Bahrain Middle East Bank B.S.C	بنك البحرين و الشرق الأوسط ش.م.ب
Invitation to attend the Annual General Meeting and the Extraordinary General Meeting of Bahrain Middle East Bank B.S.C. (the "Bank")	دعوة لحضور اجتماع الجمعية العامة العادية السنوية واجتماع الجمعية العامة الغير عادية لبنك البحرين والشرق الأوسط ش.م.ب. ("**البنك**")
Upon the Board of Directors' of Bahrain Middle East Bank B.S.C decision, taken on 20/11/2019, the Shareholders of the Bank are invited to an Annual General Meeting ("AGM"), which shall take place at Bahrain Conference Center, Crowne Plaza (Manama – Kingdom of Bahrain), at 10 AM on Monday 23 December 2019, and the Bank's Extraordinary General Meeting ("EGM") to be held directly after the conclusion of AGM to discuss the agenda below for the AGM and for the EGM, respectively, and to pass the appropriate resolutions at the Meeting.	بناءً على قرار مجلس إدارة بنك البحرين والشرق الأوسط ش.م.ب. الصادر في ٢٠١٩/١١/٢٠ ، يسر مجلس الإدارة دعوة السادة المساهمين إلى اجتماع الجمعية العامة العادية السنوية المقرر عقده في تمام الساعة ١٠ صباحا يوم الأثنين الموافق ٢٣ ديسمبر ٢٠١٩ بمركز البحرين للمؤتمرات بفندق الكراون بلازا (المنامة – مملكة البحرين)، واجتماع الجمعية العامة الغير العادية للبنك المقرر عقده مباشرة بعد انتهاء الجمعية العادية وذلك لمناقشة جدول الأعمال أدناه لكل من اجتماع الجمعية العامة العادية السنوية واجتماع الجمعية العامة الغير العادية، واتخاذ القرارات اللازمة في الاجتماع.
Annual General Meeting Agenda (AGM) :	**جدول أعمال الجمعية العامة العادية السنوية:**
1. Review and approve the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 30 December 2018.	١. قراءة محضر اجتماع الجمعية العامة العادية المنعقدة بتاريخ ٣٠ ديسمبر ٢٠١٨ والمصادقة عليه.
2. Presentation and approval of the Report of the Board of Directors on the Bank's business activities for the year ended 31 December 2018.	٢. مناقشة تقرير مجلس الإدارة عن أعمال البنك للسنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨ والمصادقة عليه.
3. Presentation and approval of the Auditors' Report for the year ended 31 December 2018.	٣. الاستماع إلى تقرير مراقبي الحسابات عن حسابات السنة المالية المنتهية في٣١ ديسمبر ٢٠١٨ والمصادقة عليه.

4. To discuss and approve the consolidated financial statements for the year ended 31 December 2018.	٤. مناقشة البيانات المالية للبنك للسنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨ والمصادقة عليها.
5. To discuss and approve the report on Corporate Governance and compliance with the Central Bank of Bahrain's and the Ministry of Commerce, Industry and Tourism's requirements for year 2018.	٥. مناقشة تقرير حوكمة الشركات للعام ٢٠١٨ حول الإلتزام بتطبيق مبادئ ومتطلبات مصرف البحرين المركزي ووزارة الصناعة والتجارة والسياحة و المصادقة عليه.
6. To report on any related party transactions that have taken place in the year ended on 31 December 2018 as outlined in note (25) of the consolidated financial statements in compliance with article 189 of the Commercial Companies Law of the Kingdom of Bahrain. of 2001, as amended.	٦. التبليغ عن العمليات التي جرت خلال السنة المالية المنتهية في٣١ ديسمبر ٢٠١٨ مع أيٍ من الأطراف ذات العلاقة كما هو مبين في الإيضاح رقم (٢٥) من البيانات المالية تماشياً مع المادة ١٨٩ من قانون الشركات التجاريةرقم ٢١ لسنة ٢٠٠١ وتعديلاته .
7. Discharge those Members of the Board of Directors who are currently registered in the Bank's CR Information with the Ministry of Industry, Commerce and Tourism from any liability in respect of the Financial Year ended 31 December 2018.	٧. إبراء ذمة أعضاء مجلس الإدارة المسجلة أسمائهم حالياً في السجل التجاري للبنك لدى وزارة الصناعة والتجارة والسياحة في كل ما يتعلق بتصرفاتهم عن السنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨.
8. Appointment of External Auditors for the Financial Year ending 31 December 2019 and authorize the Board of Directors to fix their remuneration, subject to approval of Central Bank of Bahrain.	٨. تعيين مدققي الحسابات للسنة المالية المنتهية في ٣١ ديسمبر ٢٠١٩ وتخويل مجلس الإدارة بتحديد أتعابهم مع مراعاة الحصول على موافقة مصرف البحرين المركزي.
9. Any other matters that may arise in the Meeting in accordance with Article (207) of the Commercial Companies Law of the Kingdom of Bahrain. of 2001, as amended.	٩. مناقشة ما يستجد من أعمال طبقاً للمادة (٢٠٧) من قانون الشركات التجارية رقم ٢١ لسنة ٢٠٠١ وتعديلاته.
Extraordinary General Meeting (EGM) Agenda	**جدول أعمال الجمعية العامة الغير العادية:**
1. Review and approve the Minutes of the Extra Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018.	١. قراءة محضر اجتماع الجمعية العامة الغير عادية المنعقدة بتاريخ ٢١ مارس ٢٠١٨ والمصادقة عليه.

2. To discuss the subject of the Bank's continuity the circumstance of the Bank's loss for 2018 is equivalent to its reserves and three-fourths of its share capital in accordance with Article (58) para. (3) and para. (7) of the Bank's Amended and Restated Articles of Association and in accordance with Article (320) (c) of the Commercial Companies Law of the Kingdom of Bahrain of 2001, as amended	٢. مناقشة موضوع استمرارية البنك بناء على أن خسارة البنك في السنة المالية ٢٠١٨ تقدر بماله الاحتياطي وثلاثة أرباع رأسماله، استناداً لأحكام المادة (٥٨) فقرة (٣) وفقرة (٧) من النظام الأساسي المعدل والمعد للبنك و المادة (٣٢٠) (ج) من قانون الشركات التجارية رقم ٢١ لسنة ٢٠٠١ و تعديلاته.
Important note to Shareholders:	**ملاحظة هامة للمساهمين:**
1. If the quorum is not present to hold the AGM or the EGM, the second meeting will be held at 10 AM on Monday 30 December 2019 at the Bahrain Conference Center, Crowne Plaza (Manama – Kingdom of Bahrain). If the quorum for either of these meetings is not present, the third meeting will be held on Monday 6 January 2020 at the Bahrain Conference Center, Crowne Plaza (Manama – Kingdom of Bahrain).	١. في حال عدم اكتمال النصاب القانوني اللازم لعقد اجتماع الجمعية العامة العادية السنوية أو اجتماع الجمعية العامة الغير عادية، سيعقد الاجتماع الثاني تمام الساعة ١٠ صباحا يوم الأثنين الموافق ٣٠ ديسمبر ٢٠١٩ بمركز البحرين للمؤتمرات بفندق الكراون بلازا (المنامة – مملكة البحرين). في حالة عدم اكتمال النصاب القانوني في هذا الاجتماع، سيعقد الاجتماع الثالث تمام الساعة ١٠ صباحا يوم الأثنين الموافق ٦ يناير ٢٠٢٠ بمركز البحرين للمؤتمرات بفندق الكراون بلازا (المنامة – مملكة البحرين)
2. Any registered Shareholder on the date of the Meeting may attend in person or appoint any another person by virtue of a special Power of Attorney evidenced in writing to vote on his/her behalf. A proxy shall not be the Chairman, members of the Board or employees of the Bank.	٢. يجوز لأي مساهم مسجل في تاريخ انعقاد الاجتماع، أن يحضر شخصياً أو يوكل أي شخص آخر وذلك بمقتضى توكيل خاص وثابت بالكتابة ليحضر الاجتماع وليصوت بالنيابة عنه، بشرط ألا يكون الوكيل رئيس مجلس إدارة البنك أو أي من أعضاء مجلس إدارة البنك أو من موظفي البنك.
3. In case the Shareholder is a company, the proxy or representative attending the meeting must submit a Power of Attorney evidenced in writing, appointing him or her to be the proxy or representative for that Shareholder.	٣. في حال إذا كان المساهم شركة، فإن على ممثلها الحاضر للاجتماع تقديم توكيل خاص وثابت بالكتابة من تلك الشركة المساهمة، يعينه مفوضاً عنها لحضور الاجتماع.

BAHRAIN MIDDLE EAST BANK بنك البحرين والشرق الاوسط	**ORDINARY & EXTRA ORDINARY GENERAL MEETING** **23 DECEMBER 2019** **PROXY FORM**

I/We, the undersigned …………………………..…………………………… being a Shareholder in Bahrain Middle East Bank B.S.C., appoint ………………………………………………….……………… holder of CPR / Passport No. ……………………..…………………….. to represent me/us and vote on my/our behalf at the Ordinary General Meeting due to be held at the Bahrain Conference Centre, The Crowne Plaza Hotel, Bahrain at 10:00 AM on 23 December 2019 or any subsequent adjournment thereof.

I confirm below (X) how the appointed proxy should vote:

Ordinary General Meeting Agenda:	**For**	**Against**	**Abstain**
1. Review and approve the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018.			
2. 2. Presentation and approval of the Report of the Board of Directors on the Bank's business activities for the year ended 31 December 2018.			
3. Presentation and approval of the Auditors' Report for the year ended 31 December 2018			
4. To discuss and approve the consolidated financial statements for the year ended 31 December 2018.			
5. To discuss and take on record the Board of Directors' Report on Corporate Governance and compliance with the Central Bank of Bahrain's requirements for year 2018.			
6. Discharge those Members of the Board of Directors who are currently registered in the Bank's CR Information with the Ministry of Industry, Commerce and Tourism from any liability in respect of the Financial Year ended 31 December 2018.			
7. Appointment of External Auditors for the Financial Year ending 31 December 2019 and authorize the Board of Directors to fix their remuneration, subject to approval of Central Bank of Bahrain.			

Extra-Ordinary General Meeting Agenda:	**For**	**Against**	**Abstain**
1. Review and approve the Minutes of the Extra Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018.			
2. To discuss the subject of the Bank's continuity the circumstance of the Bank's loss for 2018 is equivalent to its reserves and three-fourths of its share capital in accordance with Article (58) para. (3) and para. (7) of the Bank's Amended and Restated Articles of Association and in accordance with Article (320) (c) of the Commercial Companies Law of the Kingdom of Bahrain of 2001, as amended			

Date:	
Shareholder Number:	
Shareholder Name:	
Number of Shares held:	
Signature(s):	

Please Note:

1. This Proxy Form must be in writing signed by the shareholder or the shareholder's attorney or, if the shareholder is a corporation, be signed by a duly authorised representative of the corporation with the corporation's stamp affixed on the Proxy form.

2. The proxy forms should be submitted at least 24 hours prior to the meeting to the Share Registrar (Bahrain Clear B.S.C(c)) at their office) – Bahrain Financial Harbor, 4th Floor. Phone: +973 17108833, email: registry@bahrainclear.com

3. The Proxy or the representative as appointed above shall carry an identity card with signature to the meeting as proof of identity and signature.

4. If you wish your proxy to cast your votes "For" or "Against" a resolution you may insert an 'X' in the appropriate box. If you do not wish your proxy to vote on any particular resolution, you may insert an 'X' in the 'Abstain' box. An 'Abstain' is not a 'vote' and will not be counted in the calculation of the votes in relation to a resolution. If you do not indicate how your proxy is to vote, you will be deemed to have authorized your proxy to vote or to withhold your vote as your Proxy thinks appropriate. Your Proxy will also be entitled to vote at his or her discretion on any other resolution properly put to the OGM/EGM.

PROPOSED RESOLUTIONS OF THE AGM

<u>Agenda Item No 1:</u> ***Review and approve the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 30 December 2018.***

Please refer to attachment 1

"Resolved that the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 30 December 2018 be and hereby approved."

<u>Agenda Item No 2:</u> ***Presentation and approval of the Report of the Board of Directors on the Bank's business activities for the year ended 31 December 2018.***

Please refer to attachment 2

"Resolved that the Report of the Board of Directors on the Bank's business activities for the year ended 31 December 2018 be and hereby approved."

<u>Agenda Item No 3:</u> ***Presentation and approval of the Auditors' Report for the year ended 31 December 2018.***

Please refer to attachment 3

"Resolved that the Auditors' Report for the year ended 31 December 2018 be and hereby approved."

<u>Agenda Item No 4:</u> ***To discuss and approve the consolidated financial statements for the year ended 31 December 2018.***

Please refer to attachment 3

"Resolved that the consolidated financial statements for the year ended 31 December 2018 be and hereby approved."

<u>Agenda Item No 5:</u> ***To discuss and approve the report on Corporate Governance and compliance with the Central Bank of Bahrain's and the Ministry of Commerce, Industry and Tourism's requirements for year 2018.***

Please refer to attachment 4

"Resolved that the report on Corporate Governance and compliance with the Central Bank of Bahrain's and the Ministry of Commerce, Industry and Tourism's requirements for year 2018 be and hereby approved."

<u>Agenda Item No 6:</u> ***To report on any related party transactions that have taken place in the year ended on 31 December 2018 as outlined in note (25) of the consolidated financial statements in compliance with article 189 of the Commercial Companies Law of the Kingdom of Bahrain. of 2001, as amended.***

Please refer to attachment 5

“Resolved that the report on any related party transactions that have taken place in the year ended on 31 December 2018 be hereby approved.”

<u>Agenda Item No 7:</u> ***Discharge those Members of the Board of Directors who are currently registered in the Bank’s CR Information with the Ministry of Industry, Commerce and Tourism from any liability in respect of the Financial Year ended 31 December 2018.***

“Resolved that full and total discharge is hereby granted to those Members of the Board of Directors who are currently registered in the Bank’s CR Information with the Ministry of Industry, Commerce and Tourism from any liability in respect of the Financial Year ended 31 December 2018.”

<u>Agenda Item No 8:</u> ***Appointment of External Auditors for the Financial Year ending 31 December 2019 and authorize the Board of Directors to fix their remuneration, subject to approval of Central Bank of Bahrain.***

“Resolved that Ernst & Young, Bahrain be and are hereby appointed as the External Auditors of Bahrain Middle East Bank B.S.C., for the year 2019 and that the Board of Directors be and is hereby authorized to fix their remuneration, subject to approval of Central Bank of Bahrain.”

PROPOSED RESOLUTIONS OF THE EGM

<u>Agenda Item No 1:</u> ***Review and approve the Minutes of the Extra Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018.***

Please refer to attachment 6

<u>Agenda Item No 2:</u> ***To discuss the subject of the Bank's continuity the circumstance of the Bank's loss for 2018 is equivalent to its reserves and three-fourths of its share capital in accordance with Article (58) para. (3) and para. (7) of the Bank's Amended and Restated Articles of Association and in accordance with Article (320) (c) of the Commercial Companies Law of the Kingdom of Bahrain of 2001, as amended.***

For the purposes of discussing and passing this Resolution, AN Investment W.L.L. shall not be entitled to count in the quorum or to vote on said Resolution, on the basis that the Bank's total outstanding exposures which has caused the said loss of capital are to one or more related parties of AN Investment W.L.L. Such shall be in accordance with Article (203) of the Commercial Companies Law No. 21 of 2001, as amended.

"Resolved to continue the existence of Bahrain Middle East Bank B.S.C. and notification of such to the appropriate regulatory authorities."

Attachment 1

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Bahrain Middle East Bank (B.S.C.)

Minutes of the Ordinary General Meeting

Upon the invitation of the Ministry of Industry, Commerce and the Ordinary General Meeting was held at 10:00 AM on Sunday, 30 December 2018 at the Bahrain Conference Centre, the Crowne Plaza Hotel, Manama, Kingdom of Bahrain. The meeting was held in the presence of representatives of the Central Bank of Bahrain ("CBB"), Ministry of Industry, Commerce and Tourism ("MOICT"), Bank's Auditors Ernst & Young ("EY"), Bahrain Bourse, Bahrain Clear and Bank's Legal Advisors Zeenat Al Mansoori, as listed:

1. Central Bank of Bahrain – Wholesale Banking Supervision Directorate

Ms. Fatima Abdulrahman

2. Central Bank of Bahrain – Capital Markets Supervision Directorate

Ms. Hesa AlMannai

3. Ministry of Industry & Commerce

Mr. Ali Taqi Al Alawi

Mr. Ahmed Salman Ahmed

4. Bank's Auditors – Ernst & Young

Mr. Nader Rahimi

Mr. Ali Khalaf

5. Bahrain Bourse

Mr. Senan Al Sherooqi

6. Bahrain Clear

Mrs. Heba Mubarak Mahmood

Mrs. Huda Mohamed Al Tarboosh

7. Bank's Legal Advisor – Zeenat Al Mansouri

Ms. Amel Al Aseeri

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Meeting's Quorum

The meeting was attended by shareholders who have voting rights representing 80.81% of the Shareholders.

Mr. Ali Taqi Al Alawi, Chief of Corporate Governance of the Ministry of Industry, Commerce and Tourism opened the session by stating that this meeting was called by MOICT in accordance with article 198 of the Commercial Companies Law and upon the CBB's request to elect a new Board of Directors. He invited the General Assembly to nominate a chairman to preside over the agenda items and a secretary to record the minutes. The assembly appointed Mr. Ali Taqi Al Alawi to chair the meeting and for Mr. Mohamed Alhusaini as the secretary.

The meeting thereon deliberated on the pre circulated Agenda:

Agenda Item No 1: ***Review and approve the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018***

The chairman asked the secretary to read out loud the minutes that were pre-circulated. With no queries or clarifications sought, the said Minutes were approved and the following resolution proposed by the Chairman was adopted:

"Resolved that the Minutes of the Ordinary General Assembly Meeting of the Shareholders held on 21 March 2018 be and hereby approved"

Agenda Item No 2: ***Remove from the list of Authorized Signatories in the Commercial Registration Information of the Bank:***

a. Mr. Wilson Benjamin (Solely)
b. Mr. Murat Solak (Solely)
c. Mr. Ebrahim Buhendi (Solely)
d. Mr. Korhan Alev (Solely)
e. Mr. Gaurav Baid (Jointly)

The shareholders agreed to the Board of Directors' recommendation for removal of Mr. Wilson Benjamin, Mr. Murat Solak, Mr. Ebrahim Buhendi, Mr. Korhan Alev and Mr. Gaurav

Baid from the list of Authorized Signatories of the Bank, and the following resolution proposed by the Chairman was adopted:

"Resolved to remove Mr. Wilson Benjamin, Mr. Murat Solak, Mr. Ebrahim Buhendi, Mr. Korhan Alev and Mr. Gaurav Baid from the list of Authorized Signatories in the Commercial Registration Information of the Bank."

