%
3 months Mudharaba	65.38%	34.62%	54.41%	45.59%
6 months Mudharaba	60.00%	40.00%	49.31%	50.69%
12 months Mudharaba	42.96%	57.04%	29.50%	70.50%
18 months Mudharaba	38.65%	61.35%	23.28%	76.72%
24 months Mudharaba	43.11%	56.89%	21.15%	78.85%
36 months Mudharaba	32.37%	67.63%	14.70%	85.30%

* Includes savings, Al Waffer and Call Mudaraba accounts.

During the year, average mudarib share as a percentage of total income allocated to IAH was 46.56% (2018: 41.82%) as against the average mudarib share contractually agreed with IAH. Hence the Group sacrificed average mudarib fees of 12.83% (2018: 20.38%).

The Group does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

19. SHARE CAPITAL

	31 December 2019	31 December 2018
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	300,000	300,000
Issued and fully paid up:		
1,050,000,000 ordinary shares (2018: 1,050,000,000) of BD 0.100 each	105,000	105,000

The Group has only one class of equity shares and the holders of these shares have equal voting rights. At 31 December 2019, the Group holds 105,573,476 as treasury shares (2018: 101,081,714 shares).

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19. SHARE CAPITAL (CONTINUED)

Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	137,765,476	604	13.12
1% up to less than 5%	122,049,555	5	11.62
5% up to less than 10% **	296,694,051	3	28.26
10% up to less than 20%	-	-	-
20% and less than 50%	493,490,918	1	47
	1,050,000,000	613	100

* Expressed as a percentage of total outstanding shares of the Bank.

** Includes treasury shares.

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

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Khaleeji Commercial Bank B.S.C	Bahrain	103,592,516	9.87
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41

*As at 31 December 2019, these shares representing 47% (2018: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

20. INCOME FROM SUKUK

	2019	2018
Profit earned on Sukuk	10,068	6,489
Loss on sale of Sukuk	(37)	(112)
	10,031	6,377

21. STAFF COST

	2019	2018
Salaries and short-term benefits	7,073	6,075
Social insurance expenses	964	929
Other staff expenses	121	171
	8,158	7,175

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22. OTHER OPERATING EXPENSES

	2019	2018
Premises cost	1,059	1,037
Advertisement and marketing expenses	660	437
Professional fees	1,194	825
Information technology expenses	536	483
Board expenses	244	441
Communication expenses	286	300
Distribution channel expenses	589	495
Depreciation expenses (note 14)	567	564
Other administrative expenses	901	670
	6,036	5,252

23. NET IMPAIRMENT CHARGE

	2019	2018
Balances and placements with banks and financial institutions (notes 6 and 7)	(50)	50
Financing assets (note 8)	16,023	3,543
Investments in sukuk (note 9)	8	(100)
Assets acquired for leasing - including lease rentals receivables (note 10)	765	725
Equity investments at fair value through equity (note 11)	2,667	2,205
Investment in real estate (note 12)	300	-
Other assets (note 13)	788	-
Commitments and financial guarantees	(112)	(135)
	20,389	6,288

24. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

During 2018 the Group had incorporated a Trust, Khaleeji Commercial Bank Employee Benefit Trust ("Trust"), to hold the beneficial interest of the shares under the scheme. Prior to this the shares were held in Hawafiz Khaleeji Management Company BSC (c).

The shareholders, in their annual general meeting held on 30 March 2015, approved the employee share based incentive scheme (the "scheme") which is in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Group's shares as compensation for their performance.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank Nomination, Remuneration and Governance Committee ("BNRGC") to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31 December 2019, 1,980,960 shares were held by the Trust (2018: 2,746,957 shares were held by Hawafiz). During the year 1,182,516 shares (2018: 917,628 shares) shares were awarded to the employees as awards under the terms of the scheme subject to a three year deferment period. During the year the Group transferred 1,465,997 shares (2018: 1,896,808 shares) to the employees.

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25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

I. Judgements

a) Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 5(k) and Note 35.

b) *Classification of investments*

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as 1) debt type instruments carried at fair value through equity or at amortised cost, or 2) equity-type instruments carried at fair value through equity or at fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 5 (c) (i)).

c) *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 financial statements continue to be prepared on the going concern basis.

II. Estimations

a) *Impairment of financing assets at amortised cost*

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in Note 5(k) and Note 35.

b) *Impairment of equity investments at fair value through equity*

The Group determines that equity securities carried at fair value are impaired when there is an objective evidence of impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

For unquoted equity investments carried at cost less impairment, 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 if the estimated recoverable amount is assessed to be below the cost of the investment. 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.

Determining fair value of unquoted equity securities

The Group determines the fair value of unquoted investments by using valuation techniques. This includes using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis or market multiples for similar instruments. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies.

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25. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
(continued)

These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Significant judgment is required to be made by the Group and the Board of Directors in the selection of an approach that would reflect the best measure of fair value of the investments. The choice of the models used for valuation on each reporting period may have a significant impact on the fair value of investments and the amounts reported in the consolidated financial statements. During the year, Group has adopted the adjusted net book value approach for valuation of its unquoted equity security as compared to the market multiple approach used in prior year.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease/increase in the relevant variable used would increase/decrease the fair value by BD 558 thousand (31 December 2018: BD 657 thousand). The corresponding impact would be on the profit or loss reported by the Group.

26. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves 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 BD 262.25 million (31 December 2018: BD 230.72 million). During the year, the Group has not charged any management fees (2018: BD Nil) for the management of these assets.

27. 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 the parent company, other significant shareholders and entities over which the Group and the shareholders exercises significant influence, directors, sharia board members and executive management of the Group. The transactions with these parties were made on agreed commercial terms.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	1,050,763	1

* Expressed as a percentage of total outstanding shares of the Bank.

Compensation of key management personnel

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

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

	2019	2018
Board member fees and allowances	254	433
Salaries and other short-term benefits	1,150	1,402

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27. *RELATED PARTY TRANSACTIONS (continued)*

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2019	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	2,017	5,710	-	7,727
Investment in equity securities	-	-	2,284	18,051	20,335
Other assets	4,645	-	-	865	5,510
Liabilities					
Placement from financial institutions and others	-	1,784	-	-	1,784
Customers' current accounts	194	61	5,634	1,207	7,096
Equity of investment account holders	404	598	122,880	380	124,262

31 December 2018	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	2,268	5,710	-	7,978
Investment in equity securities	-	-	2,284	20,719	23,003
Other assets	117	-	-	853	970
Liabilities					
Placement from financial institutions and others	-	-	93,917	-	93,917
Customers' current accounts	67	798	695	1,205	2,765
Equity of investment account holders	480	1,370	10,779	468	13,097

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27. RELATED PARTY TRANSACTIONS (continued)

2019	Associates	Directors / Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	-	128	373	-	501
Income from equity securities	-	-	-	-	-
Fees and other income	(42)	-	-	-	(42)
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,931	-	2,931
Return to investment account holders	15	18	4,153	11	4,197
Staff cost	-	1,150	-	-	1,150
Other expenses	-	-	-	32	32
2018					
Income					
Income from financing assets and assets acquired for leasing	-	133	373	-	506
Income from equity securities	-	-	-	143	143
Fees and other income	-	-	-	-	-
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	2,278	-	2,278
Return to investment account holders	12	31	350	11	404
Staff cost	-	1,402	-	-	1,402
Other expenses	-	-	-	59	59

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28. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2019	2018
Profit attributable to parent for the year (BD 000's)	(14,937)	659
Weighted average number of equity shares (Nos. in 000's)	941,703	956,400
Basic earnings per share (in fils)	(15.86)	0.69

The Group did not have any dilutive instruments as of 31 December 2019 and December 2018.

29. SHARI'A SUPERVISORY BOARD

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

30. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Group currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Group on the basis of the method prescribed by the Group's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 222 thousand (2018: BD 191 thousand) of which BD 218 thousand (2018: 187 thousand) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2019, payable by the Group. The remaining Zakah balance amounting to BD 4 thousand or 0.003 fils per share (2018: BD 4 thousand or 0.004 fils per share) is due and payable by the shareholders. The Group will pay Zakah of BD 0.4 thousand (2018: BD 0.4 thousand) on the treasury shares held as of 31 December 2019 based on 0.003 fils per share.

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31. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking

Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group

Investment banking

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Group or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Group reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 33 (b) to the consolidated financial statements.

The Group is winding down in investment banking business.

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31. SEGMENT REPORTING (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis

31 December 2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	104,375	-	104,376
Placements with financial institutions	1,184	64,324	-	65,508
Financing assets	-	324,355	-	324,355
Investment in sukuk	-	195,050	-	195,050
Assets acquired for leasing (including lease rentals receivables)	-	146,199	-	146,199
Investment in equity securities	43,989	-	-	43,989
Investment in real estate	17,781	-	-	17,781
Development property	6,251	-	-	6,251
Other assets	18,430	4,182	5,881	28,493
Property and equipment	-	-	7,750	7,750
Total segment assets	87,636	838,485	13,631	939,752
Placements from financial institutions	-	127,453	-	127,453
Placements from non- financial institutions and individuals	-	134,654	-	134,654
Medium-term borrowing	-	-	-	-
Customers' current accounts	1,184	56,921	-	58,105
Other liabilities	1,847	13,647	4,304	19,798
Total segment liabilities	3,031	332,675	4,304	340,010
Equity of investment account holders	-	511,835	-	511,835
Restricted investment accounts	10,681	-	-	10,681

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31. SEGMENT REPORTING (continued)

2019	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	102	31,232	-	31,334
Income from placements with financial institutions	39	2,144	-	2,183
Income from sukuk	-	10,031	-	10,031
Income from equity securities	(1,687)	-	-	(1,687)
Fees and other income	(51)	5,777	-	5,726
Total income before return to investment account holders	(1,597)	49,184	-	47,587
Less: Return to investment account holders before Bank's share as Mudarib	-	(23,544)	-	(23,544)
Bank's share as a Mudarib	-	8,457	-	8,457
Return to investment account holders	-	(15,087)	-	(15,087)
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(11,703)	-	(11,703)
Finance expense on medium-term borrowing	-	(1,241)	-	(1,241)
Total segment income	(1,597)	21,153	-	19,556
Staff cost	816	3,263	4,079	8,158
Other expenses	101	1,262	4,673	6,036
Total segment expenses	917	4,525	8,752	14,194
Segment results before impairment allowances	(2,514)	16,628	(8,752)	5,362
Net impairment allowances	(2,968)	(17,421)	-	(20,389)
Segment results	(5,482)	(793)	(8,752)	(15,027)

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31. SEGMENT REPORTING (continued)

31 December 2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	1	99,400	-	99,401
Placements with financial institutions	1,175	42,462	-	43,637
Financing assets	-	327,640	-	327,640
Investment in sukuk	-	161,324	-	161,324
Assets acquired for leasing (including lease rentals receivables)	-	120,203	-	120,203
Investment in equity securities	50,039	-	-	50,039
Investment in real estate	18,081	-	-	18,081
Development property	6,251	-	-	6,251
Other assets	11,320	3,958	1,220	16,498
Property and equipment	-	-	7,865	7,865
Total segment assets	86,867	754,987	9,085	850,939
Placements from financial institutions	-	158,349	-	158,349
Placements from non- financial institutions and individuals	-	120,470	-	120,470
Medium-term borrowing	-	41,357	-	41,357
Customers' current accounts	1,175	69,241	-	70,416
Other liabilities	2,171	6,220	2,121	10,512
Total segment liabilities	3,346	395,637	2,121	401,104
Equity of investment account holders	-	346,373	-	346,373
Restricted investment accounts	10,681	-	-	10,681