***<u>Agenda Item No 3:</u>* Election of Board of Directors (8 members) of the Bank for a three-year term, subject to Central Bank of Bahrain approval.**

Following the Central Bank of Bahrain's formal directions requesting that the Board of Directors must resign immediately, six members have submitted their formal resignations. Pursuant to Article 179 (III) of the Commercial Companies Law, the Board is deemed to have been dissolved and a new Board must be elected and appointed. In accordance with Article (206) of the Commercial Companies Law the General Assembly elects the Board.

As such, the names of the nominees for the Board of Directors seats as previously published on the Bahrain Bourse has been read out to the shareholders. Since there were seven nominees only, the Board Members will be elected by acclamation.

Mr. Hamid Shah, representing the shareholder AN Investment WLL which holds 80.33% of the shares of the Bank asked to speak and expressed the concern of the shareholding Company on the CBB not approving Mr. Murat Solak as a Board member and to demand that Mr. Murat Solak be approved by the CBB and be re-appointed as a Board member of Bahrain Middle East Bank B.S.C. The Chairman replied that the concern is duly noted and will be minuted and that the CBB would take it into consideration.

With no further comments from the attendees, the following resolution proposed by the Chairman was adopted:

"**RESOLVED THAT** subject to the approval of the Central Bank of Bahrain, the following members be and are hereby elected to the Board of the Bank for a three-year term from 30 December 2018 to 30 December 2021:

Sheikh Khalifa bin Duaij Al Khalifa

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Mr. Abdulrahman Abdulla Mohamed

Mr. Ebrahim Husain Aljassmi

Mr. Khalil Ismaeel Al Meer

Mr. Yousif Abdulla Taqi

Mr. Emad Yousef AlMonayea

Dr. Jaffar Mohammed AlSayegh

The elected members at the Board meeting following this AGM will accordingly elect or nominate members to the various Committees of the Board and will elect the Chairman and Vice-Chairman of the Board."

Agenda Item No 4: ***Appoint Zeenat Al Mansoori & Associates to update the Commercial Registration Information of the Bank to give effect to any changes in the Directors and Authorized Signatories resolved by the General Assembly Meeting.***

The shareholders agreed to the recommendation to appoint Zeenat Al Mansoori & Associates to update the Commercial Registration information of the Bank to give into effect the above resolutions, and the following resolution proposed by the Chairman was adopted:

"Resolved to appoint advocates (1) Amel Al Aseeri, a Bahraini national holding ID card No. 831209348; (2) Batool Al Saffar, a Bahraini national holding ID card No. 760800456; (3) Reem Al Rayes, a Bahraini national holding ID card No. 880600543; and/or (4) Noor Sadeq, a Bahraini national holding ID number 930706811 (severally) of Zeenat Al Mansoori & Associates and any of its representatives to update the Commercial Registration Information of the Bank to register the changes in the Directors and Authorized Signatories and to give effect to any of the Resolutions of the General Assembly Meeting, subject to the approval of the Central Bank of Bahrain and such approvals from any other Governmental authorities as may be required in this regards, and to represent the Bank before the Ministry of Industry, Commerce and Tourism and all concerned government and public in the Kingdom of Bahrain to complete the formalities to carry into effect the above."

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Mr. Khalil Ali Mirza, a shareholder holding 0.04% of the ordinary shares of the Bank asked permission to speak from the Chairman, which was granted. Mr. Mirza stated that there is a lack of information on the Bank's situation, with the last financials published being as of June 2018 and has requested for a confirmation on the state of the Bank. The Chairman requested Mr. Abdulla Dawood, EVP to reply to the shareholder's concern. Mr. Dawood replied that this meeting has been conducted to elect a new Board of Directors to enable the Bank to publish its financial statements and to provide the requisite communication to the shareholders. Mr. Mirza asked for an estimate and when this is expected. Mr. Dawood replied that this will be done as soon as it is practicable. The Chairman added that the newly elected Board will surely take seriously the responsibility of communicating with the shareholders and will work on publishing the financials.

No further matters were raised by the Shareholders in attendance.

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The Chairman of the Meeting expressed his gratitude to all present for taking the time to attend the proceedings and the Assembly was adjourned at 10:21 AM

Mr. Ali Taqi Al Alawi
Chairman of the Meet
Chief Corporate Governance at the Ministry of Industry, Commerce and Tourism

Mr. Mohamed Alhusaini
Secretary of the Meet
Head of Compliance / Corporate Secretary at Bahrain Middle East Bank BSC

These are provisional Minutes of the Ordinary General Assembly of the Shareholders of Bahrain Middle East Bank B.S.C. held on 30 December 2018 , and will be duly ratified by the Shareholders of the bank on its next meeting.

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MIDDLE EAST
BANK
بنك البحرين والشرق الاوسط

YOUR TRUSTED BANKING PARTNER

Board of Directors and Acting Chief Executive Officer's Report

On behalf of the Board of Directors and Management of Bahrain Middle East Bank BSC ("**BMB**" or the "**Bank**") we are pleased to submit the Audited Financial Statements for the year ended 31 December 2018.

Previous Board of Directors

Mr. Wilson S. Benjamin	Chairman (Resigned 7-11-2018)
Mr. Murat Solak	Vice Chairman *(Term ended 7-12-2018)*
Mr. Ebrahim A. S. Bu Hendi	Director (Resigned 18-11-2018)
Prof. Awadh Kh. Al-Enezi	Director (Resigned 15-11-2018)
Mr. Karunaker Nampalli	Director (Resigned 7-11-2018)
Mr. Jawad Naser Jawad Jaafar	Director (Resigned 18-11-2018)
Mr. Yohannan Abraham	Director (Resigned 15-11-2018)
Mr. Govindan Swaminathan	Director *(Term ended 7-12-2018)*

In compliance with article 198 of the Commercial Companies Law 2001 and its amendments, the MOICT has on 7 December 2018 invited the shareholders to hold an ordinary general meeting to elect a new Board of Directors following the resignation of six out of the eight reigning members of the Board.

The new Board of Directors were elected by the Ordinary General Meeting on 30 December 2018 and accepted their appointment on 14 January 2019.

Current Board of Directors

Sh. Khalifa bin Duaij Al Khalilfa	Chairman – Independent
Mr. Abdulrahman Abdulla Mohamed Husain	Vice Chairman – Independent
Mr. Ebrahim Husain Aljassmi	Independent Director
Mr. Khalil Ismaeel Al Meer	Independent Director
Mr. Yousif Abdulla Mohamed Taqi	Independent Director
Mr. Emad Yousef AlMonayea	Independent Director
Dr. Jaffar Mohammed AlSayegh	Independent Director

2018 was a challenging year for BMB. Preliminary findings of an expert report commissioned by the Central Bank of Bahrain ("CBB") identified breaches of the CBB and Financial Institutions Law No. 64 of 2006, as amended, and the CBB Rulebook by certain individuals. Pursuant to which the CBB, by Directive dated 14 November 2018, ordered the Bank to dismiss the CEO and CFO, ordered the Board of Directors to resign and ordered the Bank to restrict its business activity. All Directors who held office during the year are listed above.

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BAHRAIN MIDDLE EAST BANK

Upon the resignation of the majority of the Board of Directors, and as requested by the CBB, the Ministry of Industry, Commerce and Tourism invoked Article (198) of the Commercial Companies Law No. 21 of 2001, as amended, for the dissolution of the previous Board and the appointment of a new Board of Directors. The Ordinary General Meeting of the Shareholders was held on 30 December 2018 and a new Board of Directors was elected, comprising of seven (7) independent directors. The Board of Directors' mandate was to take corrective actions in line with the CBB's directives, investigate the actions of the suspected individuals as identified by the CBB appointed expert (previous Vice Chairman, CEOs, CFO). Further, to oversee the recovery of the overdue funds from related parties, ensure the Bank's continuity and to safeguard the interests of the Bank's customers and minority shareholders. The Board appointed Mr. Abdulla Dawood as an Acting Chief Executive Officer to lead the new Management in implementing the Board's instructions and to rectify the Bank's current financial situation resulting, inter alia, from the actions of and decisions made by the previous management.

Delay in publication of the financial results:

The reporting of the financial statements was delayed to ensure that it incorporates the previously unreported information and findings from ongoing investigations.

2018 Financial Results:

Based on the Directive of the CBB dated 26 November 2018, all direct and indirect exposures to TFC were reclassified as related party exposures and the financial information for the previous periods 31 December 2017 and 31 December 2016 were restated. The restatement resulted in additional impairment provisions on these exposures and had adversely affected the capital adequacy ratios of the Bank which fell down the minimum required ratios by CBB. Since 16 November 2018, TFC has failed to meet its payment obligations causing $199.6 million of outstanding exposure (principal of US$ 195.0 million and accrued interest of US$ 4.6 million) to enter overdue status. This had an adverse effect on the financial position and capital position of the Bank as these exposures were classified as stage 3 at 31 December 2018. Due to the lack of available information on the likelihood of recoverability of the assets and the timeframe for repayment, on prudent basis, these exposures have been fully provided to ensure that the Bank's stakeholders and the public are not mislead or misdirected. This has resulted in net loss for the year 2018 of US$ 189.4 million causing the total equity of the Bank to diminish to negative $ 112.6 million (2017: $76.7 million).

Going Concern:

The continuing non-performance of the TFC exposures has materially impacted the liquidity position, capital position and the business activities of the Bank. Keeping in view the financial position, the Bank's auditors' have not expressed any opinion on the financial statements (disclaimer of opinion) due to conditions that may affect the Bank's ability to continue as a going concern.

BAHRAIN MIDDLE EAST BANK

Subject to any developments or changes to the facts and information currently available, and which may affect the Bank, the Board of Directors and the Management believe that the Bank will continue to be operational for at least the next twelve months as the Management is working on different options to restructure the Bank and to cut its operation costs by downsizing and to continue its operations, with the objective of prudently utilizing the available liquidity and other resources and identifying means to generate additional liquidity required to continue the Bank's operations. In addition, the Management has taken several initiatives including negotiations with TFC Group to restructure the exposures, with the objective of achieving recovery. The steps taken by the Management so far and planned in future are also explained further in notes to the financial statements.

Non-compliance with capital adequacy requirements and other regulatory requirements:

As disclosed in the financial statements, due to its negative equity position, the Bank is in breach of various requirements of the CBB Rulebook, including the minimum required total capital adequacy ratio of 12.5%. The Board and Management are working towards recovering the non-performing assets and considering different scenarios and options to raise new capital and improve the capital position of the Bank.

Activities During the year

Due to the restrictions levied by the Central Bank of Bahrain and the continuing non-performance of a large proportion of the Bank's loan book, the Bank has limited its business activities to managing its remaining liquidity and focusing all resources and efforts on the recovery of the outstanding debts on behalf of its customers and itself. The Bank has joined efforts with several other creditors in the region in pooling together resources and acting together as a Consortium to ensure the highest likelihood of full recovery of the outstanding funds due from TFC.

The available and recovered funds will be utilized in the short – medium term interbank placements with local banks and investments in Bahrain's government and its Public Sector Entities' listed Bonds and Sukuks.

Management is in the process of thoroughly reducing the operational expenses to ensure that the available liquidity is efficiently utilized in the recovery process.

The Management and the Board are in discussions with the Bank's external legal advisors to restructure the Bank such as to attract and protect future investments.

Outlook:

The key focus for the Board and Management will be on recovery efforts relating to its non-performing assets. To the best of its knowledge and belief, the Board and Management recognizes that the continuation of the Bank in this manner and following that strategy would be to the benefit of its depositors, customers and shareholders.

Khalifa Bin Duaij Bin Khalifa AlKhalifa

Chairman

Abdulla Mohamed Dawood

Acting Chief Executive Officer

Bahrain Middle East Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN MIDDLE EAST BANK B.S.C.

Report on the Audit of the Consolidated Financial Statements

Disclaimer of opinion

We were engaged to audit the consolidated financial statements of Bahrain Middle East 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 statement of comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence with respect to the basis of going concern adopted by the Bank; to provide a basis for an audit opinion on the consolidated financial statements.

Bases for disclaimer opinion

We draw your attention to Note 2 of the consolidated financial statements. As stated therein, the Bank incurred a loss of US$ 189 million for the year ended 31 December 2018, and as of that date, the Bank has accumulated losses of US$ 213 million and the Bank's total liabilities exceeded its total assets by US$ 113 million. The Bank's total liabilities that amounted to US$ 156 million as of 31 December 2018 include a deposit of US$ 127 million from a single financial institution that rolls over on a monthly basis. The Bank's ability to repay its liabilities was largely dependent on the recoverability of non-performing exposures of US$ 195 million from related parties which was fully provided for as at 31 December 2018. The Bank is currently in the process of negotiating the restructuring terms of its exposures with related parties and as of the date of our audit report, the recovery plan schedule has not yet been finalised. These consolidated financial statements have been prepared on a going concern basis.

We draw your attention to Note 3 of the consolidated financial statements. As stated therein, the Bank's total equity as of 31 December 2018 is negative US$ 113 million which is less than the minimum of US$ 100 million required by Central Bank of Bahrain ("CBB") for wholesale bank licensees. Further, the capital adequacy stands at negative 142.9% compared to the minimum requirement of 12.5% and accordingly, the Bank is not in compliance with the minimum capital adequacy requirements set out in regulations issued by the CBB. Further, as of 31 December 2018, the Bank's accumulated losses is more than 50% of its paid-up capital. As required by the Bahrain Commercial Companies Law (BCCL), the Bank should convene a shareholder's meeting to decide whether to continue the operations of the Bank.

These events and conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast doubt on the Bank's ability to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN MIDDLE EAST BANK B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

Auditor's Responsibilities for the audit of the consolidated financial statements
Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain ("the 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 Board of Directors and and Acting Chief Executive Officer's Report is consistent with the consolidated financial statements; and

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BAHRAIN MIDDLE EAST BANK B.S.C. (continued)

Report on Other Legal and Regulatory Requirements (continued)

c) except as disclosed in Note 3 to the consolidated financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position.

The partner in charge of the audit resulting in this independent auditor's report is Nader Rahimi.

Ernst & Young

Partner's registration no. 115
20 November 2019
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	**Audited 2018 US$ '000**	*Restated 2017 US$ '000*	*Restated 1 January 2017 US$ '000*
ASSETS				
Balances with banks and financial institutions		**13,086**	30,023	40,368
Placements with financial institutions	8	**14,461**	35,055	4,193
Investment securities	9	**14,528**	12,460	6,250
Loans and advances	10	**-**	-	1,605
Exposures to related parties	11	**-**	159,675	116,314
Other assets	12	**1,344**	3,385	2,464
TOTAL ASSETS		**43,419**	240,598	171,194
LIABILITIES AND EQUITY				
LIABILITIES				
Due to financial institutions	13	**150,524**	154,064	126,567
Due to customers	14	**4,076**	3,124	8,405
Borrowings		**-**	4,810	-
Other liabilities	15	**1,450**	1,859	2,443
Total liabilities		**156,050**	163,857	137,415
EQUITY				
Share capital	16	**100,000**	100,000	60,501
Accumulated losses		**(212,631)**	(23,259)	(26,722)
Fair value reserve		**-**	-	-
Total equity		**(112,631)**	76,741	33,779
TOTAL LIABILITIES AND EQUITY		**43,419**	240,598	171,194

Khalifa Bin Duaij Bin Khalifa AlKhalifa
Chairman

Abdulrahman Abdulla Mohamed Husain
Vice Chairman

Abdulla Mohamed Dawood
Acting Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	***Audited 2018 US$ '000***	*Restated 2017 US$ '000*
OPERATING INCOME			
Interest income	18	**12,473**	11,948
Interest expense	19	**(1,044)**	(334)
Net interest income		**11,429**	11,614
Loss on investment securities		**(442)**	(1,180)
Fee and commission income		**229**	94
Other income		**182**	221
Foreign exchange gain		**39**	148
Total operating income		**11,437**	10,897
OPERATING EXPENSES			
Staff expenses		**2,688**	3,053
Travel and business development expenses		**424**	227
Legal and professional expenses		**604**	340
Premises and equipment expenses		**432**	346
Depreciation and amortisation expenses		**227**	90
Other operating expenses	20	**876**	437
Total operating expenses		**5,251**	4,493
NET PROFIT FOR THE YEAR BEFORE IMPAIRMENT ALLOWANCE		**6,186**	6,404
Impairment allowance - net	21	**(195,558)**	(2,913)
NET (LOSS) PROFIT FOR THE YEAR		**(189,372)**	3,491
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(189,372)**	3,491
BASIC AND DILUTED EARNINGS PER SHARE (IN US$ CENTS)	22	**(47.34)**	1.43

Khalifa Bin Duaij Bin Khalifa AlKhalifa
Chairman

Abdulrahman Abdulla Mohamed Husain
Vice Chairman

Abdulla Mohamed Dawood
Acting Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	***Audited 2018 US$ '000***	*Restated 2017 US$ '000*
OPERATING ACTIVITIES			
Net (loss) profit for the year		**(189,372)**	3,491
Adjustments for:			
Impairment allowance - net (excluding cash and cash equivalents)	21	**188,985**	2,894
Depreciation and amortisation		**227**	90
Changes in operating assets and liabilities:			
Placements with financial institutions		**(6,563)**	-
Investment securities		**(2,068)**	(6,295)
Loans and advances		**(705)**	-
Exposures to related parties		**(28,605)**	(44,565)
Other assets		**2,258**	(333)
Due to financial institutions		**(3,540)**	27,497
Due to customers		**952**	(5,281)
Borrowings		**(4,810)**	4,810
Other liabilities		**(409)**	(584)
Net cash used in operating activities		**(43,650)**	(18,276)
INVESTING ACTIVITIES			
Purchase of furniture and equipment		**(109)**	(280)
Purchase of intangible assets		**(335)**	(398)
Net cash used in investing activities		**(444)**	(678)
FINANCING ACTIVITIES			
Issuance of new shares		**-**	39,499
Expenses on issuance of new shares		**-**	(28)
Net cash from financing activities		**-**	39,471
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(44,094)**	20,517
Cash and cash equivalents at 1 January		**65,078**	44,561
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**20,984**	65,078
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		**13,086**	30,023
Placements with financial institutions with original maturities of three months or less		**7,898**	35,055
		20,984	65,078

The attached notes 1 to 31 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital US$ '000	*Accumulated losses US$ '000*	*Fair value reserve US$ '000*	*Total equity US$ '000*
Balance at 31 December 2016	60,501	(21,481)	917	39,937
Restatement adjustment (note 4)	-	(5,241)	(917)	(6,158)
Balance at 1 January 2017 (Restated)	60,501	(26,722)	-	33,779
Issuance of new shares	39,499	-	-	39,499
Expenses on issuance of new shares	-	(28)	-	(28)
Total comprehensive income for the year (Restated)	-	3,491	-	3,491
Balance at 31 December 2017 (Restated)	100,000	(23,259)	-	76,741
Total comprehensive loss for the year	-	(189,372)	-	(189,372)
Balance at 31 December 2018	**100,000**	**(212,631)**	**-**	**(112,631)**

The attached notes 1 to 31 form part of these consolidated financial statements

1 ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank" or "BMB") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain on 5 July 1982 and was granted a license by the Central Bank of Bahrain ("CBB") to carry out banking services. On 9 April 2007, the CBB changed their licenses categories and have issued BMB a Conventional Wholesale Banking license. The commercial registration ("CR") number of the Bank is 12266 and its CBB license number is WBS/023. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. The principal activities of the Bank and its subsidiaries (together also referred to as "the Group") are trade finance, private & corporate banking, institutional banking and asset management services.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

AN Investment W.L.L., a limited liability company incorporated in the Kingdom of Bahrain, is the Parent company of the Bank.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 20 November 2019.