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for the year ended 31 December 2019

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31. *SEGMENT REPORTING (continued)*

2018	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	-	26,565	-	26,565
Income from placements with financial institutions	25	930	-	955
Income from sukuk	-	6,377	-	6,377
Income from equity securities	1,422	-	-	1,422
Fees and other income	(35)	2,877	-	2,842
Total income before return to investment account holders	1,412	36,749	-	38,161
Less: Return to investment account holders before Bank's share as Mudarib	-	(14,221)	-	(14,221)
Bank's share as a Mudarib	-	5,619	-	5,619
Return to investment account holders	-	(8,602)	-	(8,602)
Less:				
Expense on placements from financial institutions, non- financial institutions and individuals	-	(8,190)	-	(8,190)
Finance expense on medium- term borrowing	-	(2,054)	-	(2,054)
Total segment income	1,412	17,903	-	19,315
Staff cost	718	2,870	3,587	7,175
Other expenses	92	951	4,209	5,252
Total segment expenses	810	3,821	7,796	12,427
Segment results before impairment allowances	602	14,082	(7,796)	6,888
Net impairment allowances	(2,205)	(4,083)	-	(6,288)
Segment results	(1,603)	9,999	(7,796)	600

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32. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/settlement profile of the respective assets and liabilities.

31 December 2019	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	90,605	4,727	5,485	3,559	-	104,376
Placements with financial institutions	65,508	-	-	-	-	65,508
Financing assets	75,634	24,168	38,425	121,509	64,619	324,355
Investment in sukuk	195,050	-	-	-	-	195,050
Assets acquired for leasing (including lease rentals receivables)	6,106	11,191	8,358	38,729	81,815	146,199
Investment in equity securities	-	-	7,056	15,549	21,384	43,989
Investment in real estate	-	-	-	-	17,781	17,781
Development property	-	-	-	-	6,251	6,251
Other assets	844	1,061	1,993	22,975	1,620	28,493
Property and equipment	-	-	-	-	7,750	7,750
Total assets	433,747	41,147	61,317	202,321	201,220	939,752
Liabilities						
Placements from financial institutions	3,774	-	15,637	108,042	-	127,453
Placements from non-financial institutions and individuals	37,914	39,623	41,594	12,232	3,291	134,654
Medium-term borrowing	-	-	-	-	-	-
Customers' current account	17,864	5,655	6,141	7,018	21,427	58,105
Other liabilities	6,731	2,164	3,305	7,598	-	19,798
Total liabilities	66,283	47,442	66,677	134,890	24,718	340,010
Equity of investment account holders	120,398	86,311	126,115	86,274	92,737	511,835
Restricted investment accounts	-	-	-	10,681	-	10,681
Commitments and financial guarantees	32,422	7,579	5,203	35,406	102	80,712

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32. MATURITY PROFILE (continued)

31 December 2018	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	87,253	3,591	6,065	2,492	-	99,401
Placements with financial institutions	42,590	-	1,047	-	-	43,637
Financing assets	73,057	26,731	69,848	119,405	38,599	327,640
Investment in sukuk	112,436	-	48,888	-	-	161,324
Assets acquired for leasing (including lease rentals receivables)	4,805	3,549	7,069	34,572	70,208	120,203
Investment in equity securities	-	-	-	25,273	24,766	50,039
Investment in real estate	-	-	-	-	18,081	18,081
Development property	-	-	-	-	6,251	6,251
Other assets	1,939	-	9	12,028	2,522	16,498
Property and equipment	-	-	-	-	7,865	7,865
Total assets	322,080	33,871	132,926	193,770	168,292	850,939
Liabilities						
Placements from financial institutions	31,312	17,664	109,373	-	-	158,349
Placements from non-financial institutions and individuals	35,172	38,057	34,314	10,108	2,819	120,470
Medium-term borrowing	-	-	41,357	-	-	41,357
Customers' current account	21,649	6,853	7,442	8,505	25,967	70,416
Other liabilities	3,233	1,304	1,131	4,844	-	10,512
Total liabilities	91,366	63,878	193,617	23,457	28,786	401,104
Equity of investment account holders	69,089	43,815	98,703	55,512	79,254	346,373
Restricted investment accounts	-	-	-	10,681	-	10,681
Commitments and financial guarantees	20,284	3,986	16,204	5,577	6	46,057

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 December 2019

	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	104,376	-	-	104,376
Placements with financial institutions	65,508	-	-	65,508
Financing assets	7,857	72,043	244,455	324,355
Investment in sukuk	11,737	7,539	175,774	195,050
Assets acquired for leasing (including lease rentals receivables)	-	133,657	12,542	146,199
Investment in equity securities	11,174	29,147	3,668	43,989
Investment in real estate	-	17,781	-	17,781
Development property	-	6,251	-	6,251
Other assets	954	19,395	8,144	28,493
Property and equipment	-	6,739	1,011	7,750
Total assets	201,606	292,552	445,594	939,752
Liabilities				
Placements from financial institutions	127,453	-	-	127,453
Placements from non-financial institutions and individuals	-	-	134,654	134,654
Medium-term borrowing	-	-	-	-
Customers' current accounts	4,661	7,422	46,022	58,105
Other liabilities	17	588	19,193	19,798
Total liabilities	132,131	8,010	199,869	340,010
Equity of investment account holders	8,437	119,463	383,935	511,835
Restricted investment accounts	-	9,688	993	10,681
Commitments and financial guarantees	-	51,779	28,933	80,712