2 GOING CONCERN

As at 31 December 2018, the total liabilities of the Group exceeded its total assets by US$ 112.6 million. Furthermore, the current contractual liabilities of the Group also exceeded its liquid assets. Although current contractual liabilities of US$ 127.4 million to a single counterparty are expected to continue to be rolled over for a longer period based on the past experience and management's estimation, the ability of the Bank to meet its obligations when due, depends on its ability to recover its non-performing related party exposures of US$ 195.0 million, which have been fully provided. These factors along with those mentioned in note 3 below indicate the existence of uncertainties which may cast doubt about the Bank's ability to continue as a going concern.

To address these factors, management has taken a number of initiatives including negotiations with the related parties to restructure the exposures, with the objective of achieving recovery. In addition, the management is working on different options to restructure the Bank and to continue its operations, with the objective of prudently utilizing the available liquidity and other resources, and identifying means to generate additional liquidity required to continue the Bank's operations. Considering these initiatives, these consolidated financial statements have been prepared on a going concern basis with the assumption that the Bank will continue to be operational for at least next twelve months.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

a Non-compliance with Central Bank Of Bahrain Rulebook relating to minimum capital requirement, capital adequacy and large exposures

1 As at 31 December 2018, the Bank's equity stood negative at US$ 112.6 million which is less than the minimum required by the CBB for wholesale bank licensees of USD 100 million. Furthermore, the capital adequacy ratio of the Bank stands negative at 142.9% as of 31 December 2018 compared to the minimum required total capital ratio of 12.5% by the CBB and accordingly, the Bank is not in compliance with the minimum capital adequacy requirements set out in the regulations issued by the CBB.

2 The Bank did not publish its consolidated financial statements for the year ended 31 December 2018 within the time prescribed in section PD-1.2.3 of Public Disclosure Module. Furthermore, the Bank did not submit these financial statements to CBB within the prescribed time as per section BR-1.1.2. In addition, due to delay in publication of financial statements, the Bank is in not in compliance with various requirements of CBB Rulebook relating to supplementary reporting.

3 The Bank has exposures to a major shareholder of US$ 195.0 million as at 31 December 2018 which is in not in compliance with section CM-5.5.7A and CM-5.5.11 of CBB Rulebook. Further due to the negative equity, the Bank is not in compliance with the other exposure limits as defined in CM-5 and elsewhere in the CBB Rulebook Volume 1.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS (continued)

b Non-compliance with Bahrain Commercial Companies Law and the Bank's Articles of Association

1 As of 31 December 2018, the Bank's accumulated losses are more than 50% of its paid-up capital. As required by the Bahrain Commercial Companies Law (BCCL), the Bank should convene a shareholder's meeting to decide whether or not to continue the operations of the Bank. The Bank will convene an extraordinary general meeting of the shareholders, subject to regulatory approvals, after the issuance of these consolidated financial statements to discuss the capital position of the Bank in compliance with Article 58 of the Bank's Amended and Restated Articles of Association.

4 RESTATEMENT OF COMPARATIVE PERIODS

During Q4 2018, the Bank discovered certain facts and agreements relating to its trade finance loans, placements with certain financial institutions and certain investment in debt securities. Further the Bank received a Directive from the Central Bank of Bahrain and in accordance with the Directive and based on the facts discovered, the Bank reassessed the nature of its relationship with the trade finance counterparty and concluded that it is a related party. As at 31 December 2017, the Bank had treated its trade finance exposures, placement with certain financial institutions and certain investment in debt securities as exposure to third parties. However after the above discoveries, such exposures have been restated and are treated as exposures to related parties.

With the above mentioned information being currently available, as per International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), this has been treated as a prior period error. The opening balances at the earliest prior period presented i.e. as at 1 January 2017 have been restated and the impact of restatement has been recognised in the equity. The comparative amounts as of 31 December 2017 have also been restated to account for the effect of the above restatement.

Furthermore, the Bank early adopted IFRS 9 Financial Instruments ("IFRS 9") as at 1 January 2017. Due to the above mentioned restatement, the Bank changed inputs to its IFRS 9 model which resulted in additional expected credit losses ("ECL") of US$ 3,304 thousand, compared to the previously calculated ECLs at the time of early adoption of IFRS 9.

The restatement information as of 1 January 2017 is as follows:

	Previously reported under IAS 39	*'Impact of IFRS 9 application*	*Carrying amount under IFRS 9*	*Restatement*	*Restated amounts*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
1 January 2017					
Statement of financial position					
Loans and advances*	**123,958**	**(2,735)**	**121,223**	**(119,618)**	**1,605**
Exposures to related parties	**-**	**-**	**-**	**116,314**	**116,314**
All other assets**	**53,394**	**(119)**	**53,275**	**-**	**53,275**
Accumulated losses	**(21,481)**	**(1,937)**	**(23,418)**	**(3,304)**	**(26,722)**
Fair value reserve	**917**	**(917)**	**-**	**-**	**-**
Total equity	**39,937**	**(2,854)**	**37,083**	**(3,304)**	**33,779**

The restatement did not have any impact on the classification and measurement of liabilities.

4 RESTATEMENT OF COMPARATIVE PERIODS (continued)

The restatement information as of 31 December 2017 is as follows:

	Previously reported US$ '000	*Restatement US$ '000*	*Restated amounts US$ '000*
31 December 2017			
Statement of financial position			
Placements with financial institutions	**50,061**	**(15,006)**	**35,055**
Investment securities	**23,456**	**(10,996)**	**12,460**
Loans and advances*	**138,714**	**(138,714)**	**-**
Exposures to related parties	**-**	**159,675**	**159,675**
Accumulated losses	**(18,218)**	**(5,041)**	**(23,259)**
Total equity	**81,782**	**(5,041)**	**76,741**
31 December 2017			
Statement of comprehensive income			
Impairment allowance	**(1,176)**	**(1,737)**	**(2,913)**
Net profit for the year	**5,228**	**(1,737)**	**3,491**
31 December 2017			
Statement of cash flows			
Net cash used in operating activities	**(3,251)**	**(15,025)**	**(18,276)**
Cash and cash equivalents at 1 January 2017	**44,581**	**(20)**	**44,561**
Cash and cash equivalents at 31 December 2017	**80,084**	**(15,006)**	**65,078**

*Includes US$ 1,933 thousand as of 1 January 2017 and US$ 2,453 thousand as of 31 December 2017, which was disclosed as related party exposures in the notes to the consolidated financial statements as of 31 December 2017.

**The restatement is due to the transitional adjustment relating to IFRS 9 as disclosed in the consolidated financial statements as at 31 December 2017. The above mentioned restatement did not have any impact on these balances.

5 BASIS OF CONSOLIDATION

These consolidated financial statements incorporate the financial statements of the Bank, its subsidiary and the investment holding companies of the Bank as at 31 December 2018.

The Bank's principal and wholly owned subsidiary is BMB Property Services W.L.L., incorporated in the Kingdom of Bahrain and engaged in building management.

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

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights.

5 BASIS OF CONSOLIDATION (continued)

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

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

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

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

6 BASIS OF PREPARATION

6.1 Statement of compliance

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

6.2 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for investment securities at fair value through profit or loss ("FVTPL") and derivative financial instruments, that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars ("US$"), this being the functional currency of the Group, and are rounded to the nearest thousand unless otherwise stated.

7 SIGNIFICANT ACCOUNTING POLICIES

7.1 New and amended standards and interpretations issued and effective

The accounting policies adopted are consistent with those of the previous financial year except for the following relevant new standards and amendments to IFRS effective as of 1 January 2018. These new standards and amendments do not have a material impact on the consolidated financial statements of the Group:

- *IFRS 15 Revenue from Contracts with Customers*

The Group has already early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2017.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The adoption of the standard will not have a significant impact on the financial position of the Bank.

In addition to the above, the IASB issued various amendments to the standards which did not have a material impact on the Group:

7.3 Financial instruments

i) Financial assets

Recognition and initial measurement

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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 Financial instruments (continued)

i) Financial assets (continued)

Classification (continued)
On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 Financial instruments (continued)

i) Financial assets (continued)

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Amortised cost
After initial measurement, financial asset are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as 'interest income' in the consolidated statement of income.

Investment securities - FVTPL
These include financial assets held for trading and financial assets designated at FVTPL. Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented in the consolidated statement of income.

Investment securities - FVOCI
For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method;
- Expected Credit Loss and reversals; and
- Foreign exchange gains and losses.

When debt securities measured at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

When the Group elects to present the changes in the fair value of certain equity instruments in OCI, any gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an equity investment. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of income.

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 Financial instruments (continued)

i) Financial assets (continued)

Impairment
The Group recognises allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

-financial assets (cash and cash equivalents and debt investment securities) that are determined to have low credit risk at the reporting date; and

-financial instruments on which credit risk has not increased significantly since their initial recognition.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

The determination of the IFRS 9 provision results from a two-step approach.

As step 1, the financial assets are allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the financial asset is credit impaired.

As step 2, the expected credit loss is calculated i.e., 12-month expected loss for all financial assets in stage 1 and lifetime expected credit loss for all financial assets in stage 2. The financial assets in stage 3 are covered by specific provisions.

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

Evidence that a financial asset 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 past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming 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.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 Financial instruments (continued)

i) Financial assets (continued)

Credit-impaired financial assets (continued)
In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Bahrain), is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

The exposure to the home country sovereign i.e. Bahrain is considered to be low risk and fully recoverable and hence no ECL is calculated.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- Loan commitments and financial guarantee contracts: generally, as a provision.

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

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL)

Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

The Group's financial liabilities comprise due to financial institutions, due to customers, borrowings and other liabilities.

Subsequent measurement
Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss
Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 Financial instruments (continued)

Derecognition
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled ,or expire.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

iii) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if (i) there is a currently enforceable legal right to offset the recognised amounts and (ii) there is an intention to settle on a net basis in order to realise the assets and settle the liabilities simultaneously.

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

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

The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, and that market participants act in their economic best interest.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices at the close of business on the statement of financial position date.

In case of unquoted investments, the Group uses the net asset values provided by the fund managers or uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

7.4 Foreign currencies
The assets and liabilities of foreign subsidiaries are translated into US$ at the rates of exchange prevailing at the reporting date. The income and expenses of foreign subsidiaries are translated into US$ at the rates of exchange prevailing on the dates of the transactions.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Income and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.5 Borrowings
After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest expense in the consolidated statement of income.

7.6 Payables, accruals and provisions
Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors.

Provisions are recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

7.7 Dividends and any other appropriations
Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities until paid out.

Any other appropriations from equity can only be recognised subject to the approval of the shareholders, against the appropriation for shareholders in equity. These are subsequently transferred to liabilities once approved by the shareholders.

7.8 Treasury shares
Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is taken directly to equity and not through the consolidated statement of income. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against the cumulative surplus from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to accumulated losses.

7.9 Derivatives
The Group uses derivative financial instruments, such as forward currency contracts and currency swaps, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

7.10 Segment reporting
An operating segment is a component of the Group that (i) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, (ii) whose operating results are reviewed regularly by the Chief Executive Officer (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and (iii) for which discrete financial information is available.

7.11 Cash and cash equivalents
Cash and cash equivalents comprise cash and short term funds, treasury bills, placements with financial institutions and other liquid assets that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

7.12 Assets under management
Clients' assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn a majority of the rewards on their investments, subject to normal management fee arrangements. Accordingly, these assets are not included in the Group's consolidated statement of financial position.

7 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.13 Income and expenses

Interest income is recognised using the effective yield method.

Fee and commission income is recognised when services are rendered.

Investment income from FVTPL investments is recognised on the basis of changes in fair value for the period. Capital gains (losses) realised on FVTPL investments are recognised by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realisation.

Interest expenses is recognised using the EIR method.

7.14 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has exercised judgement and estimates as mentioned below, in determining the amounts recognised in the consolidated financial statements.

Fair value measurement

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using net asset values provided by the fund managers or using valuation techniques, such as the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as country risk, illiquidity discounts, etc. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Audited 2018 US$ '000	*Restated 2017 US$ '000*
Placements with financial institutions	**21,043**	35,092
Less: Allowance for impairment	**(6,582)**	(37)
	14,461	35,055

Placements with financial institutions include US$ 1,434 thousand (2017: US$ 1,552 thousand) placed with a third party retail bank in the Kingdom of Bahrain; representing amounts held on account of sub-participants in private equity funds and for the purposes of honoring their capital calls to fund managers.

The following table sets out the information about the movement in the impairment allowance:

	2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total ECL***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January 2018 (Restated)	**37**	**-**	**-**	**37**
Transfer to lifetime ECL credit- impaired	**(6)**	**-**	**6**	
Net remeasurement of loss allowance	**(12)**	**-**	**6,557**	**6,545**
Balance at 31 December 2018	**19**	**-**	**6,563**	**6,582**

8 PLACEMENTS WITH FINANCIAL INSTITUTIONS (continued)

	2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit- impaired*	*Total ECL*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2017 - Restated	14	-	-	14
Remeasurement of loss allowance - Restated	23	-	-	23
Balance at 31 December 2017	37	-	-	37

9 INVESTMENT SECURITIES

	2018		
	Fair value through profit or loss	***Amortised cost***	***Total***
	US$ '000	***US$ '000***	***US$ '000***
Quoted investments			
Sovereign bonds	**-**	**9,000**	**9,000**
Other bonds and debt securities	**2,920**	**-**	**2,920**
Equities	**328**	**-**	**328**
	3,248	**9,000**	**12,248**
Unquoted investments			
Managed funds	**2,280**	**-**	**2,280**
	2,280	**-**	**2,280**
	5,528	**9,000**	**14,528**
Less: Allowance for impairment	**-**	**-**	**-**
Balance at 31 December 2018	**5,528**	**9,000**	**14,528**

	2017 (Restated)		
	Fair value through profit or loss	*Amortised cost*	*Total*
	US$ '000	*US$ '000*	*US$ '000*
Quoted investments			
Sovereign bonds	5,988	-	5,988
Other bonds and debt securities	2,818	-	2,818
Equities	394	-	394
	9,200	-	9,200
Unquoted investments			
Other bonds and debt securities	-	-	-
Managed funds	3,260	-	3,260
	3,260	-	3,260
	12,460	-	12,460
Less: Allowance for impairment	-	-	-
Balance at 31 December 2017	12,460	-	12,460

Sovereign bonds held by the Bank amounting to US$ Nil (31 December 2017: US$ 5,988 thousand) are pledged to a local financial institution.

10 LOANS AND ADVANCES

	2018	*Restated 2017*
	US$ '000	*US$ '000*
Installment sale receivable (refer note 25)	**3,533**	3,533
Corporate loan	**705**	-
	4,238	3,533
Less: Allowance for impairment	**(4,238)**	(3,533)
Net loans and advances	**-**	-

The following table sets out the information about the credit quality of loans and advances and movement in related impairment allowance:

	2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total ECL***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January 2018 (Restated)	**-**	**-**	**3,533**	**3,533**
Net remeasurement of loss allowance	**-**	**-**	**705**	**705**
Balance at 31 December 2018	**-**	**-**	**4,238**	**4,238**

	2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2017 - Restated	-	1,928	-	1,928
Transfer to lifetime ECL credit- impaired	-	(1,928)	1,928	-
Remeasurement of loss allowance - Restated	-	-	1,605	1,605
Balance at 31 December 2017 - Restated	-	-	3,533	3,533
Gross exposure - Restated	-	-	3,533	3,533

The Installment sale receivable referred to above relates to a sale agreement entered by the Bank to sell its investment in a plot of land in the State of Kuwait on an installment sale basis to a Kuwaiti entity. The loan is secured by corporate guarantees from a shareholder and additional guarantee from two entities associated to the shareholder. This loan is categorized as a non-performing loan (Stage 3) and has been fully provided.

11 EXPOSURES TO RELATED PARTIES

	2018	*Restated 2017*
	US$ '000	*US$ '000*
Exposures to related parties	**195,031**	166,426
Less: Allowance for impairment	**(195,031)**	(6,751)
Net exposures to related parties	**-**	159,675

11 EXPOSURES TO RELATED PARTIES (continued)

As disclosed in note 4, based on the discovery of certain facts in 2018, the Bank has reclassified its trade finance exposures as exposures to related parties. In addition, the Bank has also reclassified certain amounts from placements with financial institutions and investment securities after the discovery of certain agreements which were executed for the benefit of the related parties. These related parties exposures are non-performing as of 31 December 2018 and have been classified under Stage 3.

The following table sets out the information about the credit quality of exposures to related parties and movement in related impairment allowance:

	2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January 2018 (Restated)	**6,204**	**547**	**-**	**6,751**
Transfer to lifetime ECL - credit impaired	**(6,204)**	**(547)**	**6,751**	**-**
Net remeasurement of loss allowance	**-**	**-**	**188,280**	**188,280**
Balance at 31 December 2018	**-**	**-**	**195,031**	**195,031**
Gross exposure	**-**	**-**	**195,031**	**195,031**

	31 December 2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2017 - Restated	4,480	1,067	-	5,547
Remeasurement of loss allowance - Restated	1,724	(520)	-	1,204
Balance at 31 December 2017 - Restated	6,204	547	-	6,751
Gross exposure - Restated	163,426	3,000	-	166,426

	1 January 2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2017 - on adoption of IFRS 9	1,018	1,225	-	2,243
Impact of restatement (refer note 4)	3,462	(158)	-	3,304
Balance at 1 January 2017 - Restated	4,480	1,067	-	5,547
Gross exposure - Restated	118,861	3,000	-	121,861

12 OTHER ASSETS

	2018 US$ '000	*Restated* 2017 US$ '000
Accrued interest receivable	**163**	2,410
Prepayments	**182**	203
Furniture and equipment	**264**	230
Intangible assets	**581**	398
Others	**154**	144
	1,344	3,385

13 DUE TO FINANCIAL INSTITUTIONS

These represent deposits from financial institutions in the region, which carry fixed interest rates. These include deposits from a single counterparty amounting to US$ 127.4 million (2017: US$ 127.4 million) with monthly maturity and rollovers.

14 DUE TO CUSTOMERS

	2018 US$ '000	*Restated* 2017 US$ '000
Customer participation in funds	**1,434**	1,552
Others	**2,642**	1,572
	4,076	3,124

Customer participation in funds represents amounts received from customers to be invested in private equity funds administered by the Bank, placed with a third party retail bank in the Kingdom of Bahrain. These funds, although treated as part of customer deposits, are retained by the Bank until capital calls are made by private equity fund managers. Customer participation in funds includes US$ 73 thousand (2017: US$ 170 thousand) in deposits held on behalf of BMB Technology and Telecommunications Fund.

Others consist of deposit amounts from corporates and individual customers.

15 OTHER LIABILITIES

	2018 US$ '000	*Restated* 2017 US$ '000
Accrued expenses	**455**	784
Employees' leaving indemnity	**505**	417
Provision against litigation	**300**	300
Accrued interest payable	**60**	59
Negative fair value of derivative	**14**	54
Others	**116**	245
	1,450	1,859

16 SHARE CAPITAL

	2018		*2017*	
	Number '000	**Amount US$ '000**	*Number '000*	*Amount US$ '000*
Authorized				
Ordinary shares of US$ 0.25 each	**2,000,000**	**500,000**	2,000,000	500,000
Issued and fully paid				
Ordinary shares of US$ 0.25 each	**400,000**	**100,000**	400,000	100,000

16 SHARE CAPITAL (continued)

Treasury shares

At 31 December 2018, the Bank owned 6 of its own shares (31 December 2017: 6 shares). The value of these shares is deducted from the shareholders' equity.

17 STATUTORY RESERVE

The Bahrain Commercial Companies Law requires 10% of the net profit for the year to be transferred to a statutory reserve until such reserve equals 50% of the paid up capital. The reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law. Transfer to statutory reserve has not been made during the year as the Bank incurred a loss during the year (2017: US$ Nil).

18 INTEREST INCOME

	2018	*Restated 2017*
	US$ '000	*US$ '000*
Loans and advances	**28**	-
Exposures to related parties	**10,181**	11,548
Placements with financial institutions	**745**	230
Investment securities	**1,519**	170
	12,473	11,948

19 INTEREST EXPENSE

	2018	*Restated 2017*
	US$ '000	*US$ '000*
Deposits from financial institutions	**694**	325
Borrowings	**333**	8
Deposits from customers	**17**	1
	1,044	334

20 OTHER OPERATING EXPENSES

	2018	*Restated 2017*
	US$ '000	*US$ '000*
Insurance, regulatory charges and other fees	**408**	185
Communication expenses	**137**	109
Others	**331**	143
	876	437

21 IMPAIRMENT ALLOWANCE

The impairment allowance recorded in the statement of income is as follows:

	31 December 2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total ECL***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balances with banks and financial institutions	**25**	**3**	**-**	**28**
Placements with financial institutions	**(12)**	**-**	**6,557**	**6,545**
Loans and advances	**-**	**-**	**705**	**705**
Exposures to related parties	**-**	**-**	**188,280**	**188,280**
Total	**13**	**3**	**195,542**	**195,558**

	31 December 2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total ECL*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balances with banks and financial institutions	(4)	-	-	(4)
Placements with financial institutions	23	-	-	23
Investment securities - at amortised cost	-	-	85	85
Loans and advances	-	-	1,605	1,605
Exposures to related parties	1,724	(520)	-	1,204
Total	1,743	(520)	1,690	2,913

22 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2018	*Restated 2017*
Net (loss) profit for the year attributable to the owners of the Bank (US$ '000)	**(189,372)**	3,491
Weighted average number of shares outstanding during the year	**400,000**	243,305
Basic and diluted earnings per share (US$ cents)	**(47.34)**	1.43

The Bank did not have any outstanding share options or warrants which could have a dilution effect on the earnings per share.

23 OPERATING SEGMENTS

Segment information
For management purposes, the Group is organised into three major business segments:

Financing	- Financing and trade finance
Investing	- Investments in debt securities, equities and private equity funds
Other operating segments	- Corporate advisory and building management, etc.

23 OPERATING SEGMENTS (continued)

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

Segment information for the year ended 31 December 2018 is as follows:

	2018			
	Financing US$ '000	***Investing US$ '000***	***Others US$ '000***	***Total US$ '000***
Interest income	**10,954**	**1,519**	**-**	**12,473**
Interest expense	**(1,044)**	**-**	**-**	**(1,044)**
Gain on investment securities	**-**	**(442)**	**-**	**(442)**
Fee and commission income	**-**	**-**	**229**	**229**
Other income	**-**	**-**	**182**	**182**
Foreign exchange gain	**-**	**-**	**39**	**39**
Results from operations	**9,910**	**1,077**	**450**	**11,437**
Impairment allowance - net	**(195,558)**	**-**	**-**	**(195,558)**
Segment (loss) profit	**(185,648)**	**1,077**	**450**	**(184,121)**
Unallocated corporate expenses	**-**	**-**	**-**	**(5,251)**
Net loss for the year				**(189,372)**
Segment assets	**27,563**	**14,675**	**1,181**	**43,419**
Segment liabilities	**154,674**	**-**	**1,376**	**156,050**

Segment information for the year ended 31 December 2017 is as follows:

	2017 (Restated)			
	Financing US$ '000	*Investing US$ '000*	*Others US$ '000*	*Total US$ '000*
Interest income	11,778	170	-	11,948
Interest expense	(334)	-	-	(334)
Loss on investment securities	-	(1,180)	-	(1,180)
Fee and commission income			94	94
Other income	-	-	221	221
Foreign exchange gain	-	-	148	148
Results from operations	11,444	(1,010)	463	10,897
Impairment allowance - net	(2,828)	(85)	-	(2,913)
Segment profit (loss)	8,616	(1,095)	463	7,984
Unallocated corporate expenses				(4,493)
Net profit for the year				3,491
Reportable segment assets	227,042	12,582	974	240,598
Reportable segment liabilities	162,111	-	1,746	163,857

23 OPERATING SEGMENTS (continued)

Geographic information

Although the Group's two main business segments are managed on a worldwide basis, they operate in three main geographical areas. The Group's exposure to credit risk is concentrated in these areas: Europe (Primarily Western Europe), North America (United States of America and Canada) and Gulf Cooperation Council ("GCC"). The following table shows the distribution of the Group's revenue and assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2018 and 31 December 2017:

	2018		*2017 (Restated)*	
	Total income (loss) US$ '000	***Total assets US$ '000***	*Total income (loss) US$ '000*	*Total assets US$ '000*
Europe	**10,230**	**558**	11,638	162,532
North America	**(760)**	**7,909**	(1,206)	28,821
GCC	**2,930**	**34,947**	781	49,238
Rest of the world	**81**	**5**	18	7
Total	**12,481**	**43,419**	11,231	240,598

24 REMUNERATION

In 2015, the Bank had initiated a share incentive plan under which eligible employees receive a portion of their annual performance-based incentive compensation in the form of shares vesting over a period of three years. These shares were granted to the employees at US$ 15 cents per share. There are 1,950 thousand shares (2017:3,856 thousand) in the incentive plan. All these shares have commenced vesting, but have not fully vested as at 31 December 2018. An income statement reversal of US$ 286 thousand (2017: charge of US$ 126 thousand) was taken by the Bank based on management's best estimate of the number of shares that are likely to vest.

The movement in the number of shares is as follows:

Number of shares '000	***2018***	*Restated 2017*
Opening	**3,856**	10,112
Granted during the year	**-**	1,833
Vested during the year	**-**	-
Forfeited during the year	**(1,906)**	(8,089)
	1,950	3,856

The start and end date of the vesting period is based on continued employment as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognised as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

25 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Bank are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the year and balances as at 31 December 2018 and 31 December 2017 are set out below:

	Key management personnel		*Shareholders and their related parties*	
		Restated		*Restated*
	2018	*2017*	***2018***	*2017*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Statement of financial position				
Assets				
Exposures to related parties (refer note 4 and 11)	**-**	-	**195,031**	166,426
Impairment allowance (refer note 11)			**(195,031)**	(6,751)
Liabilities				
Deposits	**-**	-	**94**	267
Other liabilities - employee leaving indemnity	**436**	242	**-**	-

	Key management personnel		*Shareholders and their related parties*	
		Restated		*Restated*
	2018	*2017*	***2018***	*2017*
	US$ '000	*US$ '000*	***6557***	*6545*
Statement of income				
Interest income	**-**	-	**10,264**	11,548
Fee and commission income	**-**	-	**39**	52
Fee and commission expense			**7**	-
Assets under management				
Clients' assets under management placed with a related party (refer note 29)	**-**	-	**32,921**	9,492

Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

		Restated
	2018	*2017*
	US$ '000	*US$ '000*
Salaries and other short-term employee benefits	**1,268**	1,250
Employee leaving indemnity	**45**	32
	1,313	1,282
Directors' remuneration	**119**	119

Guarantee

The Bank has received a corporate guarantee from its shareholder that is connected to installment sale receivable (refer note 10), and an additional guarantee was obtained from two associates of that shareholder.

26 CAPITAL MANAGEMENT

The primary purpose of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

To manage its capital, the Bank employs standards mentioned in the Basel III Framework, a risk adjusted measure of capital adequacy (a Capital Adequacy Ratio or "CAR") based on the local regulatory implementation of the Basel Committee on Banking Supervision's capital adequacy guidelines.

The Capital Adequacy Ratio of the Bank as at 31 December 2018 and 31 December 2017 is as follows:

Regulatory capital	***2018*** ***US$ '000***	*Restated* *2017* *US$ '000*
Common Equity Tier 1 (CET1) and Total Tier 1 (T1)		
Share capital	**100,000**	100,000
Accumulated losses	**(212,603)**	(23,327)
CET1 capital prior to regulatory adjustments	**(112,603)**	76,673
Regulatory adjustments		
Intangibles other than mortgage servicing rights	**(587)**	(239)
Investments in financial entities exceeding 10% of CET 1a	**(2,920)**	-
Total CET1 capital after the regulatory adjustments (a)	**(116,110)**	76,434
Tier 2 (T2)		
Stage 1 and Stage 2 impairment allowances (Collective impairment provision)	**49**	6,790
Tier 2 (T2) (b)	**49**	6,790
Total capital (c) = (a) + (b)	**(116,061)**	83,224

	2018			*2017 (Restated)*		
Risk weighted exposures	***Principal amounts US$ '000***	***Risk weighted equivalents US$ '000***	***Capital requirement US$ '000***	*Principal amounts US$ '000*	*Risk weighted equivalents US$ '000*	*Capital requirement US$ '000*
Claims on sovereigns	**9,053**	**-**	**-**	6,041	-	-
Claims on banks	**27,487**	**8,443**	**1,055**	67,739	24,502	3,063
Claims on corporates*	**-**	**-**	**-**	168,693	1,349,544	168,693
Investments in securities	**3,223**	**25,784**	**3,223**	3,733	5,402	675
Other assets	**715**	**5,720**	**715**	779	779	97
Off-balance sheet items						
Commitments and contingent liabilities	**2,212**	**17,696**	**2,212**	2,267	3,401	425
Credit risk weighted exposures		**57,643**	**7,205**		1,383,628	172,953
Market risk weighted exposure		**2,405**	**301**		1,925	241
Operational risk weighted exposure		**21,188**	**2,649**		20,175	2,522
Total risk weighted exposures (d)		**81,236**	**10,155**		1,405,728	175,716
Capital ratios						
CET 1 and T1 capital (a) / (d)		**-142.9%**			5.4%	
Total capital (c) / (d)		**-142.9%**			5.9%	
Minimum required as per CBB regulatory guidelines under Basel III		**12.5%**			12.5%	

27 FINANCIAL RISK MANAGEMENT

In its normal course of its business, the Bank is exposed to various risks related to the nature of the activities in which it engages. The principal sources of risk are credit risk, liquidity risk, market risk (comprising of interest rate risk, foreign exchange risk and equity price risk), operational risk, legal risk, reputational risk, fiduciary risk and compliance & regulatory risk.

In mitigating its risks, the Bank follows a policy of diversification in its activities and seeks to minimize the risk exposure to particular geographical regions, counterparties and types of business. In identifying and monitoring risk exposures, the Bank uses a variety of quantitative tools as well as qualitative approaches to measure risks at the “macro” and “micro” level.

The following sections review the principal risks to which the Bank is exposed in the normal course of its business and how it manages those risks.

a) Credit risk

Credit risk is the risk of loss arising as a result of the inability or unwillingness of a counterparty to meet its obligations to the Bank. The Credit Risk Management is the responsibility of the management and the Risk Management Department for establishing credit risk standards and implementing the Bank’s credit risk management process.

Maximum exposure to credit risk

	2018				
ASSETS	***Neither past due nor impaired US$ '000***	***Past due or individually Impaired US$ '000***	***Impairment allowance US$ '000***	***Maximum credit risk US$ '000***	***Quarterly average balance US$ '000***
Balances with banks and financial institutions	**13,116**	**-**	**(30)**	**13,086**	**12,856**
Placements with financial institutions	**7,918**	**13,125**	**(6,582)**	**14,461**	**33,438**
Investment securities	**14,528**	**-**	**-**	**14,528**	**23,328**
Loans and advances	**-**	**4,238**	**(4,238)**	**-**	**218**
Exposures to related parties	**-**	**195,031**	**(195,031)**	**-**	**123,054**
Other assets	**317**	**-**	**-**	**317**	**1,619**
	35,879	**212,394**	**(205,881)**	**42,392**	**194,513**
Off-balance sheet items	**-**	**-**	**-**	**-**	**-**

	2017 (Restated)				
ASSETS	*Neither past due nor impaired US$ '000*	*Past due or individually Impaired US$ '000*	*Impairment provisions US$ '000*	*Maximum credit risk US$ '000*	*Quarterly average balance US$ '000*
Balances with banks and financial institutions	30,025	-	(2)	30,023	23,060
Placements with financial institutions	35,092	-	(37)	35,055	22,619
Investment securities	12,460	-	-	12,460	8,504
Loans and advances	-	3,533	(3,533)	-	1,080
Exposures to related parties	166,426	-	(6,751)	159,675	132,027
Other assets	2,554	-	-	2,554	3,186
	246,557	3,533	(10,323)	239,767	190,476
Off-balance sheet items	-	-	-	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality by class of financial assets

The Bank manages the credit quality of financial assets using internal credit ratings and estimates the probability of default through its risk grading system.

The Bank utilizes both quantitative and qualitative assessment of the credit risks in order to approximate the probability of default of a given counterparty. It monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for setting risk parameters.

The following table shows the relationship between Bank's internal rating system and ECAI's (i.e. Moody's and S&P) ratings.

Categories	***Internal rating***	***ECAI equivalent***
Standard - there is a very high likelihood of the asset being recovered and therefore, represents low risk to the Group.	A to E	AAA to B-
Sub-standard – inadequately protected by the paying capacity of the obligor or possibility that the Group will sustain some loss if the deficiencies are not corrected.	F	CCC+ to CCC-
Loss – already in default or expected to be in default	G	C- and below

Credit quality analysis

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

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 7.3 Financial Instruments i) Financial assets - Policy applicable from 1 January 2017 - Impairment.

	2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Balances with banks and financial institutions				
Grade A to E	**12,911**	**-**	**-**	**12,911**
Grade F (Doubtful)	**-**	**205**	**-**	**205**
Grade G (non performing)	**-**	**-**	**-**	**-**
	12,911	**205**	**-**	**13,116**
Loss allowance	**(27)**	**(3)**	**-**	**(30)**
Carrying amount	**12,884**	**202**	**-**	**13,086**
Placements with financial institutions				
Grade A to E	**7,918**	**-**	**-**	**7,918**
Grade F (Doubtful)	**-**	**-**	**-**	**-**
Grade G (non performing)	**-**	**-**	**13,125**	**13,125**
	7,918	**-**	**13,125**	**21,043**
Loss allowance	**(19)**	**-**	**(6,563)**	**(6,582)**
Carrying amount	**7,899**	**-**	**6,562**	**14,461**

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

	2018			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Loans and advances				
Grade A to E	**-**	**-**	**-**	**-**
Grade F (Doubtful)	**-**	**-**	**-**	**-**
Grade G (non performing)*	**-**	**-**	**4,238**	**4,238**
	-	**-**	**4,238**	**4,238**
Loss allowance	**-**	**-**	**(4,238)**	**(4,238)**
Carrying amount	**-**	**-**	**-**	**-**
Exposures to related parties				
Grade A to E	**-**	**-**	**-**	**-**
Grade F (Doubtful)	**-**	**-**	**-**	**-**
Grade G (non performing)*	**-**	**-**	**195,031**	**195,031**
	-	**-**	**195,031**	**195,031**
Loss allowance	**-**	**-**	**(195,031)**	**(195,031)**
Carrying amount	**-**	**-**	**-**	**-**

	2017 (Restated)			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Loans and advances				
Grade A to E	-	-	-	-
Grade F (Doubtful)	-	-	-	-
Grade G (non performing)	-	-	3,533	3,533
	-	-	3,533	3,533
Loss allowance	-	-	(3,533)	(3,533)
Carrying amount	-	-	-	-
Exposures to related parties				
Grade A to E	166,426	-	-	166,426
Grade F (Doubtful)	-	-	-	-
Grade G (non performing)	-	-	-	-
	166,426	-	-	166,426
Loss allowance	(6,751)	-	-	(6,751)
Carrying amount	159,675	-	-	159,675

*Non-performing loans and advances and exposures to related parties relate to counterparties based in Asia continent.