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

31 December 2018

	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	99,401	-	-	99,401
Placements with financial institutions	43,637	-	-	43,637
Financing assets	10,358	51,630	265,652	327,640
Investment in sukuk	11,795	7,540	141,989	161,324
Assets acquired for leasing (including lease rentals receivables)	-	118,615	1,588	120,203
Investment in equity securities	13,148	33,223	3,668	50,039
Investment in real estate	-	18,081	-	18,081
Development property	-	6,251	-	6,251
Other assets	1,040	6,822	8,636	16,498
Property and equipment	-	6,739	1,126	7,865
Total assets	179,379	248,901	422,659	850,939
Liabilities				
Placements from financial institutions	158,349	-	-	158,349
Placements from non-financial institutions and individuals	101	-	120,369	120,470
Medium-term borrowing	41,357	-	-	41,357
Customers' current accounts	4,920	7,832	57,664	70,416
Other liabilities	-	27	10,485	10,512
Total liabilities	204,727	7,859	188,518	401,104
Equity of investment account holders	14,543	12,894	318,936	346,373
Restricted investment accounts	-	9,688	993	10,681
Commitments and financial guarantees	513	12,913	32,631	46,057

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector

31 December 2019	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	91,971	1,593	10,786	26	-	104,376
Placements with financial institutions	65,508	-	-	-	-	65,508
Financing assets	320,083	4,258	-	14	-	324,355
Investment in sukuk	195,050	-	-	-	-	195,050
Assets acquired for leasing (including lease rentals receivables)	146,160	-	-	39	-	146,199
Investment in equity securities	25,938	-	-	14,383	3,668	43,989
Investment in real estate	17,781	-	-	-	-	17,781
Development property	6,251	-	-	-	-	6,251
Other assets	27,727	15	-	750	1	28,493
Property and equipment	7,750	-	-	-	-	7,750
Total assets	904,219	5,866	10,786	15,212	3,669	939,752
Liabilities						
Placements from financial institutions	127,453	-	-	-	-	127,453
Placements from non-financial institutions and individuals	134,654	-	-	-	-	134,654
Medium-term borrowing	-	-	-	-	-	-
Customers' current accounts	57,230	257	-	618	-	58,105
Other liabilities	19,798	-	-	-	-	19,798
Total liabilities	339,135	257	-	618	-	340,010
Equity of investment account holders	509,300	694	-	1,841	-	511,835
Restricted investment accounts	9,688	-	-	-	993	10,681
Commitments and financial guarantee	80,712	-	-	-	-	80,712

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

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33. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector (continued)

31 December 2018	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	73,827	7,230	18,306	38	-	99,401
Placements with financial institutions	43,637	-	-	-	-	43,637
Financing assets	313,642	13,960	-	38	-	327,640
Investment in sukuk	161,324	-	-	-	-	161,324
Assets acquired for leasing (including lease rentals receivables)	120,162	-	-	41	-	120,203
Investment in equity securities	29,320	-	-	17,051	3,668	50,039
Investment in real estate	18,081	-	-	-	-	18,081
Development property	6,251	-	-	-	-	6,251
Other assets	15,794	15	-	689	-	16,498
Property and equipment	7,865	-	-	-	-	7,865
Total assets	789,903	21,205	18,306	17,857	3,668	850,939
Liabilities						
Placements from financial institutions	158,349	-	-	-	-	158,349
Placements from non-financial institutions and individuals	120,470	-	-	-	-	120,470
Medium-term borrowing	41,357	-	-	-	-	41,357
Customers' current accounts	69,916	274	-	226	-	70,416
Other liabilities	10,512	-	-	-	-	10,512
Total liabilities	400,604	274	-	226	-	401,104
Equity of investment account holders	343,589	545	-	2,231	8	346,373
Restricted investment accounts	9,688	-	-	993	-	10,681
Commitments and financial guarantee	45,801	256	-	-	-	46,057

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34. FAIR VALUE*a) Fair value of financial instruments*

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

The fair value of quoted Sukuk carried at amortised cost of BD 195,061 thousand (31 December 2018: BD 161,327 thousand) is BD 204,198 thousand as at 31 December 2018 (31 December 2018: BD 161,644 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments carried at cost of BD 32,815 thousand (2018: BD 36,891 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) 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).

31 December 2019

Unquoted equity type securities carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	-	-	11,174	11,174
	-	-	11,174	11,174

31 December 2018

Unquoted equity type securities carried at fair value through income statement

	Level 1	Level 2	Level 3	Total
	-	-	13,148	13,148
	-	-	13,148	13,148

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34. FAIR VALUE (continued)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2019	2018
At 1 January	13,148	13,148
Fair value loss in income statement	(1,974)	-
At 31 December	11,174	13,148

35. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various committees with responsibilities for managing the overall risks associated with the Group. The committees also continuously monitors consistent implementation of the Board approved policies in the Group and reports deviations, if any, to the Board. The committees consists of heads of business and other functional units in the Group. The committees comprise the following: Management Committee (operational risks), Executive Credit and Investment Committee (credit and investment risks), and Assets and Liabilities Committee (market and capital risks). In addition to the Committees, the Board has established an independent Risk Management Department with an overall responsibility to identify, measure, control risks and recommend policies and corrective actions. Risk Management Department reports directly to the Board Audit and Risk Management Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