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience. The Bank may also 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. As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due (Stage 2).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due (Stage 2) and as a backstop based on delinquency.

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

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived historical and market data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, and are calculated using Standard & Poor's recovery studies data after consideration of the contractual maturities of exposures and estimated prepayment rates and are derived using the Vasicek model. The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12 month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The LGD models consider the forecasted collateral value (including credit insurance) and recovery costs of any collateral that is integral to the financial asset.

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

The Bank has identified economic factors such as the International Monetary Fund (IMF) trends in fiscal balances, unemployment rates and GDP growth. Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time ("PIT") PD using the adjusted through-the- cycle ("TTC") PD data published by Standard & Poor's (S&P) for each rating category. The Bank uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data. At 31 December 2017 and 31 December 2018, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 60:20:20 respectively.

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 Bank to actions such as liquidating collateral;
• The borrower is past due more than 90 days on any credit obligation to the Bank.; and
• The borrowers rating drops to G.

In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified financial assets

The contractual terms of a loan 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. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions.

The Bank continuously renegotiates loans to debtors in financial difficulties to maximise collection opportunities and minimise the risk of default. The Bank grants forbearance on a selective basis if there is evidence that the debtor has made all reasonable efforts to honour the original contractual terms and the debtor is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a debtor would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL. The accounts which are restructured due to credit reasons in past 12 months are classified under Stage 2. The 12 months period is considered sufficient to test the adequacy of the cash flows to test satisfactory performance under the revised terms of restructuring.

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit risk concentration

The Bank monitors concentrations of credit risk by exposure to single or closely related parties, industry/sector and by country/geographic location. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region.

The following tables summarize the Bank's geographical and industry sector exposures and any potential risk concentrations arising there from. Maximum credit risk exposures are detailed without considering the effects, if any, of collateral or other credit mitigation techniques on the Bank's assets, liabilities and credit related contingent items.

Geographical region

	31 December 2018				
	Europe US$ '000	***North America US$ '000***	***GCC US$ '000***	***Rest of the world US$ '000***	***Total US$ '000***
Balances with banks and financial institutions	**558**	**5,629**	**6,894**	**5**	**13,086**
Placements with financial institutions	**-**	-	**14,461**	**-**	**14,461**
Investment securities	**-**	**2,280**	**12,248**	**-**	**14,528**
Loans and advances	-	-	**-**	**-**	**-**
Exposures to related parties	**-**	-	**-**	**-**	**-**
Other assets	-	-	**317**	**-**	**317**
Total	**558**	**7,909**	**33,920**	**5**	**42,392**
Off-balance sheet items	-	-	-	-	-

	31 December 2017 (Restated)				
	Europe US$ '000	*North America US$ '000*	*GCC US$ '000*	*Rest of the world US$ '000*	*Total US$ '000*
Balances with banks and financial institutions	590	25,561	3,865	7	30,023
Placements with financial institutions	-	-	35,055	-	35,055
Investment securities	-	3,260	9,200	-	12,460
Loans and advances	-	-	-	-	-
Exposures to related parties	159,675	-	-	-	159,675
Other assets	2,267	-	287	-	2,554
Total	162,532	28,821	48,407	7	239,767
Off-balance sheet items	-	-	-	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Industry sector

	31 December 2018				
	Banking / Finance US$ '000	***Government US$ '000***	***Consumer Goods US$ '000***	***Others US$ '000***	***Total US$ '000***
Balances with banks and financial institutions	**13,086**	**-**	**-**	**-**	**13,086**
Placements with financial institutions	**14,461**	**-**	**-**	**-**	**14,461**
Investment securities	**5,200**	**9,000**	**-**	**328**	**14,528**
Loans and advances	**-**	**-**		**-**	**-**
Exposures to related parties	**-**	**-**	**-**	**-**	**-**
Other assets	**103**	**191**	**-**	**23**	**317**
Total	**32,850**	**9,191**	**-**	**351**	**42,392**
Off-balance sheet items	**-**	**-**	**-**	**-**	**-**

	31 December 2017 (Restated)				
	Banking / Finance US$ '000	*Government US$ '000*	*Consumer Goods US$ '000*	*Others US$ '000*	*Total US$ '000*
Balances with banks and financial institutions	30,023	-	-	-	30,023
Placements with financial institutions	35,055	-	-	-	35,055
Investment securities	6,078	5,988	-	394	12,460
Loans and advances	-	-	-	-	-
Exposures to related parties	-	-	-	159,675	159,675
Other assets	111	166	-	2,277	2,554
Total assets	71,267	6,154	-	162,346	239,767
Off-balance sheet items	-	-	-	-	-

27 FINANCIAL RISK MANAGEMENT (continued)

b) Market risk

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity and commodity prices, market indices as well as volatilities and correlations between markets.

The principal market related risks to which the Bank is exposed to are interest rate risk, foreign exchange risk and equity price risk.

i) Interest rate risk

Interest rate risk is the risk that changes in market interest rates will affect the future cash flows or the fair values of financial instruments.

The Bank closely monitors interest rate movements and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Bank actively manages its interest rate repricing gap exposure, with a bias towards fixed rates and with exposure limits that are approved by the Board of Directors. The Bank does not typically take interest rate trading positions and all its interest rate risk is typically in the banking book.

All of the Bank’s interest earning assets and interest bearing liabilities carry fixed rates of interest, hence, there is no sensitivity to interest rate risk.

ii) Foreign exchange

Foreign Exchange (“FX”) risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Majority of the Bank's assets and liabilities are denominated in US Dollar, Qatari Riyal, Bahraini Dinar, Euro and Great Britain Pound. As the Qatari Riyal and Bahraini Dinar are pegged to the US dollar, there is minimal sensitivity to FX risk. The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

The table below shows the sensitivity to the Bank's net profit and equity for a movement of +5% in Euro and Great Britain Pound against the USD, with all other variables held constant. An equivalent decrease in each of these currencies against the USD would result in an equivalent but opposite impact.

	Sensitivity to net profit and equity	
	2018	*2017*
Currency	***US$ '000***	*US$ '000*
Euro	**3**	359
Great Britain Pound	**2**	1
	5	360

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices or individual stocks. The Bank is exposed to equity price risk on its FVTPL equity and managed funds investments.

27 FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

iii) Equity price risk (continued)

The Bank also has investments in private equity funds. Investment risk is the risk that the Bank will not be able to generate returns or sell its investments at a profit within the intended time period, which might be due to the investment itself or macro trends in markets.

	Sensitivity to net profit and equity	
	2018	*2017*
	US$ '000	*US$ '000*
Investment securities - Equities and managed funds	**130**	183

The Bank manages the risks at the specific investment level by (i) investing primarily through managed third party funds whose managers have a demonstrated successful track record, by diversifying its investments across (ii) fund managers, (iii) different stages in the investment cycle (various stages of venture capital, buy-out, etc.), and (iv) geographical locations and industries.

In its investing activities, the Bank seeks to diversify its assets across instruments and markets and to avoid obligor concentrations. This is particularly the case for investments in unlisted private equity funds where the Bank has consciously implemented a strategy of reducing the Bank's average individual investment size.

Market risk capital charge

The capital requirement for market risk using the Standardised Approach as at 31 December 2018 and 31 December 2017 was as follows:

	Capital requirement			
	At 31 December 2018 US$ '000	***Maximum value US$ '000***	***Minimum value US$ '000***	***Average value US$ '000***
Foreign exchange risk	**219**	**219**	**157**	**188**
Equity position risk	**82**	**104**	**82**	**93**

	Capital requirement			
	At 31 December 2017 US$ '000	*Maximum value US$ '000*	*Minimum value US$ '000*	*Average value US$ '000*
Foreign exchange risk	142	142	106	124
Equity position risk	98	119	105	112

27 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. It also represents the risk that the Bank will be unable to realize its assets in a timely fashion for prices close to their carrying values.

Liquidity is managed on a daily basis through the Bank closely monitoring its market liquidity and funding liquidity against significant daily changes to the liquidity position. In evaluating the liquidity position, the Bank also takes into account the possible call of un-drawn commitments.

The Bank has a an amount of USD 127.4 million that is in favor of a single financial institution, that poses a funding liquidity risk on the Bank. This liability is expected to continue to be rolled over in the next twelve months. For more details refer to note 13.

The table below presents the maturity profile of the Group's assets and liabilities based on remaining contractual maturities:

	31 December 2018					
	Up to 3 months US$ '000	***> 3 months up to 6 months US$ '000***	***> 6 months up to 12 months US$ '000***	***> 1 year up to 5 years US$ '000***	***Over 5 years US$ '000***	***Total US$ '000***
Balances with banks and financial institutions	**13,086**	**-**	**-**	**-**	**-**	**13,086**
Placements with financial institutions	**14,461**	**-**	**-**	**-**	**-**	**14,461**
Investment securities	**11,837**	**-**	**-**	**2,691**	**-**	**14,528**
Loans and advances	**-**	**-**	**-**	**-**	**-**	**-**
Exposures to related parties	**-**	**-**	**-**	**-**	**-**	**-**
Other assets	**151**	**195**	**87**	**845**	**66**	**1,344**
Total assets	**39,535**	**195**	**87**	**3,536**	**66**	**43,419**
Liabilities						
Due to financial institutions	**145,524**	**5,000**	**-**	**-**	**-**	**150,524**
Due to customers	**4,076**	**-**	**-**	**-**	**-**	**4,076**
Borrowings	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**317**	**38**	**1,062**	**33**	**-**	**1,450**
Total liabilities	**149,917**	**5,038**	**1,062**	**33**	**-**	**156,050**
Net liquidity gap	**(110,382)**	**(4,843)**	**(975)**	**3,503**	**66**	**(112,631)**
Cumulative liquidity gap	**(110,382)**	**(115,225)**	**(116,200)**	**(112,697)**	**(112,631)**	**(112,631)**

27 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	31 December 2017 (Restated)					
	Up to 3 months US$ '000	*> 3 months up to 6 months US$ '000*	*> 6 months up to 12 months US$ '000*	*> 1 year up to 5 years US$ '000*	*Over 5 years US$ '000*	*Total US$ '000*
Assets						
Balances with banks and financial institutions	30,023	-	-	-	-	30,023
Placements with financial institutions	35,055	-	-	-	-	35,055
Investment securities	9,368	773	2,319	-	-	12,460
Loans and advances	-	-	-	-	-	-
Exposures to related parties	86,046	71,176	-	2,453	-	159,675
Other assets	1,826	758	104	631	66	3,385
Total assets	162,318	72,707	2,423	3,084	66	240,598
Liabilities						
Due to financial institutions	150,064	4,000	-	-	-	154,064
Due to customers	3,124	-	-	-	-	3,124
Borrowings	4,810	-	-	-	-	4,810
Other liabilities	866	31	899	63	-	1,859
Total liabilities	158,864	4,031	899	63	-	163,857
Net liquidity gap	3,454	68,676	1,524	3,021	66	76,741
Cumulative liquidity gap	3,454	72,130	73,654	76,675	76,741	76,741

Contractual maturity of financial liabilities on an undiscounted basis
The table below presents the cash flows payable by the Bank relating to its financial liabilities upon their respective earliest contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods.

	31 December 2018					
	Up to 3 months US$ '000	***> 3 months up to 6 months US$ '000***	***> 6 months up to 12 months US$ '000***	***> 1 year up to 5 years US$ '000***	***Over 5 years US$ '000***	***Total US$ '000***
Liabilities						
Due to financial institutions	**145,561**	**5,101**	**-**	**-**	**-**	**150,662**
Due to customers	**4,076**	**-**	**-**	**-**	**-**	**4,076**
Borrowings	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**317**	**38**	**1,062**	**33**	**-**	**1,450**
Total undiscounted financial liabilities	**149,954**	**5,139**	**1,062**	**33**	**-**	**156,188**

27 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	31 December 2017 (Restated)					
	Up to 3 months US$ '000	*> 3 months up to 6 months US$ '000*	*> 6 months up to 12 months US$ '000*	*> 1 year up to 5 years US$ '000*	*Over 5 years US$ '000*	*Total US$ '000*
Liabilities						
Due to financial institutions	150,126	4,051	-	-	-	154,177
Due to customers	3,124	-	-	-	-	3,124
Borrowings	4,813	-	-	-	-	4,813
Other liabilities	866	31	899	63	-	1,859
Total undiscounted financial liabilities	158,929	4,082	899	63	-	163,973

d) Operating risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank's risk management framework includes Operational Risk policies and procedures designed for the management of operational risks. The policy has been developed to identify and control the various operational risks.

While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, segregation of duties, and through other internal check are carried out are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. Operational risk is also managed and mitigated by ensuring the Bank maintains trained & competent staff throughout the Bank. trained & competent staff are placed throughout the Bank.

Despite the Bank having in place such operational risk mitigation approaches, there usually always is a residual risk in any operations and as such there was a residual operational risk impact on the Bank caused due to certain actions by the previous management that resulted in misdirected risk assessment and has also caused the Bank to misreport its financials and other disclosures.

To further mitigate operational, the Bank has also put in place other control mitigation strategies that include business continuity planning and obtaining insurances.

e) Legal risk

Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly.

In the ordinary course of its business, the Bank may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. To mitigate Legal risks, the Bank has put in place adequate policies and procedures and uses assistance of professional legal firms on need basis, to ensure effective and efficient management of legal risk.

In addition, to further mitigate legal risks, the Bank ensures that it used standard documentation in its business transactions and for any no-standard documentation, it refers to its external legal counsel to review and ensure the Bank’s legal interests are safeguarded.

f) Reputational risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Bank, its brand and franchise by its various stakeholders that is caused by a variety of internal and external factors. Preventive measures, including controls and processes have been deployed to manage reputational risk. These include a robust and comprehensive governance structure, which is based on set of well-defined policies and procedures.

27 FINANCIAL RISK MANAGEMENT (continued)

g) Fiduciary risk

Fiduciary risk is the risk that client funds are not used for the intended purposes; do not achieve value for money; and/or are not properly accounted for.

The Bank administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing funds. Fees are recognised as the services are provided and are included in fee and commission income.

To mitigate this risk, the Bank has kept in place preventive measures, including controls and processes that have been deployed to manage fiduciary risk, which includes close monitoring, frequent reporting and ensuring AUM funds are only deployed for the same purpose the investors have opted to in their restricted agreement.

h) Compliance & Regulatory risk

Compliance risk is the potential that the Bank will be deemed to have violated a law or regulation, while Regulatory risk is a potential that changes to laws, regulations or interpretations will cause you losses.

To protect the Bank from involvement in Financial crime and breach or violation of any regulations, the Bank has implemented a comprehensive set of policies and procedures. Adherence to the Bank’s policies and procedures is reinforced through periodic staff training and internal & external reviews, as well as internal and external review by auditors.

28 COMMITMENTS AND CONTINGENT LIABILITIES

The commitments under the Bank mainly include commitments to participate in investments. Undrawn investment commitments comprise contractual commitments to invest in managed equity funds. These amounts are called by fund managers, generally for a period between four and seven years which may be extended at the sole discretion of the funds manager by a further period.

The outstanding commitments and contingent liabilities at 31 December were as follows:

	2018	*2017*
	US$ '000	*US$ '000*
Undrawn investment commitments in equity funds	**3,572**	3,612
Other commitments	**2,579**	2,579

At 31 December 2018, the Bank had undrawn investment commitments to private equity funds of USD 3,572 thousand (31 December 2017: USD 3,612 thousand). Of these, the Bank’s proprietary commitments amounted to USD 2,212 thousand (31 December 2017: USD 2,267 thousand) and the balance relates to co-investors of the Bank who have committed to sub-participate along with the Bank.

Other commitments represent unclaimed dividend amounts written back by the Bank in 2011. However, as per regulatory requirements, these amounts have been disclosed as a contingent item.

The Bank is engaged in litigation cases involving claims made against the Bank relating to its ex-employees. The Bank, based on the advice of relevant professional advisors, believes that these are adequately provided for and the outcome of these claims will not have a material adverse effect on the financial position of the Bank.

Furthermore, the Bank is also in the process of obtaining legal advices in relation to potential legal claims by third parties that may arise against the Bank.

29 ASSETS UNDER MANAGEMENT

The Bank's clients participated in products offered under its two alternative investment asset classes. Total assets under management ("AUM") in each product category at the consolidated statement of financial position date are as follows:

	2018	*2017*
	US$ '000	*US$ '000*
Other receivables	**32,981**	9,500
Private equity	**3,949**	4,833
	36,930	14,333

As of 31 December 2018, assets under management included in other receivables of USD 32,921 thousand (31 December 2017: USD 9,492 thousand) are invested with counterparties, of which one has been recently classified as related party of the Bank and the other was an existing known related party (refer note 25). The investments in the products which are related to the related parties are non-performing at the reporting date.

Assets under management, relating to private equity, include BMB Technology and Telecommunications Investment Company (under liquidation), a US focused venture capital fund of funds, customer sub-participations in private equity funds managed by the Bank and other client funds managed on a discretionary basis.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	31 December 2018				
	Level 1 US$ '000	***Level 2 US$ '000***	***Level 3 US$ '000***	***Total fair values US$ '000***	***Total carrying amount US$ '000***
Financial assets measured at fair value					
Investment securities	**3,248**	**-**	**2,280**	**5,528**	**5,528**
Financial assets measured at amortised cost:					
Investment securities	**8,931**	**-**	**-**	**8,931**	**9,000**
Financial liabilities measured at fair value					
Derivatives held for trading	**-**	**14**	**-**	**14**	**14**

	31 December 2017 (Restated)				
	Level 1 US$ '000	*Level 2 US$ '000*	*Level 3 US$ '000*	*Total fair values US$ '000*	*Total carrying amount US$ '000*
Financial assets measured at fair value					
Investment securities	9,200	-	3,260	12,460	12,460
Financial liabilities measured at fair value					
Derivatives held for trading	-	54	-	54	54

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, placements with financial institutions, investment securities measured at amortised cost, loans and advances and other assets, and financial liabilities comprising of due financial institutions, due to customers, borrowings and other liabilities approximate their carrying amounts.