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35. *FINANCIAL RISK MANAGEMENT (continued)***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 exposures to placements with financial institutions, financing assets, assets acquired for leasing (including lease rental receivable), investment in sukuk and other receivables. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Group manages its credit risks through its various business units, an independent Risk Management Department, Board Audit & Risk Management Committee ("BARMC"), and the Executive Credit & Investment Committee ("ECICOM"). The Credit risk management framework comprises the following:

- Formulating credit risk strategies policies and risk appetite which are developed after careful assessment of the market, capital requirement, regulatory rules, and the Board's risk appetite. The risk strategies and risk appetites are coded into policies approved by the Board. The Group's credit policy framework includes, inter alia, the following: in consultation with business units, credit risk management framework, credit risk mitigations, credit risk rating, credit risk pricing, expected credit loss, cross boarder business policy, personal finance product programs, approval authorities' matrix, and many others.
- Credit granting process. All credit exposures are assumed after careful assessment of the risks. Business proposals are initiated by the business units through formal credit applications. Such credit application provide adequate information about the proposed exposure including description of possible risks and mitigating factors. All credit applications are independently reviewed by Credit Review Unit to assess the adequacy of the due diligence conducted, independent assessment of the risks and mitigants, ensure compliance with limits and policies. Credit Review Unit issue formal opinion in respect of the proposals which may include recommendations for enhancing the Group's position. Proposals are then presented to approving authorities for their considerations (see proceeding point below). Where applicable and necessary, credit applications are also independently reviewed by the Sharia Compliance Officer to ensure adherence to Islamic principles.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Approval authorities are documented in the Credit Authorities Policy of the Group which describes the various approval authorities, conditions, and limits for approving business transactions arising from investment and credit activities within the Group. There are 5 main levels of credit and investment authorities within the Group: Board of Directors, Board Investment & Credit Committee, Executive Credit & Investment Committee, Chief Executive Officer, and Heads of Business Units. Approval authorities are decided based on the magnitude of the risk and transactions size while at the same time allowing for smooth business operations.
- Managing concentrations. The Group places significant emphasis on diversifying its portfolio through applying a portfolio strategy in which the Group spreads its assets and liabilities' businesses so that results from volatility or fluctuations in such businesses become subdued, controlled, and assist in the consistent long-term growth of the shareholders' interests. An important element of such portfolio strategy is to establish limits within which the Management may conduct business. In principle, the Group shall adhere to all maximum limits established by regulatory authorities. At the same time, the Group has defined its own internal limits to control the following: Credit risk concentration, Counterparty limits, Industry limits, Country limits, Collateral concentration limits, Product mix, Maturity limits, amongst others. These internal limits are reviewed on periodic basis taking into considerations the following factors: The Group's risk appetite, Business and budget plans, Counterparty's risk rating, Risk rating of the Counterparty's country, The Group's financial positions including liquidity and Capital adequacy, General market condition; and other factors as determined by the Board of Directors or the Board Audit & Risk Management Committee. In general, the Group adopts a negative correlation between risks and limits in that lower limits are defined for higher risks.

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35. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

- Credit Measurement Methodologies. The Group quantifies its credit risk using two main metrics: expected loss (EL) and economic capital (EC). The expected loss reflects the average value of the estimated losses (i.e. the cost of the business) and is associated with the Group's policy on provisions, while economic capital is the amount of capital necessary to cover unexpected losses (i.e. if actual losses are higher than expected losses). As part of its measurement techniques, the Group conducts adequate stress testing on its portfolio.
- Credit risk rating. An important tool in monitoring the quality of individual credits, as well as the total portfolio, is the use of Credit Risk Rating systems. The Group adopts a well-structured internal CRR system as a mean of differentiating the degree of credit risk in the different credit exposures of the Group to allow more accurate determination of the overall characteristics of the asset portfolio, concentrations, limits management, problem assets, pricing, and the adequacy of loss reserves (provisions). As well as identifying the risks associated with a counterparty and a credit facility, CRRs provide a key input for the capital charges and risk weights. The Group's approach to credit risk rating is documented in the Credit Risk Rating Policy which aims at achieving the following: (a) create a benchmark for assessing relative creditworthiness of the graded entity and measure credit risk in relation to the market, (b) arrive at a system of risk-based pricing for credit facilities granted by the Group, (c) monitor the overall credit risk inherent in the Group's Credit portfolio, (d) create a benchmark for recognition of accrued income on credit assets, (e) link asset review frequency and approval authority levels to Credit risk and emphasize focus on effective management of weak assets, and (f) provide a means to link Internal Capital Adequacy to the portfolio credit risk.
- Classifications and identification of non-performing exposures. The Group has adopted FAS 30 / IFRS 9 standards for classifying exposures into three stages. Accounts are moved into higher staging depending on occurrence of Significant Increase in Credit Risks. Exposures with past due exceeding 90 days are classified as non-performing.
- Remedial management. All credit exposures assumed by the Group are considered after thorough risk and reward analysis adequate for the size and nature of business being considered. However, despite all due diligence exercised to minimize the risks involved, it is inevitable that certain exposures may experience setbacks due to various reasons such as: fundamental changes in the market conditions, changes in regulations and laws, changes in the status of counterparties (such as death, loss of job, sanctions, seizure of business, or bankruptcy), delays in deliverables (such as delays in completion of projects), or Unintentional errors in the initial assumptions. From business impact point of view, such exposures would have high costs due to suspension of profits, provisioning, liquidity, reputational, or opportunity costs. To prevent such adverse business impact, the Group has developed a prudent remedial strategy appropriate for the size, nature, and delinquency period. Such strategy is documented in the Remedial Management Policy. The Group, through its Remedial and Collection department pursue various recovery techniques including: dunning, rescheduling, restructuring, collateral foreclosure, legal actions, and cash settlement amongst others.

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35. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposures subject to credit risk

31 December 2019	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8 -10 Impaired	-	-	71,289	71,289
Past due but not impaired				
Grade 1-6 Low-Fair Risk	33,624	6,790	56	40,470
Grade 7 Watch list	9	6,867	6	6,882
<u>Past due comprises:</u>				
Up to 30 days	30,049	4,047	18	34,114
30-60 days	18	1,858	41	1,917
60-90 days	3,566	7,752	3	11,321
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	229,041	12,117	734	241,892
Grade 7 Watch list	87	1,780	1	1,868
Gross carrying amount	262,761	27,554	72,086	362,401
Less expected credit losses	(4,581)	(2,730)	(30,735)	(38,046)
Net carrying amount	258,180	24,824	41,351	324,355
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	-	-	35,137	35,137
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,648	7,501	769	20,918
Grade 7 Watch list	-	3,272	-	3,272
<u>Past due comprises:</u>				
Up to 30 days	11,220	7,462	105	18,787
30-60 days	1,428	2,609	664	4,701
60-90 days	-	702	-	702
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	86,315	2,249	108	88,672
Grade 7 Watch list	-	1,421	-	1,421
Gross carrying amount	98,963	14,443	36,014	149,420
Less expected credit losses	(140)	(376)	(2,705)	(3,221)
Net carrying amount	98,823	14,067	33,309	146,199

* Includes facilities under cooling off period of BD 46,900 thousand.

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)**Exposures subject to credit risk (continued)*

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,317	1,317
Grade 1-6 Low-Fair Risk	195,061	-	-	195,061
Gross carrying amount	195,061	-	1,317	196,378
Less: expected credit losses	(11)	-	(1,317)	(1,328)
Net carrying amount	195,050	-	-	195,050
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	164,587	-	-	164,587
Gross carrying amount	164,587	-	-	164,587
Less: expected credit losses	(2)	-	-	(2)
Net carrying amount	164,585	-	-	164,585
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	1,415	1,415
Grade 1-6 Low-Fair Risk	77,309	1,950	13	79,272
Grade 7 Watch list	-	25	-	25
Gross carrying amount	77,309	1,975	1,428	80,712
Less: expected credit losses	(175)	(17)	(76)	(268)
Net carrying amount	77,134	1,958	1,352	80,444
Total net carrying amount	793,772	40,849	76,012	910,633

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35. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3*	Total
Financing facilities				
Grade 8 -10 Impaired	1,071	70	71,628	72,769
Past due but not impaired				
Grade 1-6 Low-Fair Risk	28,158	10,732	3,349	42,239
Grade 7 Watch list	14	15,403	-	15,417
<u>Past due comprises:</u>				
Up to 30 days	27,287	15,866	-	43,153
30-60 days	885	1,743	-	2,628
60-90 days	-	8,526	3,349	11,875
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	196,925	18,829	-	215,754
Grade 7 Watch list	139	3,345	-	3,484
Gross carrying amount	226,307	48,379	74,977	349,663
Less expected credit losses	(4,762)	(3,695)	(13,566)	(22,023)
Net carrying amount	221,545	44,684	61,411	327,640
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	-	316	18,613	18,929
Past due but not impaired				
Grade 1-6 Low-Fair Risk	12,990	2,388	-	15,378
Grade 7 Watch list	-	3,846	-	3,846
<u>Past due comprises:</u>				
Up to 30 days	12,212	1,926	-	14,138
30-60 days	778	3,227	-	4,005
60-90 days	-	1,080	-	1,080
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	82,417	2,041	-	84,458
Grade 7 Watch list	-	48	-	48
Gross carrying amount	95,407	8,639	18,613	122,659
Less expected credit losses	(106)	(139)	(2,211)	(2,456)
Net carrying amount	95,301	8,500	16,402	120,203

* Includes facilities under cooling off period of BD 31,133 thousand.

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for the year ended 31 December 2019

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)**Exposures subject to credit risk (continued)*

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Investment in Sukuk				
Grade 8 -10 Impaired	-	-	1,317	1,317
Grade 1-6 Low-Fair Risk	161,327	-	-	161,327
Gross carrying amount	161,327	-	1,317	162,644
Less: expected credit losses	(3)	-	(1,317)	(1,320)
Net carrying amount	161,324	-	-	161,324
Balances with banks and placements				
Grade 1-6 Low-Fair Risk	134,960	-	-	134,960
Gross carrying amount	134,960	-	-	134,960
Less: expected credit losses	(52)	-	-	(52)
Net carrying amount	134,908	-	-	134,908
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	1,670	1,670
Grade 1-6 Low-Fair Risk	41,733	2,639	-	44,372
Grade 7 Watch list	-	15	-	15
Gross carrying amount	41,733	2,654	1,670	46,057
Less: expected credit losses	(176)	(84)	(120)	(380)
Net carrying amount	41,557	2,570	1,550	45,677
Total net carrying amount	654,635	55,754	79,363	789,752

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)***Significant increase in credit risk**

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

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

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35. FINANCIAL RISK MANAGEMENT (continued)

*CREDIT RISK (continued)**Credit risk grades (continued)**Retail exposures*

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group 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 changes in key 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: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Risk Management Department and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group 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 and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards and commercial real estate.

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)**Determining whether credit risk has increased significantly (continued)*

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee ("ALCO") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)**Incorporation of forward looking information (continued)*

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the key indicators for the selected countries such as the unemployment rates, profit rates and the GDP growth.