Movements in level 3 investments measured at fair value are as follows:

	2018 US$ '000	*2017 US$ '000*
At 1 January	**3,260**	5,321
Additions	**50**	22
Exits (at cost)	**(225)**	(1,023)
Net fair value movement	**(805)**	(1,060)
At 31 December	**2,280**	3,260

Level 3 investments represent fund investments where the underlying fund managers exercise judgements in valuation of investments.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)
During the period, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

31 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. The Bank uses currency swaps to manage some of its foreign currency exposures. These currency swaps are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

The table below shows the fair values of the derivative financial instruments together with the notional amounts:

	2018		*2017*	
	Notional amounts US$ '000	***Fair value US$ '000***	*Notional amounts US$ '000*	*Fair value US$ '000*
Derivatives held for trading:				
Currency swap	**5,939**	**(14)**	6,189	(54)

BAHRAIN MIDDLE EAST BANK
بنك البحرين والشرق الاوسط

CORPORATE GOVERNANCE REPORT
31 DECEMBER 2018

Contents

BOARD OF DIRECTORS AND COMMITTEES

Previous Board of Directors

Mr. Wilson S. Benjamin	**Chairman (Resigned 7-11-2018)**
Mr. Murat Solak	**Vice Chairman *(Term ended 7-12-2018)***
Mr. Ebrahim A. S. Bu Hendi	**Director (Resigned 18-11-2018)**
Prof. Awadh Kh. Al-Enezi	**Director (Resigned 15-11-2018)**
Mr. Karunaker Nampalli	**Director (Resigned 7-11-2018)**
Mr. Jawad Naser Jawad Jaafar	**Director (Resigned 18-11-2018)**
Mr. Yohannan Abraham	**Director (Resigned 15-11-2018)**
Mr. Govindan Swaminathan	**Director *(Term ended 7-12-2018)***

In compliance with article 198 of the Commercial Companies Law 2001 and its amendments, the MOICT has on 7 December 2018 invited the shareholders to hold an ordinary general meeting to elect a new Board of Directors following the resignation of six out of the eight reigning members of the Board. The new Board of Directors were elected by the Ordinary General Meeting on 30 December 2018 and accepted their appointment on 14 January 2019.

Current Board of Directors

Sh. Khalifa bin Duaij Al Khalilfa	**Chairman – Independent**
Mr. Abdulrahman Abdulla Mohamed Husain	**Vice Chairman – Independent**
Mr. Ebrahim Husain Aljassmi	**Independent Director**
Mr. Khalil Ismaeel Al Meer	**Independent Director**
Mr. Yousif Abdulla Mohamed Taqi	**Independent Director**
Mr. Emad Yousef AlMonayea	**Independent Director**
Dr. Jaffar Mohammed AlSayegh	**Independent Director**

Executive Committee

Mr. Abdulrahman Abdulla Mohamed Husain	Chairman
Mr. Emad Yousef AlMonayea	Vice Chairman
Dr. Jaffar Mohammed Salman Jasim AlSayegh	Member

Audit & Risk Committee

Mr. Yousif Abdulla Mohamed Taqi	Chairman
Mr. Ebrahim Husain Aljassmi	Vice Chairman
Mr. Khalil Ismaeel Al Meer	Member

Nomination, Remuneration & Corporate Governance Committee

Sh. Khalifa bin Duaij Al Khalilfa	Chairman
Mr. Khalil Ismaeel Al Meer	Vice Chairman
Mr. Ebrahim Husain Aljassmi	Member
Mr. Yousif Abdulla Mohamed Taqi	Member

BOARD OF DIRECTORS

Sheikh Khalifa bin Duaij Al Khalifa
Chairman - Independent Director
Appointed to the Board on 14 January 2019

Sh. Khalifa bin Duaij Al Khalifa is the President of the Court of HRH the Crown Prince. Prior to that, he was the director of the Investment Department at the Pension Fund Commission. He serves as an Independent Board Member in BBK and is also on the Board of HRH the Crown Prince's International Scholarship Program, Palm Capital, Isa Bin Salman Educational Charitable Trusts and the Arab Thought Foundation. He is an MBA holder from John Hopkins University and Master's in Social & Public Policy from Georgetown University. He brings over 21 years of experience In Government, Diplomatic and Investment sectors.

External Directorships:

Position	Name of Entity	Location
Board Member	BBK	Bahrain
Board Member	HRH the Crown Prince's International Scholarship Program	Bahrain
Board Member	Palm Capital Company WLL	Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Bahrain
Board Member	Arab Thought Foundation	Lebanon
Non-Executive Director	Al Azzam Contracting and Properties Investment Management Group S.P.C	Bahrain
Chairman	Bahrain Financial Markets Association	Bahrain

Mr. Abdulrahman Abdulla Mohamed Husain
Vice Chairman, Independent Director
Chairman, Executive Committee
Appointed to the Board on 14 January 2019

Mr. Abdulrahman Abdulla Mohamed Husain, currently retired, has over 40 years of experience in the Banking Industry. He was the General Manager of the Banking Group in the National Bank of Bahrain. He serves as an Independent Board Member In Al Baraka Islamic Bank, Vice Chairman of Takaful International Company, and a Board Member of Taib Bank. He is an MBA holder from the University of Hull.

External Directorships:

Position	Name of Entity	Location
Board Member	Taib Bank B.S.C.	Bahrain
Board Member	Al Baraka Islamic Bank B.S.C.	Bahrain
Vice Chairman	Takaful International Company B.S.C.	Bahrain

Mr. Ebrahim Husain AlJassmi
Independent Director
Appointed to the Board on 14 January 2019

Mr. Ebrahim Husain Aljassmi, currently retired, has over 37 years of experience in both Islamic and Conventional banking. He was the CEO of Khaleeji Commercial Bank and prior to that the CEO of Liquidity Management Centre Bahrain. He served as an independent Board Member in Bahrain Islamic Bank and Ibdar Bank. He is an MBA holder from the University of Bahrain and has a B.Sc. of Economics from the University of Kuwait. He is currently serving as the Vice Chairman of Dividend Gate Capital.

External Directorships:

Position	Name of Entity	Location
Vice Chairman	DGC B.S.C. (Closed)	Bahrain
Chairman	E H E CONSULTING W.L.L	Bahrain

Mr. Khalil Ismaeel Al Meer
Independent Director
Appointed to the Board on 14 January 2019

Mr. Khalil Ismaeel Al Meer, currently retired, has over 33 years of experience in both Islamic and Conventional Banking. He was the CEO of Khaleeji Commercial Bank and an GM – Corporate Banking Division in BBK. He serves as an independent Board Member in Naseej and Solidarity Takaful (KSA). He has a B.Sc. in Business Administration from the University of Bahrain.

External Directorship:

Position	**Name of Entity**	**Location**
Board Member	Naseej B.S.C.	Bahrain
Board Member	Solidarity Saudi Takaful Co.	KSA

Mr. Yousif Abdulla Mohamed Taqi
Independent Director
Appointed to the Board on 14 January 2019

Mr. Yousif Abdulla Mohamed Taqi, currently retired, has over 35 years of experience In Banking, Audit and Advisory. He was the CEO of Al Salam Bank Bahrain and a Deputy General Manager at Kuwait Finance House Bahrain (“KFH”). He serves as an independent Board Member in KFH and Eskan Bank. He is also a non-executive director on the Board of Aluminum Bahrain (“ALBA”). He is a Certified Public Accountant (CPA) and has a B.Sc. in Accounting from Husson University, USA.

External Directorships:

Position	**Name of Entity**	**Location**
Board Member	Kuwait Finance House (Bahrain) B.S.C. (Closed)	Bahrain
Board Member	Eskan Bank B.S.C. (Closed)	Bahrain
Non-Executive Director	Aluminum Bahrain B.S.C.	Bahrain

Mr. Emad Yousef AlMonayea
Independent Director
Appointed to the Board on 14 January 2019

Mr. Emad Yousef AlMonayea is the President of Vaayu Aerospace Inc. (USA), Partner and Executive Director of Vaayu Group (UAE) . Prior to that, he was the CEO and Board Member of Kuwait Finance House Investment Co., Director of the International Investment Department in Kuwait Finance House and the Chairman of Liquidity Management Centre (Bahrain). He started his career with Kuwait Investment Authority, the sovereign fund of Kuwait. He serves as a a member of the Advisory Board of Moravia Capital AG. He holds a Bachelor of Commerce and Political Science from the University of Kuwait and certificate of Strategies for Effective Negotiation from Harvard University, JFK School of Government, Executive Education. He has over 34 years of experience in Financial Institutions and Sovereign Wealth management.

External Directorships:

Position	**Name of Entity**	**Location**
Board Member	Moravia Capital AG (Advisory Board)	Switzerland
Executive Director	Vaayu Group	UAE
Director	Vaayu Aviation Capital & Leasing (UK) Limited	UK

Dr. Jaffar Mohammed Salman Jasim AlSayegh
Independent Director
Appointed to the Board on 14 January 2019

Dr. Jaffar Mohammed AlSayegh is a Lecturer of Economics, International Trade, Public Finance, Marketing and FDI at the University of Bahrain and an Executive Manager at Ola Center for Studies and Consultancy. Prior to that, he was an Economic and Financial Advisor at the Shura Council and a Senior Economist at the Directorate of Economic Planning at the Ministry of Finance. He has a Ph.D. in Economics from Keele University and a Master of Arts in Economics. His professional and academic career spans over 35 years including the publishing of over 300 economic articles and many advisory roles on key economic policies.

Position	Name of Entity	Location
Executive Director	Ola Center for Studies & Consultancy	Bahrain

SENIOR MANAGEMENT AND COMMITTEES

Senior Management

Mr. Abdulla Dawood	Acting Chief Executive Officer
Mr. Hamad Al Hiddi	Head of Risk Management
Mr. Raza Shah Kakakhail	Head of Operations
Mr. Mohammed Al Shaikh	Head of Human Resources
Mr. Mohamed Alhusaini	Head of Compliance & MLRO
Mr. Philip Morley	Head of Information Technology
Ms. Sulagna Ghosh	Head of Internal Audit
Mr. Muhammed Naeem	Senior Manager – Financial Control

Executive Management Committee

Mr. Abdulla Dawood	Chairman
Mr. Hamad Al Hiddi	Member
Mr. Raza Shah Kakakhail	Member
Mr. Mohamed Alhusaini	Member

SENIOR MANAGEMENT

Mr. Abdulla Dawood
Acting Chief Executive Officer
Chairman of the Executive Management Committee

Mr. Abdulla Dawood is the Acting Chief Executive Officer of Bahrain Middle East Bank (BMB) and Chairman of B.M.B Property Services W.L.L, a subsidiary of Bahrain Middle East Bank. He joined BMB in July 2017.

He has a vast experience of more than 20 years in Treasury, Capital Markets, Institutional Banking, Retail and Corporate Banking in both conventional and Islamic Banks. Mr. Dawood holds a Master degree in Business administration and a Bachelor degree in Banking & Finance. He is a member of (ACI) The Financial Markets Association, Paris since 2005 and Kingdom of Bahrain Representative to Interarab Cambist Association (ICA).

Prior to joining BMB, He worked for Standard Chartered Bank, Bank of Bahrain & Kuwait and Khaleeji Commercial Bank.

Mr. Hamad AlHiddi
Senior Vice President - Head of Risk Management
Member of the Executive Management Committee

Mr. Hamad AlHiddi joined Bahrain Middle East Bank in December 2017 as Head of Risk Management Department. He is also a board member at B.M.B Property Services W.L.L, a subsidiary of Bahrain Middle East Bank.

He brings with him over 13 years of professional banking experience specializing in the field of Risk Management, Compliance and Anti-Money Laundering in both conventional and Islamic banking. He holds an Master's degree in business administration specializing in finance and he is a holder of an Associate PRM Certificate, which is a risk management professional certificate issued by the Professional Risk Managers' International Association (PRMIA). Besides his extensive formal education, he has also undergone intensive training in banking & finance covering the various facets of risk management in retail banking, wholesale banking, asset management and investments.

Prior to joining BMB, he served as Head of Risk Management, Compliance and MLRO at BOK International Bank, handled the risk management functions at SICO Investment Bank and in the early part of his career he served in the Risk Management & Compliance Department at Gulf Finance House and in the Credit Department at Kuwait Finance House in the Kingdom of Bahrain.

Mr. Raza Shah Kakakhail
Senior Vice President - Head of Operations
Member of the Executive Management Committee

Mr. Shah holds a Master's Degree in Public Administration (Major Finance) from University of Peshawar, Pakistan.

Mr. Shah joined BMB in June 2010 and has over 19 years of combined experience across both commercial and investment banking including banking operations, business expansion, treasury, trade finance, Islamic banking, corporate finance and client relationship management. Previously, Mr. Shah was employed at Bank Alfalah Limited as Country Head, Afghanistan and MCB Bank Ltd., Pakistan in various managerial level capacities.

Mr. Mohamed Alhusaini
Vice President - Head of Compliance & MLRO
Member of the Executive Management Committee

Mr. Alhusaini joined BMB in 2011. He has 9 years of experience initially starting in Risk Management and eventually taking up key Compliance and Corporate Governance roles. He is an ICA - International Diploma in Compliance - holder and a Member of the International Compliance Association (MICA).. He graduated with a

Bachelor of Commerce degree majoring in Finance from McGill University in Montreal, Canada. Prior to joining BMB, Mr. Alhusaini worked with Eskan Bank, Kingdom of Bahrain.

Mr. Mohammed Ali Shaikh Al Sitri
Head of Human Resources & Admin.

Mr. Al Sitri joined BMB in 1983. He has over 39 years of experience in human resources, administration, training and development of staff. He is also a board member at B.M.B Property Service W.L.L, a subsidiary of Bahrain Middle East Bank.

He has received extensive training in human resources and banking through courses in the U.K. and in the Kingdom of Bahrain. Prior to joining BMB, Mr. Al Sitri worked with Aluminum Bahrain in the Human Resources Department.

Mr. Philip Morley
Senior Vice President - Head of Information Technology

Mr. Morley joined BMB in 1998. He has over 19 years of experience in the IT Industry with in-depth knowledge of application systems, software development, project management and IT Infrastructure expertise. Prior to joining BMB, Mr. Philip Morley served as a consultant handling projects for various multinational organizations in India.

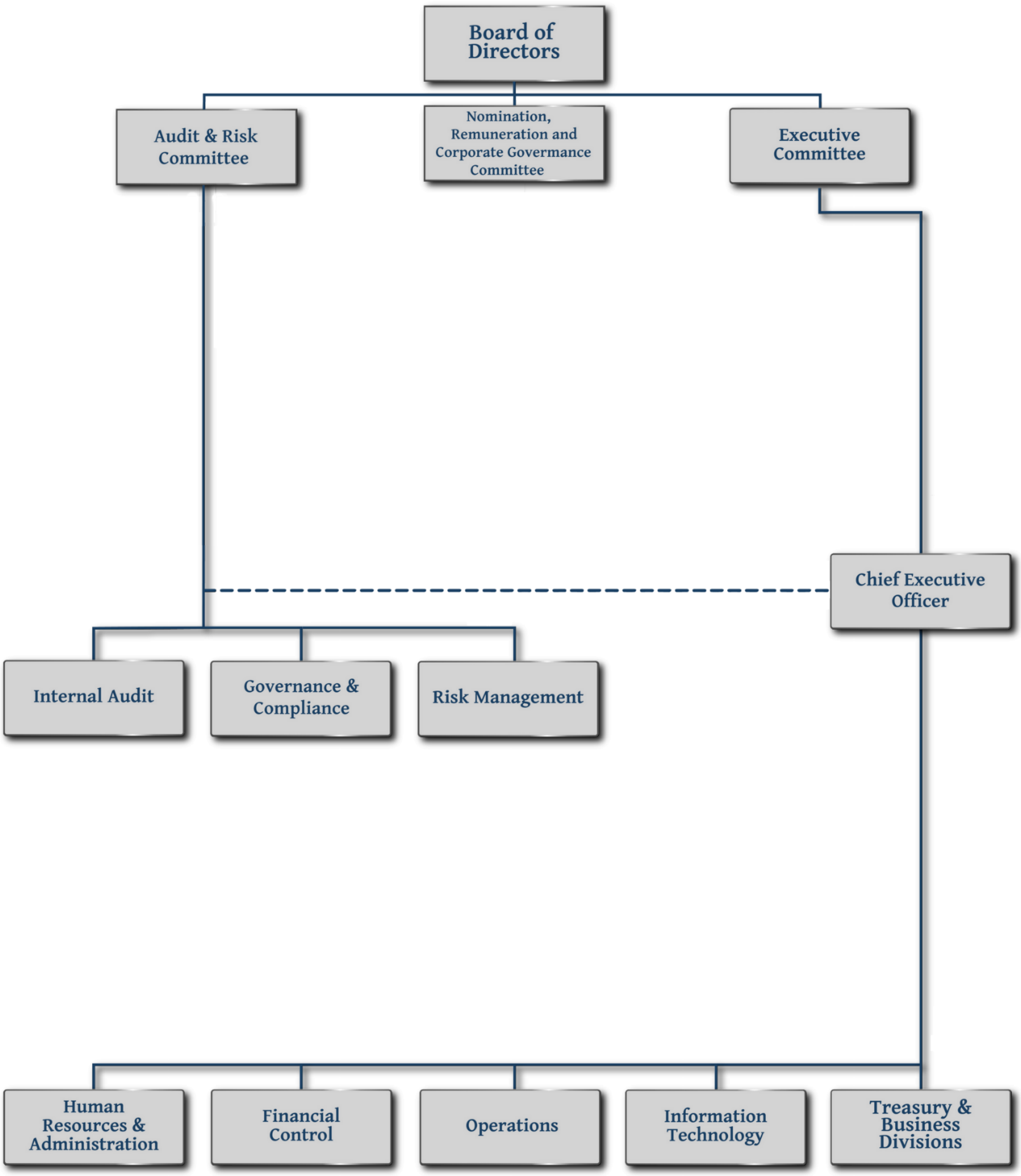
Ms. Sulagna Ghosh
- Head of Internal Audit

Ms. Ghosh joined BMB in June 2017. Ms. Ghosh is a Member of The Institute of Internal Auditors and a qualified Chartered Accountant and an Associate Member of the Institute of Chartered Accountants of India.

She has over 12 years of experience in audit and consulting in the financial services and private equity sector in India and in the Kingdom of Bahrain.

Prior to joining BMB, she served as a Manager at Ernst & Young, Kingdom of Bahrain, with primary focus on audit of key investment, commercial banks and asset management companies. Her work in India covered assurance and fraud investigation services in manufacturing, trading and service industries.

CORPORATE STRUCTURE



CORPORATE GOVERNANCE REPORT

1. Introduction

BMB operates under a written Corporate Governance Framework ("CGF") drawn from the Corporate Governance Code of the Kingdom of Bahrain and follows internationally recognized best practice principles and guidelines. The CGF of BMB depicts the goals, roles and responsibilities for its Board of Directors, management and staff, and includes well defined reporting lines and structures. At the department level, the Bank employs detailed policies and procedures, segregation of duties and dual controls to be in conformance with the Code.