Modified financial assets and assets acquired for leasing

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate financings are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer Note 5). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)***Measurement of ECLs**

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

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

- probability of default (PD);
- loss given default (LGD);
- 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.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. 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. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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

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35. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance at 1 January 2019	5,099	3,918	17,214	26,231
Transfer to 12-month ECL	1,338	(1,118)	(220)	-
Transfer to lifetime ECL non-credit-impaired	(500)	604	(104)	-
Transfer to lifetime ECL credit-impaired	(863)	(856)	1,719	-
Net transfers	(25)	(1,370)	1,395	-
Net re-measurement of loss allowance	(165)	575	16,304	16,714
Recoveries / write backs	-	-	(80)	(80)
Write-offs	-	-	-	-
Balance at 31 December 2019	4,909	3,123	34,833	42,865

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
Cash and balances with banks (note 6)	1	-	-	1
Placements with financial institutions (note 7)	1	-	-	1
Financing assets (note 8)	4,581	2,730	30,735	38,046
Assets acquired for leasing – Including lease rentals receivables (note 10)	140	376	2,705	3,221
Investment in sukuk (note 9)	11	-	1,317	1,328
Commitments and financial Guarantees	175	17	76	268
	4,909	3,123	34,833	42,865

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35. *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK (continued)*

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balance at 1 January 2018	2,860	10,537	10,317	23,714
Transfer to 12-month ECL	3,188	(3,086)	(102)	-
Transfer to lifetime ECL non-credit-impaired	(316)	398	(82)	-
Transfer to lifetime ECL credit-impaired	(229)	(2,463)	2,692	-
Net transfers	2,643	(5,151)	2,508	-
Net re-measurement of loss allowance	(404)	(1,468)	7,668	5,796
Recoveries / write backs	-	-	(1,713)	(1,713)
Write-offs	-	-	(1,566)	(1,566)
Balance at 31 December 2018	5,099	3,918	17,214	26,231

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Cash and balances with banks	50	-	-	50
Placements with financial institutions	2	-	-	2
Financing assets	4,762	3,695	13,566	22,023
Assets acquired for leasing (including lease rentals receivables)	106	139	2,211	2,456
Investment in sukuk	3	-	1,317	1,320
Commitments and financial Guarantees	176	84	120	380
	5,099	3,918	17,214	26,231

Impaired financial assets

Impaired financial assets are those for which the Group determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10. For other financial assets impairment is assessed on an individual basis for each exposure by considering various factors.

Past due but not impaired exposures

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Group believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

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35. FINANCIAL RISK MANAGEMENT (continued)

*CREDIT RISK (continued)***Renegotiated facilities**

During the year, facilities of BD 37,917 thousands (2018: BD 16,896 thousand) were renegotiated, out of which BD 1,096 thousand (2018: BD 8,806 thousand) are classified as neither past due nor impaired as of 31 December 2019. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 166,033 thousand (2018: BD 142,895 thousand) only instalments of BD 36,625 thousand (2018: BD 39,269 thousand) are past due as at 31 December 2019.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to Nil (2018: BD 1,566 thousand) which were fully impaired. The Group has recovered BD 964 thousand from a financing facility written off in previous years (2018: 99 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

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35. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

	As at 31 December 2019			As at 31 December 2018		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	20,181	32,464	52,645	40,471	16,587	57,058
Other	1,888	-	1,888	2,193	-	2,193
<u>Against past due but not impaired</u>						
Property	35,420	23,949	59,369	21,397	19,232	40,629
Other	1,157	-	1,157	2,929	-	2,929
<u>Against neither past due nor impaired</u>						
Property	96,730	89,681	186,411	87,637	82,680	170,317
Other	9,280	-	9,280	12,416	-	12,416
Total	164,656	146,094	310,750	167,043	118,499	285,542

The average collateral coverage ratio on secured facilities is 130.5% at 31 December 2019 (31 December 2018: 136.05%).

For analysis of concentration of total assets and liabilities refer note 33.

Further, for financing assets and assets acquired for leasing including lease rentals receivable, the Group monitors concentrations of credit risk by sector and by geographic location.

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35. *FINANCIAL RISK MANAGEMENT (continued)*
CREDIT RISK (continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	As at 31 December 2019			As at 31 December 2018		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	7,857	-	7,857	10,358	-	10,358
Real estate	72,043	133,657	205,700	51,630	118,615	170,245
Construction	51,038	-	51,038	54,803	-	54,803
Trading	57,224	-	57,224	78,009	-	78,009
Manufacturing	13,955	-	13,955	13,880	-	13,880
Others	122,238	12,542	134,780	118,960	1,588	120,548
Total carrying amount	324,355	146,199	470,554	327,640	120,203	447,843

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

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 assets.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Group's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by FCD. The Group has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. *FINANCIAL RISK MANAGEMENT (continued)**LIQUIDITY RISK (continued)***Exposure to liquidity risk**

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against medium-term borrowing less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Group ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2019	2018
	%	%
At 31 December	33.70	16.79
Average for the period	29.11	13.09
Maximum for the period	33.70	19.55
Minimum for the period	22.32	6.60

For maturity profile of assets and liabilities refer note 32.

The Central Bank of Bahrain introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) during 2019.

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows over the next 30 calendar days. Effective from 30 June 2019, the Bank is required to maintain LCR greater than 100%. As of 31 December 2019 the Bank had LCR ratio of 733.93%.

NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivise a more resilient banking sector over a longer time horizon. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR as a percentage is calculated as "Available stable funding" divided by "Required stable funding". Effective from 31 December 2019, the Bank is required to maintain NSFR ratio greater than 100%. As of 31 December 2019 the Bank had NSFR ratio of 108.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. *FINANCIAL RISK MANAGEMENT (continued)***MARKET RISK**

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. The Group has no trading positions in equity or commodities and the main source of market risk for the Group is its foreign exchange exposure and profit rate gap.

The Group does not do any trading in foreign exchange. The Group does not engage in proprietary trading of foreign exchange derivatives. All foreign exchange income/ losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury operations. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approval authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Group's Risk Management Department in its day-to-day monitoring activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

BD 000's

35. *FINANCIAL RISK MANAGEMENT (continued)**MARKET RISK (continued)*

A summary of the Group's profit rate gap position at 31 December 2019 is as follows:

31 December 2019	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	65,508	-	-	-	-	65,508
Financing assets	62,733	15,395	25,046	58,075	163,106	324,355
Assets acquired for leasing (including lease rentals receivables)	1	6,597	133	2,030	137,438	146,199
Investments securities (sukuk)	1,951	-	-	18,096	175,003	195,050
Total profit rate sensitive assets	130,193	21,992	25,179	78,201	475,547	731,112
Liabilities and investment accounts						
Placements from financial institutions	3,774	-	15,637	108,042	-	127,453
Medium-term borrowing	-	-	-	-	-	-
Placements from non-financial institutions and individuals	29,382	21,056	38,307	45,909	-	134,654
Customers' current accounts	1,193	-	-	-	-	1,193
Equity of investments account holders	262,961	104,746	99,735	44,393	-	511,835
Total profit rate sensitive liabilities and investment accounts	297,310	125,802	153,679	198,344	-	775,135
Profit rate gap	(167,117)	(103,810)	(128,500)	(120,143)	475,547	(44,023)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

BD 000's

35. *FINANCIAL RISK MANAGEMENT (continued)**MARKET RISK (continued)*

31 December 2018	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	42,590	-	1,047	-	-	43,637
Financing assets	40,881	9,345	36,588	66,003	174,823	327,640
Assets acquired for leasing (including lease rentals receivables)	15	7	230	7,528	112,423	120,203
Investments securities (sukuk)	-	-	-	16,227	145,097	161,324
Total profit rate sensitive assets	83,486	9,352	37,865	89,758	432,343	652,804
Liabilities and investment accounts						
Placements from financial institutions	31,312	17,664	109,373	-	-	158,349
Medium-term borrowing	-	-	41,357	-	-	41,357
Placements from non-financial institutions and individuals	37,180	21,163	27,722	34,405	-	120,470
Customers' current accounts	1,199	-	-	-	-	1,199
Equity of investments account holders	154,133	73,102	98,830	20,308	-	346,373
Total profit rate sensitive liabilities and investment accounts	223,824	111,929	277,282	54,713	-	667,748
Profit rate gap	(140,338)	(102,577)	(239,417)	35,045	432,343	(14,944)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

At 31 December 2019

At 31 December 2018

100bp parallel increase/decrease	50bp increase/decrease
± 433	± 216
± 149	± 67

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Group's non-trading activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

BD 000's

35. *FINANCIAL RISK MANAGEMENT (continued)**MARKET RISK (continued)*

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, there could be an impact on the values of financial contracts entered by the Bank. While the IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The Bank will have to assess the impact. As at 31 December 2019, the Bank is in the process of assessing the impact on its financial instruments which are maturing after the expected end date for IBOR.

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 had the following significant net exposures denominated in foreign currency as of 31 December.

	2019 BHD Equivalent	2018 BHD Equivalent
US Dollars*	145,868	28,905
Other GCC Currencies *	(63,732)	20,226
Euros	(280)	(402)
Australian Dollars	4,608	4,627
Kuwaiti Dinars	3,322	3,379
Sterling Pounds	1,443	(579)
Indian Rupee	30	38

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Group since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2019 BHD Equivalent	2018 BHD Equivalent
Euros	±14	±20
Australian Dollars	±230	±231
Kuwaiti Dinars	±166	±169
Sterling Pounds	±72	±29
Indian Rupees	±2	±2

Exposure to other price risks—non—trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Group.

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35. *FINANCIAL RISK MANAGEMENT (continued)**MARKET RISK (continued)*

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 25 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the Group. The Group already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Group has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Group to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Group. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium term objective of the Group is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

CAPITAL MANAGEMENT

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

The Group'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 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.*

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35. *FINANCIAL RISK MANAGEMENT (continued)**CAPITAL MANAGEMENT (continued)*

The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Group does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December 2019, the Group has made regulatory adjustments of BD 14,356 thousand (2018: 13,725 thousand) in line with the CBB requirements.

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.

The Group's regulatory capital position at 31 December was as follows:

	31 December 2019	31 December 2018
Total risk weighted exposure	532,793	653,067
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	97,215	112,401
- Less: regulatory adjustments	(14,356)	(13,725)
CET 1 after regulatory adjustments	82,859	98,676
AT 1	-	-
Tier 2 capital:	5,726	7,286
Total regulatory capital	88,585	105,962
Total regulatory capital expressed as a percentage of total risk weighted assets	16.63%	16.23%
Liquidity coverage ratio	733.93%	395.03%
Net stable funding ratio	108.5%	88.31%
Leverage ratio	5.40	4.77

The Group has complied with all externally imposed capital requirements throughout the year.

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35. *RISK MANAGEMENT (continued)*

CAPITAL MANGEMENT (continued)

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board.

36. **COMMITMENTS**

The commitments contracted in the normal course of business of the Group:

	2019	2018
Undrawn commitments to extend finance *	68,876	33,193
Financial guarantees	11,836	12,864
	80,712	46,057

* The Group has a right to revoke the undrawn commitment to extend finance prior to expiry of its tenor.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2019 due to the performance of any of its projects.

37. **SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through donations to charitable causes and organisations from its zakah and charity fund.

38. **COMPARITIVES**

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.

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