2. Framework

The Corporate Governance Framework of the Bank includes:

- A Disclosure Policy;
- Code of Conduct policy;
- Code of Ethics;
- Whistle Blower Policy;
- Remuneration Policy;
- Key Persons Dealing Policy; and
- Corporate Governance Policy.

3. Shareholders

The shareholding structure of the Bank as at 31 December 2018 is as follows:

3.1 Top five shareholders

Name of the shareholder	Number of shares	% of shareholding
AN Investment W.L.L. (Bahrain)	323,088,497	80.77%
Al Fawares Holding Company K.S.C. (Kuwait)	57,906,308	14.48%
Securities Group K.S.C. (Kuwait)	11,760,000	2.94%
Shaikh Rashed Khalifa Hamad Al Khalifa (Bahrain	2,160,000	0.54%
Various other shareholders	5,085,195	1.27%

3.2 Distribution of shareholders as percentage of total outstanding shares

Ordinary shares	Number of shares	Number of shareholders	% of shareholding
Less than 1%	7,245,195	13,120	1.81%
1% to less than 5%	11,760,000	1	2.94%
5% to less than 10%	-	-	-
10% to less than 20%	57,906,308	1	14.48%
20% to less than 50%	-	-	-
50% and above	323,088,497	1	80.77%
Total	**400,000,000**	**13,138**	**100.00%**

Shareholders (continued)

3.3 Distribution of shareholders by nationality

Country	% of shareholding
Kingdom of Bahrain	81.70%
State of Kuwait	18.09%
Kingdom of Saudi Arabia	0.20%
Others	0.01%
Total	**100.00%**

3.4 Shares held by government, directors and senior management of the Bank

Neither the Government of the Kingdom of Bahrain nor the directors and senior management of the Bank hold any shares of the Bank.

3.5 Insider Trading

No trading of the Bank's shares was undertaken by its Directors or senior management during the financial year 2018.

4. The Board of Directors

4.1 Responsibilities of the Board

The Board is ultimately responsible for the governance and performance of the Bank. The Board discharges that responsibility by:

- Setting the strategic direction of the Bank including review of business plan, assess the adequacy of capital, set performance objectives and oversee major capital expenditures;
- Ensuring that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the bank is exposed in its business activities, whilst ultimately reviewing, approving and understanding the risk strategy, guidelines, policy statements and the nature and level of various risks accepted by the Bank.
- Ensuring that the systems and controls framework, including the Board structure and organizational structure of the bank, is appropriate for the bank's business and associated risks through establishing a robust corporate governance system and risk management framework which includes setting risk limits, internal controls, policies and procedures and a compliance framework system to foster compliance with applicable laws and as well as professional standards and ethics by itself and Bank staff and monitoring the same for implementation;
- Reviewing its own and the Bank management's performance; and
- Preparation and reporting of the Bank's financial results in a fair and transparent manner.

4.2 Structure and Composition of the Board

In accordance with the Bank's Articles of Association, the Board is elected by the Bank's shareholders. The current composition of the Board is seven Directors, with all being Independent Directors. Collectively, the Board possesses knowledge, experience and skills appropriate for the Bank.

The Board is responsible for considering whether there is an appropriate balance of Executive and Independent Directors on the Board. The current members of the Board of Directors are all independent. The Board has concluded that the current Board composition is appropriate.

The roles and responsibilities of the Chairman and the CEO are separate from one another.

The Chairman's main responsibilities are:

- To lead the Board and ensure the effective engagement and contribution of all Directors, so that the Board may fully discharge its legal and regulatory responsibilities;
- To ensure effective communication with shareholders and ensure that the Board members understand the views of the major shareholders; and
- To develop a constructive relationship with the CEO and to manage his performance.

The day-to-day management of the Bank has been delegated by the Board to the CEO. The CEO is responsible for the control and monitoring of the Bank's business on a day-to-day basis, recommending strategy to the Board, leading senior management and implementing the Board's strategic and operational decisions.

Independent Directors have the flexibility to meet prior or post the Board meetings and to review issues without the presence of the other Board members.

4.3 Appointment / Re-election of the Board

Subject to the Ordinary General Meeting dated 30 December 2018 and to the approval of the Central Bank of Bahrain, The members of the Board were elected for a three-year term from 30 December 2018 to 30 December 2021. The Board was elected by acclimation.

4.4 Induction and professional development

Induction programs are tailored for all newly appointed Directors. The program comprises a comprehensive Directors' Handbook, meetings with other Directors and senior management, as well as comprehensive guidance on the duties and responsibilities of Directors, the Bank's policies and procedures and relevant legal and regulatory requirements.

The Board of Directors (continued)

4.5 Assessment of the Board

The Board shall conduct an evaluation of its performance and the performance of all committees and directors at least once a year. A performance evaluation report of the Board and the committees shall be conducted and reported to the shareholders in the scheduled general meeting. However, due to the resignation of the previous Board and the election of the current Board, the performance evaluation report was not undertaken for the year end of 2018.

4.6 Meetings of the Board of Directors and Committees

The previous Board of Directors met as per the constitution of each Committee and in line with the Articles of the Bank and the Corporate Governance Code. They also received information between meetings in respect of activities of the management committee and developments in the Bank's business.

The meeting records in sections below are related to the previous Board of Directors whose term ended on 7 December 2018. The current Board of Directors which was elected on 30 December 2018 and appointed on 14 January 2019 have held no meetings in 2018.

4.6.1 Meetings of the Board of Directors

The previous Board of Directors met 4 times during the year ended 31 December 2018, on the dates listed below:

The Previous Board of Directors:

Name of Director	Board Meetings (Location: Kingdom of Bahrain)			
	31 January 2018	3 May 2018	26 July 2018	7 November 2018
Mr. Wilson S. Benjamin	✓	✓	✓	NA
Mr. Murat Solak	✓	✓	✓	✓
Mr. Ebrahim A. S. Bu Hendi	✓	✓	✓	✓
Prof. Awadh Kh. Al-Enezi	✓	✓	✓	✓
Mr. Karunaker Nampalli	✓	✓	✓	NA
Mr. Jawad Naser Jawad Jaafar	✓	✓	✓	✓
Mr. Yohannan Abraham	✓	✓	✓	✓
Mr. Govindan Swaminathan	✓	✓	✓	✓

✓ - *Present, including attendance through conference calls*
X - Absent
NA - Not applicable. The Board member resigned prior to this meeting.

4.6.2 Meetings of the Executive Committee

The Executive Committee of the previous Board of Directors met 4 times during the year ended 31 December 2018, on the dates listed below:

The Previous Members:

Name of Director	Executive Committee Meetings			
	31 January 2018	2 May 2018	25 July 2018	7 November 2018
Mr. Murat Solak	✓	✓	✓	✓
Mr. Yohannan Abraham	✓	✓	✓	✓

4.6.3 Meetings of the Audit & Corporate Governance Committee*

The Audit and Corporate Governance Committee of the previous Board of Directors met 4 times during the year ended 31 December 2018, on the dates listed below:

The Previous Members:

Name of Director	Audit & Corporate Governance Committee Meetings			
	21 January 2018	3 May 2018	25 July 2018	7 November 2018
Mr. Ebrahim A. S. Bu Hendi	✓	✓	✓	✓
Prof. Awadh Kh. Al-Enezi	✓	✓	✓	✓
Mr. Jawad Naser Jawad Jaafar	✓	✓	✓	✓

✓ - *Present, including attendance through conference calls*
X - Absent

4.6.4 Meetings of the Nomination & Remuneration Committee*

During the year ended 31 December 2018, the Nomination & Remuneration committee met on the dates listed below. The aggregate remuneration paid to its members during 2018 amounted to US$ 12 thousand.

The Previous Members:

Name of Director	Nomination & Remuneration Committee Meetings	
	22 January 2018	7 November 2018
Prof. Awadh Kh. Al-Enezi	✓	✓
Mr. Ebrahim A. S. Bu Hendi	✓	✓
Mr. Jawad Naser Jawad Jaafar	✓	✓

✓ - *Present, including attendance through conference calls*
X - Absent

*As of 14 January 2019, the newly appointed Board of Directors resolved to create an Audit & Risk Committee and a Nomination, Remuneration and Corporate Governance Committee which replaces its predecessor committees.

4.7 Board Committees

The Board has established the following three committees to ensure that it carries out its functions and provides effective supervision and leadership:

- Executive Committee
- Audit & Risk Committee
- Nomination, Remuneration & Corporate Governance Committee

During the year 2018, the Audit Committee and Risk Committee have been combined together to form the Audit & Risk Committee. In addition, the Nomination committee, the Remuneration Committee and the Corporate Governance committee were also combined . This is based on the activities of the Bank, the size of the Board and was done with the prior approval of the Central Bank of Bahrain.

4.7.1 Executive Committee (“EXCO”)

The primary responsibilities and functions of EXCO are to:

- Act on behalf of the Board when practicality and expediency dictates;
- Act in limited circumstances, on emergency matters that require immediate approval or other actions of the Board;
- Ensure continuity in the management of the business and affairs of the Bank;
- Discuss at greater lengths various macro management aspects of the Bank, including investments, credit, risk and capital adequacy aspects of the Bank;
- Provide an avenue where specific issues may be explored in greater depth than may be possible during Board meetings; and
- Act as an advisor to the Board on various matters.

4.7.2 Audit & Risk Committee

The primary responsibilities and functions of the Audit & Risk Committee are to provide assistance to the Board to fulfill its duties to ensure and oversee:

- The integrity of the Bank’s financial statements;
- A sound risk management culture is established throughout the bank;
- The suitability, independence and performance of the Bank’s auditors (internal and external);
- Internal controls, including controls over financial reporting and disclosure; and
- Compliance with legal and regulatory requirements.
- Appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff;
- Uncertainties attached to risk measurement are recognized;

- Management is taking all necessary steps to monitor and control all material risks consistent with the approved strategies and risk appetite;

Generally, the role of the Audit & Risk Committee is advisory in nature, with recommendations reported to the Board for final approval. However, in certain limited circumstances decisions may be taken by the committee, which are binding on the Board (i.e. approving the terms of engagement of the external auditor). The committee holds a minimum of four meetings per year and provides regular reports to the Board.

4.7.3 Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance Committee responsibilities are to:

- Identify persons qualified to become members of the Board or senior managers of the Bank (with the exception of the appointment of the internal auditor which is the responsibility of the Audit & Risk Committee), and make recommendations accordingly;
- Review the Bank's remuneration policies for approved persons consistent with Central Bank of Bahrain ("CBB") guidelines, corporate values and strategy of the Bank;
- Make recommendations regarding remuneration policies and amounts for approved persons to the Board, taking account of total remuneration including salaries, fees, expenses and employee benefits;
- Recommend Board member remuneration based on their attendance and performance; and
- Oversee Directors' corporate governance educational activities.
- To oversee the annual performance evaluation of the Board and individual Directors;
- To ensure the compliance with regulatory requirements relating to corporate governance; and
- Report on corporate governance matters to the Bank's constituents; in particular reference to the regulator and shareholders.

In determining the composition of the Board, the Committee considers the knowledge, skills and experience required by the Board. No Director participates in any decisions regarding his own appointment or remuneration. The Committee is authorized to take certain appointment and remuneration decisions which may bind the Board. In all other cases, recommendations are made to the Board for its final approval.

5. Code of Ethics, Conflict of Interest and Whistle Blowing

The Nomination, Remuneration & Corporate Governance Committee reviews the Code of ethics and conflict of interest declarations by each Board member and employees of the Bank, and reports to the shareholders at each Annual General Meeting.

The Board maintains awareness of other commitments of its Directors and senior management. BMB implemented a Directors' Conflict of Interest Policy which is part of the Code of Conduct. As at 31 December 2018, the Board was satisfied that the other commitments of the Directors and senior management do not conflict with their duties pertaining to the current Board of Directors.

The Board confirms that it has not denied any employee access to the Audit & Risk Committee and that it has provided protection to whistle blowers from adverse personnel action.

6. Internal Controls Framework

The Board is responsible for establishing and reviewing the system of internal control and is committed to managing risks and ensuring that effective measures are in place to safeguard the Bank's assets, ensure proper accounting records and reliable financial information by procedures designed to avoid or reduce risks and ensure compliance with applicable laws and regulations. The Bank's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles.

While the Audit & Risk Committee oversees and reviews the Bank's policies and their implementation, day-to-day responsibility and implementation of internal control rests with the Senior Management and thus from a control perspective, the internal controls are facilitated through a three line of defense model that includes the setup of independent control functions, which report directly to the Board and/or the Audit & Risk Committee.

First line of defense	Functions that own and manage risk like the Business Units.
Second line of defense	Independent control functions that oversee or specialise in risk management and compliance.
Third line of defense	The internal audit function, which is an independent control function that provides assurance.

Risk Management Function

The Group's Risk Management function is an independent control function headed by the Head of Risk Management who reports directly to the Audit & Risk Committee of the Board and acts as the second line of defense. It is independent of the business lines to ensure an adequate separation of duties and to avoid conflicts of interest. It also acts as the focal point for risk management to the Board and the Audit & Risk Committee and It is responsible for monitoring and ensuring policies are adhered to as part of its policy supervision role and to ensure that all material risks are properly assessed and controlled under the risk framework that encompasses the risk management process.

Compliance Function

Also, under the internal control framework's second line of defense comes the Compliance function that ensures compliance with regulatory and statutory requirements and also includes compliance with anti-money laundering procedures and internal training in such procedures, which is monitored and implemented by the Bank's compliance officer. Moreover, the Bank's compliance officer also serves as its Money Laundering Reporting Officer ("MLRO") for financial crimes regulatory purposes.

Internal Audit Function

An internal audit function exists at Group, acting as the third line of defense which reports to the Audit & Risk Committee on the effectiveness of key internal controls and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of BMB's departments and subsidiaries. The Internal Audit produces an annual Risk-Based Internal Audit Plan which is approved by the Audit & Risk Committee and revisited to allow flexibility in a changing risk environment. Over the past year, Internal Audit has also been supporting the Management in conducting their internal investigations and recovery efforts.

On an ongoing basis, the Board along with Audit & Risk Committee and management reviews the internal controls and suggests changes to further enhance and improve the framework.

7. External Auditors

Ernst & Young were appointed as the external auditors of the Bank for the year 2018 by the shareholders in the Annual General Meeting held on 21 March 2018.

The Audit & Risk Committee and Articles of Association include measures to ensure ongoing independence of the Bank's external auditors. The details of audit and non-audit fees payable to the external auditors are available at the Bank's corporate office.

The Bank's external auditors have unhindered access to the Audit Committee, Executive Committee, and the Board of Directors, with or without members of management being present to discuss their audit findings and any other matter which should be brought to the attention of the Board.

8. Related-party transactions

Details of all transactions where a Director and/or other related parties might have potential interests are provided to the Board for its review and approval, and the interested Directors neither participate in the discussions nor vote on such matters.

Reports and investigations produced by the Central Bank of Bahrain, its appointed expert, the Bank's internal and external auditors have concluded that material transactions were entered during the period or were outstanding that were with an undisclosed related party. These amount to $USD 195 million (gross amount) as of 31 December 2018 representing 95% of the total assets of the Bank.
For details of the Bank's related party transactions and balances at 31 December 2018, please see Note 25 of the audited consolidated financial statements as of 31 December 2018.

9. Communication with shareholders

In addition to the Bank's extensive disclosure through its annual report and website, the Chairman and the CEO are in regular dialogue with the controllers to ensure that the Board understands their views.

In compliance with CBB regulations under PD Module of the Volume 1 of CBB Rulebook, the Bank has an approved

Public Disclosure policy that discloses material information about its activities to various stakeholders of the Bank.

10. Dividend policy

The Bank's dividend payout is dependent on the financial position of the Bank and the overall strategy as determined by the Board.

11. Remuneration

In 2014, the shareholders approved a Remuneration Policy and an Employee Shares Incentive Plan to comply with CBB's Guidelines on Sound Remuneration Practices. The Remuneration Policy formalizes the basis for remuneration in the Bank for the Directors and all staff, by effectively linking remuneration to performance. It also introduces new methods that ensure rewards are properly linked with the risks being taken and the timing and likelihood of future revenues. It introduces provisions for clawback and malus to protect the shareholders' interests in case of deterioration of the business due to past actions of individuals employed by the Bank. It also includes back testing and stress-testing methodologies to ensure that the policies adopted are suitable for the intended purpose.

The Nomination, Remuneration and Corporate Governance Committee ("NRCC") is responsible for the effective implementation and maintenance of the Remuneration Policy. It approves the remuneration system in the Bank, which includes remuneration for each member of Executive Management and the total variable remuneration to be distributed. The remuneration pool is set to materially mirror the performance of the Bank. NRCC is also responsible for administrating the long-term performance assurance measures such as deferral of remuneration or, when required, clawback and malus.

The foremost principle of the remuneration system is Risk Management, where remuneration must be effectively aligned with prudent risk taking practices and discipline at all levels of the Bank. The remuneration of all executive management must be adjusted for all types of risks. Any given bonus or variable remuneration may not be linked directly to a revenue amount or a net profit figure without taking into account risk factors for possible adjustment.

As a minimum, the following risks are evaluated by the Audit & Risk Committee annually and remuneration adjusted accordingly:

- Credit;
- Market Risk;
- Operational Risk;
- Liquidity Risk;
- Investment Risk
- Capital Adequacy;
- Reputational Risk;
- Legal Risk;
- Regulatory Risk; and

- Timing of revenues, risks and cash flow.

In its review of those risks, NRCC with obtaining risk related inputs from the Head of Risk Management in line with the roles defined in the remuneration policy, uses various quantitative and qualitative data to form its opinion. The experience and judgement of the Board members is relied on in particular for assessing risks that are subjective in nature.

The deferral of remuneration is an instrumental tool in ensuring that, where profits and losses are realised over different periods of time, the remuneration is aligned to the time horizon of the risks. This would be applicable particularly where the time horizon of the future cash flows is either far into the future or uncertain. The NRCC examines closely pay-outs made out for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of the pay-out.

The forms of remuneration approved are cash and equity, with the form and mix of remuneration in either of those instruments' dependent on the proper alignment of risks.

The Remuneration system takes into account the overall performance of the Bank, however individuals employed at all levels are primarily remunerated based on their performance vis-à-vis achieving their set objectives. The system distinguishes between Executive Management engaged in risk taking and those in control functions, whose objectives are different and are measured accordingly.

Material Risk Takers are executives who through their activity and authority have a material impact on the risk exposure of the Bank and its ability to generate revenue and profits. Material Risk Takers are paid with both fixed and variable elements. The variable remuneration component constitutes a substantial portion of the potential total remuneration for such executives during each year and increases significantly along with the level of seniority and responsibility. Half of the variable remuneration paid to these officers is required to be in equity. On the other hand, executives and staff employed in control functions are remunerated independently of the business areas that they oversee. The performance measures of such persons must be based principally on the achievement of the objectives and targets of their functions rather than the performance of the business line they may be monitoring for the Bank. As such, the mix of fixed and variable remuneration for control function staff is weighted in favor of fixed remuneration.

11. Remuneration (continued)

The remuneration paid out to the Board Members, approved persons in business lines, approved persons in control functions, other material risk takers and other staff with details on amounts, deferrals and instrument type is disclosed below:

Fixed & Variable Remuneration (US$ '000)	**2018**		**2017**	
	Fixed	**Variable**	**Fixed**	**Variable**
Members of Board of Directors - Sitting Fees	117	-	119	-

Members of Board of Directors - Other Remuneration	-	-	-	-
Approved Persons in Business Lines	499	-	734	169
Approved Persons in Control Functions	912	-	671	373
Other Material Risk Takers	58	-	-	-
Other staff not included in above categories	1,013	-	984	152

Variable Remuneration (US$ '000)	**2018**		**2017**	
	Cash	**Equity**	**Cash**	**Equity**
Members of Board of Directors	-	-	-	-
Approved Persons in Business Lines	-	-	64	105
Approved Persons in Control Functions	-	-	202	170
Other Material Risk Takers	-	-	-	-
Other staff not included in above categories	-	-	152	-

No guaranteed bonuses, sign-on rewards or severance payments were awarded during the year.

In 2015, the Group had initiated a share incentive plan under which eligible employees receive a portion of their annual performance-based incentive compensation in the form of shares vesting over a period of three years. These shares were granted to the employees at US$ 15 cents per share. There are 1,950 thousand shares (2017:3,856 thousand) in the incentive plan. All these shares have commenced vesting, but have not fully vested as at 31 December 2018. An income statement reversal of US$ 286 thousand (2017: charge of US$ 126 thousand) was taken by the Group based on management's best estimate of the number of shares that are likely to vest.

The movement in the number of shares is as follows:

Number of shares '000	**2018**	**2017**
Opening	3,856	10,112
Granted during the year	-	1,833
Vested during the year	-	-
Forfeited during the year	(1,906)	(8,089)
Closing	**1,950**	**3,856**

The start and end date of the vesting period is based on continued employment as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognised as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

11.1 Aggregate remuneration to the Board of Directors and senior management

The aggregate remuneration to the Board of Directors and senior management is disclosed above. Further details, including the specific amounts paid to Board Committee members, are available at the corporate office of the Bank.

12. Employment of Relatives of Approved Persons

As a matter of policy, the Bank avoids the employment of any close relative of any member of its existing staff. Employing relatives would be with consideration to the applicants' qualifications and merits and is subject to approval by the NRCC, with the condition that any conflicts of interest (if any) be fully disclosed and accepted by the committee.

The Chief Executive Officer discloses to the Board annually the close relatives of any approved persons occupying controlled functions within the Bank.

During the year, the Bank did not employ any close relatives of any staff of the Bank.

13. Corporate Social Responsibility

The Bank is devoted to fulfilling its commitments as a good corporate citizen in the communities in which it operates. The Bank seeks through social responsibility to exercise its role as a good citizen. BMB emphasize this obligation to our community by supporting initiatives that enhance value to the education infrastructure, local sport activities, health awareness and medical facilities. This in addition to encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

We strive to support the local communities in its efforts to develop the quality of life of the people of the Kingdom of Bahrain. During the year 2018, charitable donations were made, and activities were organized for the purpose of corporate social responsibility. The bank has spent an amount of almost $33,000 in total before the year end.

14. Large exposures

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures as stipulated in the CBB Rulebook. All of the Bank's exposures (excluding short term interbank exposures which are exempt) are considered large exposures as the regulatory capital of the Group is negative as of 31 December 2018.

15. Financial penalties imposed by the CBB

During the year, the CBB imposed the following financial penalty on the Bank.

Nature of Financial Penalty	Reference	Amount of penalty (BHD)
Dealing with financial institutions in Bahrain without CBB approval and in violation with the CBB Rulebook (six related violations)	LR-1.2.13 of CBB Rulebook – Volume 1	60,006

16. Corporate Governance Code and Status of Compliance

The Bank's Board and management have endeavored to comply with the Corporate Governance requirements as prescribed in the High-Level Controls Module and Public Disclosures Module of the CBB Rulebook Volume 1. The Rulebook incorporates the Corporate Governance requirements issued by the Ministry of Industry and Commerce. The Bank's Corporate Governance framework contains a full set of Charters, Policies, and a Corporate Governance Committee in line with the guidelines and industry best practices.

The External Auditors of the Bank have also reviewed the adherence of the Bank to the Corporate Governance Code and the disclosure requirements of the CBB.

The Code, in addition to its general provisions and definitions, contains eleven fundamental principles of corporate governance, each of which contains several guidelines and directives to be applied and considered by the Bank when declaring its compliance with the provisions of the Code pursuant to the Comply or Explain Principle.

The implantation of the Code shall be based on the "Comply or Explain" Principle, meaning that the Bank shall comply with the provisions of the Code or provide an explanation in the case of non-compliance, as provided in the table below;

It is also important to note that the implementation of the Comply or Explain Principle cannot prevail over any mandatory legal provisions of the Law whether in the Commercial Companies Law or other.

Compliance with the provisions of the Corporate Governance Code during the year ended 31 December 2018, as follows:

Principle	Non-complaint	Partially complaint	Fully complaint	Explanation in case of non-compliance
Principle 1: The Company shall be headed by an effective, qualified and expert board.		√		The Central Bank of Bahrain has directed the previous Board of Directors to resign on 14-11-2018 and be replaced by a more qualified Board of Directors after identifying several compliance failures. A new Board of Directors has been appointed on 14-01-2019.
Principle 2: The directors and executive management shall have full loyalty to the company.	√			It was discovered that certain members of the previous Board of Directors and previous Executive Management have executed agreements benefitting a related party to the detriment of the company's own interest. Those agreements were made without

				proper internal and regulatory disclosure.
Principle 3: The Board shall have rigorous controls for financial audit and reporting, internal control, and compliance with law.	√			The Company was fined on 4 December 2018 BD 60,006 by the Central Bank of Bahrain relating to six violations of the CBB Rulebook.
Principle 4: The Company shall have effective procedures for appointment, training, and evaluation of the directors.			√	
Principle 5: The Company shall remunerate directors and senior officers fairly and responsibly.			√	
Principle 6: The Board shall establish a clear and efficient management structure for the Company and define the job titles, powers, roles and responsibilities.			√	
Principle 7: The Company shall communicate with shareholders, encourage their participation, and respect their rights.			√	
Principle 8: The Company shall disclose its corporate governance.			√	
Principle 10: The Board shall ensure the integrity of the financial statements submitted to shareholders through appointment of external auditors.			√	
Principle 11: The Company shall seek through social responsibility to exercise its role as a good citizen.			√	

Compliance with the provisions of the High Level Controls Module of the CBB Rulebook Volume 1 Code during the year ended 31 December 2018, as follows:

The Bank complies to the requirements of the above, as at 31 December 2018 with the following exceptions, which are duly explained below.

Rule-book Reference	Regulation	Status and Explanation
HC-1.8.1	The board must establish Audit, Remuneration, Nominating and Risk Committees described elsewhere in this Module.	The requirement to have a Risk Committee was added to the CBB Rulebook in July 2018. A Risk Committee was established by the Board on January 14, 2019 and combined with the Audit Committee. Previously, Risk Management framework matters were covered by the Audit Committee.
HC-1.9.1	At least annually the board must conduct an evaluation of its performance and the performance of each committee and each individual director.	Due to the resignation of the previous Board, the performance evaluation report was not undertaken for the year end of 2018.
HC-6.2.1	The board must appoint senior management whose authority must include management and operation of current activities of the conventional bank licensee, reporting to and under the direction of the board. The senior management must include at a minimum: (a) A CEO; (b) A chief financial officer; (c) A corporate secretary; and (d) An internal auditor, and must also include such other approved persons as the board considers appropriate.	The positions of CEO and CFO were vacant as of 31 December 2018. CBB approval was obtained on 31/1/2019 on the Board’s appointment of an Acting CEO.
HC-6.5.51	Senior management must ensure that all internal audit findings and recommendations are resolved within six months for high risk/critical issues and 12 months for any other issues from the issue date of the subject internal audit report.	An unresolved internal audit finding relates to the non-compliance with the CBB capital requirements of maintaining a minimum of $100 million in shareholder’s equity (LR-2.5.2B). The Board and Senior Management are assessing all possible alternatives to address the capital deficiency.
HC-6.6.9	[..]The CRO is responsible for supporting the board and the Risk Committee, as appropriate, in its engagement with and oversight of the development of the bank’s risk strategy, risk appetite statement (‘RAS’) and for translating the risk appetite into a risk limits structure.	These requirements have been added to the CBB rulebook in July 2018. A Risk Appetite statement and risk limits structure document was developed and presented to the previous Board for approval in November 2018. However, the Board has resigned prior to approving the document.

It is to be noted that there were several points of non-compliance reported in previous periods relating to the guidelines of the High-Level Controls module of the CBB Rulebook Volume 1. These pertain to certain arrangements related to the previous Board of Directors whose term ended on 7 December 2018 and are no longer applicable. The Chairman of the Board of Directors was an Executive Director which was not in compliance with HC-1.4.6 and HC-1.4.8. Currently, the Chairman is an Independent Director which complies with those requirements.

KEY PERFORMANCE INDICATORS

5 years key ratios	2018	2017 (Restated)	2016 (Restated)	2015	2014
Gross operating income (US$ ‘000)	11,437	10,897	11,157	12,566	12,231
Net (loss) profit (US$ ‘000)	(189,372)	3,491	5,073	5,079	4,524
Return on average assets (%)	-133%	2%	3%	3%	3%
Return on average shareholders’ equity (%)	-189%	6%	15%	15%	15%
Cost-to-income (%)	46%	41%	51%	44%	43%

Report to shareholders on Conflicts of Interest for the year 2018

To
The Shareholders
Bahrain Middle East Bank BSC
Manama
Kingdom of Bahrain

We, the Board of Directors of Bahrain Middle East Bank, hereby submit the following report to the Shareholders regarding conflicts of interest in compliance with Corporate Governance Code and Central Bank of Bahrain's Rule Book (High Level Controls Module, Para HC-2.5.1).

It must be noted that the Board of Directors serving in 2018 (from 1/1/2018 to 7/12/2018) has been subsequently replaced by the current Board of Directors appointed on 14/1/2019. As such, the below statements pertain to the period of the previous Board's term.

Upon review of the records available with the Bank, we can confirm the following:

1. The Board has established and disseminated among its members and management policies and procedures for identification, reporting, disclosure, prevention or strict limitation of potential conflicts of interest.

2. The Board has established formal procedures for periodic disclosure and updating of information by each approved person on his actual and potential conflicts of interest and obtained written undertakings from all approved persons in that regard for the year 2018.

3. During the year 2018, there was one abstention by one board member (Murat Solak) from voting motivated by a conflict of interest while approving the extension of the tenor of a loan provided to a related party (Kredi Finans).

4. During the year 2018, the board has ratified a payment made to Bordo Gida for business expenses of a total of (EUR 7,620). They have not authorized any transaction that was disclosed as a conflicted transaction or contract.

The above notwithstanding, reports and investigations produced by the Central Bank of Bahrain, its appointed expert, the Bank's internal and external auditors have concluded that material transactions were entered during the period or were outstanding that were with an undisclosed related party. These amount to $USD 195 million (gross amount) as of 31 December 2018 representing 95% of the total assets of the Bank.

For and on Behalf of the Board of Directors of BMB

25 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Bank are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the year and balances as at 31 December 2018 and 31 December 2017 are set out below:

	Key management personnel		*Shareholders and their related parties*	
		Restated		*Restated*
	2018	*2017*	***2018***	*2017*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Statement of financial position				
Assets				
Exposures to related parties (refer note 4 and 11)	**-**	-	**195,031**	166,426
Impairment allowance (refer note 11)			**(195,031)**	(6,751)
Liabilities				
Deposits	**-**	-	**94**	267
Other liabilities - employee leaving indemnity	**436**	242	**-**	-

	Key management personnel		*Shareholders and their related parties*	
		Restated		*Restated*
	2018	*2017*	***2018***	*2017*
	US$ '000	*US$ '000*	***6557***	*6545*
Statement of income				
Interest income	**-**	-	**10,264**	11,548
Fee and commission income	**-**	-	**39**	52
Fee and commission expense			**7**	-
Assets under management				
Clients' assets under management placed with a related party (refer note 29)	**-**	-	**32,921**	9,492

Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

		Restated
	2018	*2017*
	US$ '000	*US$ '000*
Salaries and other short-term employee benefits	**1,268**	1,250
Employee leaving indemnity	**45**	32
	1,313	1,282
Directors' remuneration	**119**	119

Guarantee

The Bank has received a corporate guarantee from its shareholder that is connected to installment sale receivable (refer note 10), and an additional guarantee was obtained from two associates of that shareholder.

Attachment 6

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Bahrain Middle East Bank B.S.C.

Minutes of the Extra Ordinary General Meeting

Upon the invitation of the Board of Directors of Bahrain Middle East Bank B.S.C. ("the Bank"), the Extra Ordinary General Meeting was held at 10:10 AM on Wednesday, 21 March 2018 at the Bahrain Conference Centre, the Crowne Plaza Hotel, Manama, Kingdom of Bahrain. The meeting was held in the presence of representatives of the Central Bank of Bahrain, Ministry of Industry and Commerce, Bank's Auditors (Ernst & Young), Bahrain Bourse, Bahrain Clear and Bank's Legal Advisors Zeenat Al Mansoori, as listed:

1. Central Bank of Bahrain – Wholesale Banking Supervision Directorate
Mr. Isa Al Motawaj
Mr. Abdulla Al Hammadi

2. Central Bank of Bahrain – Capital Markets Supervision Directorate
Mr. Ahmed Al Alawi
Ms. Sara Maidan

3. Ministry of Industry & Commerce
Mr. Jaafer Saeed Ahmed Mohamed
Mrs. Hawraa Khalaf

4. Bank's Auditors – Ernst & Young
Mr. Esa Al Jowder
Mr. Arsalan Ahmed

5. Bahrain Bourse
Mr. Mohamed Jubail

6. Bahrain Clear
Mrs. Heba Mubarak Mahmood
Mrs. Huda Mohamed Al Tarboosh

7. Bank's Legal Advisor – Zeenat Al Mansoori
Ms. Reem Al Rayes
Ms. Noor Sadiq

Meeting's Quorum

The meeting was attended by shareholders who have voting rights representing 95.25% of the total Shareholding.

The meeting was chaired by Mr. Wilson Benjamin, the Chairman of the Board of Directors, who welcomed those in attendance. The meeting thereon deliberated on the pre-circulated Agenda:

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Agenda Item No 1: ***Review and approve the Minutes of the Extra Ordinary General Meeting of the Shareholders held on 22 October 2017***

The Minutes pre-circulated were deemed to be read. With no queries or clarifications sought, the said Minutes were approved, and the following resolution proposed by the Chairman was adopted:

"Resolved that the Minutes of the Extra Ordinary General Meeting of the Shareholders held on 22 October 2017 be and is hereby approved."

Agenda Item No 2: ***Amend Article (24), (25), (26), (33), (40), (47), (48), (49) and (50) of the Articles of Association of the Bank to comply with the Legislative Degree No. 1 of 2018 containing amendments to certain articles and provisions of the Commercial Companies Law.***

The shareholders agreed to amend Article (24), (25), (26), (33), (40), (47), (48), (49) and (50) of the Articles of Association of the Bank to comply with the Legislative Degree No. 1 of 2018 containing amendments to certain articles and provisions of the Commercial Companies Law, and the following resolution proposed was adopted:

"Resolved to amend the Articles of Association of the Bank to comply with the amendments to the Commercial Companies Law as above mentioned."

Agenda Item No 3: ***Appoint Zeenat Al Mansoori & Associates to sign the Contracts of Amendment to the Articles of Association of the Bank on behalf of the Shareholders and take all actions and do all such acts, deeds, matters and things as it may deem necessary to carry into effect the foregoing Resolutions as may be determined in the EGM of the Shareholders except for those matters which are the responsibility of the Executive Management as per the law.***

The Board of Directors' recommend appointing Zeenat Al Mansoori & Associates to sign the Contract of Amendment to the Articles of Association and do all such acts as may be necessary carry into effect the foregoing Resolutions as may be determined in the Extra Ordinary General Meeting of the Shareholders, and the following resolution proposed was adopted:

"Resolved to appoint advocates (1) **Amel Al Aseeri**, a Bahraini national holding ID Card No. 831209348; (2) **Batool Al Saffar**, a Bahraini national holding ID Card No. 760800456;

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(3) **Reem Al Rayes**, a Bahraini national holding ID Card No. 880600543; (severally) of **Zeenat Al Mansoori & Associates** whose main office address at Floor 05, Wind Tower, Road 1705, Diplomatic Area, Manama, Kingdom of Bahrain, and any of its representatives, on behalf of and in the name of the Bank and its shareholders to:

- sign the signature of the Deed of Amendment to the Articles of Association of the Bank in front of the Public Notary at the Ministry of Justice; and
- sign, execute and submit any documents on behalf of the Bank and to take all actions and do all such acts, deeds, matters and things as he/she may, in in his/her/ their/ its absolute discretion, deem necessary, desirable or expedient to effect the amendment to the Articles of Association for the aforesaid purpose except for those matters which are the responsibility of the Executive Management as per the law."

****

The Chairman of the Meeting expressed his gratitude to all present for taking the time to attend the proceedings and the Assembly was adjourned at 10:12 AM.

Wilson Benjamin
Chairman of the Meet
Member of the Board of Directors

بنك البحرين والشرق الأوسط ش.م.ب
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Bahrain Middle East Bank B.S.C.

These are provisional Minutes of the Extra Ordinary General Meeting of the Shareholders of Bahrain Middle East Bank B.S.C. held on 21 March 2018, and will be duly ratified by the Shareholders of the Bank on its next meeting.