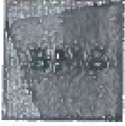
Bahrain Middle East Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019



BAHRAIN
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 submit the Audited Financial Statements for the year ended 31 December 2019.

2019 was a challenging year for BMB. The key focus for the Board and Management was on recovery efforts relating to its non-performing assets. Several difficult decisions were taken to reduce the operational expenses and to divert all available resources towards recovery efforts.

Delay in publication of the financial results:

The quarterly reporting of the financial statements for 2019 was delayed due to the financial statements for 2018 being delayed and signed on 20 November 2019. The financial statements were also approved by the General Assembly on 6 January 2020 along with the re-appointment of the external auditors for the fiscal year 2019.

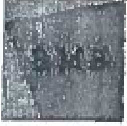
2019 Financial Results:

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 since 16 November 2018 TFC has failed to meet its payment obligations on $194.8 million of outstanding principal exposures (amounting to 86% of the Bank's assets). This caused a net loss for the year 2018 of US$189.4.

During 2019, due to the majority of the Bank's assets being non-performing and the need to utilize the available liquidity and resources to pursue the recovery of those assets, the Bank's income generation was very limited. Total Operating Income has reduced to $1.5 million ($11.4 million in 2018). Total operating costs before one-off provisions decreased by 14% compared to 2018. This decrease was mainly attributed to 11% decrease in staff costs and 98% decrease in travel and business development expenses. Legal and professional expenses showed an increase of 38% due to on-going efforts to recover the non-performing assets. Other operating expenses almost doubled due to Bank's conservative approach to record provisions against potential liabilities. This has resulted in net loss for the year 2019 of US$ 3.9 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. As required by the Bank's Articles of Association and in compliance with Article (210) (e) of the Commercial Companies Law No. 21 of 2001, as amended, the Board called for an Extra-Ordinary General Meeting ("EGM") to decide whether the Bank should continue or should be put under voluntary liquidation. There was no quorum for an EGM to be convened in the meetings called on 23 December 2019, 30 December 2019 and 6 January 2020 and as such this could not be deliberated on.



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YOUR TRUSTED BANKING PARTNER

Subject to any developments or changes to the facts and information currently available, and which may affect the Bank, and the conditions set out in note 2 of the financial statements, the Board of Directors and the Management believe that the Bank will continue to be operational for at least the next twelve months assuming that current contractual liabilities of US$ 127.6 million to a single counterparty continue to be rolled over due to the imposed restrictions. 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 the related parties to restructure while considering various legal options with the objective of achieving recovery. Further, the Board and management are working on different continuity options which includes the restructure of the Bank. The steps taken by the Management so far and planned in future are also explained further in notes to the financial statements.

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 on recovery. If a material recovery is achieved, those funds will be invested in Bahrain sovereign debt.

The primary strategic objective of the Bank is to achieve recovery of the outstanding debts on behalf of its customers and itself. It has directed all resources and efforts toward achieving this objective in recognition that it is key for the continuity of the Bank and the safeguarding of the interests of the stakeholders. To help achieve this objective, and to ensure that the available liquidity is efficiently utilized, the process of thoroughly reducing the operational expenses will continue to be carried out.

The Management and the Board are in discussions with the Bank's external legal advisors to address the deficiency in the Capital of the Bank by restructuring to produce the right environment for 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

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Bahrain Middle East Bank B.S.C. is licensed as a conventional wholesale bank by the Central Bank of Bahrain. CR No. 12266

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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 2019, 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.

Basis 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$ 3.9 million for the year ended 31 December 2019, and as of that date, the Bank has accumulated losses of US$ 216.6 million and the Bank's total liabilities exceeded its total assets by US$ 116.6 million. The Bank's total liabilities amounting to US$ 137.2 million as of 31 December 2019 include a deposit of US$ 127.6 million from a single financial institution that rolls over on a monthly basis. The Bank's ability to repay its liabilities is largely dependent on the recoverability of non-performing exposures of US$ 194.8 million from related parties which were fully provided for as at 31 December 2019. As of the date of our report, the Bank is working on various options, including negotiating with the related parties to restructure the exposures, and other alternative options, with the objective of recovering these exposures. 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 2019 is negative US$ 116.6 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 below 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 2019, 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 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.

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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 Chairman and Chief Executive Officer's Report is consistent with the consolidated financial statements; and

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 2019 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

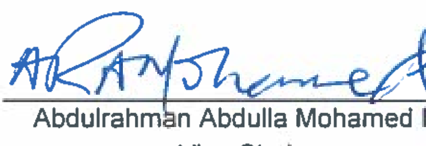
Partner's registration no. 115
24 February 2020
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 US$ '000	2018 US$ '000
ASSETS			
Balances with banks and financial institutions		**4,483**	13,086
Placements with financial institutions	7	**12,885**	14,461
Investment securities	8	**2,357**	14,528
Loans and advances	9	**-**	-
Exposures to related parties	10	**-**	-
Other assets	11	**889**	1,344
TOTAL ASSETS		**20,614**	43,419
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	12	**131,471**	150,524
Due to customers	13	**3,196**	4,076
Other liabilities	14	**2,497**	1,450
Total liabilities		**137,164**	156,050
EQUITY			
Share capital	15	**100,000**	100,000
Accumulated losses		**(216,550)**	(212,631)
Total equity		**(116,550)**	(112,631)
TOTAL LIABILITIES AND EQUITY		**20,614**	43,419

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 30 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 2019

	Note	2019 US$ '000	2018 US$ '000
OPERATING INCOME			
Interest income	17	**377**	12,473
Interest expense	18	**(361)**	(1,044)
Net interest income		**16**	11,429
Gain (loss) on investment securities		**1,017**	(442)
Fee and commission income		**97**	229
Other income		**205**	182
Foreign exchange gain		**189**	39
Total operating income		**1,524**	11,437
OPERATING EXPENSES			
Staff expenses		**2,388**	2,688
Travel and business development expenses		**9**	424
Legal and professional expenses		**835**	604
Premises and equipment expenses		**228**	432
Depreciation and amortisation expenses		**463**	227
Other operating expenses	19	**1,823**	876
Total operating expenses		**5,746**	5,251
NET (LOSS) PROFIT FOR THE YEAR BEFORE IMPAIRMENT ALLOWANCE		**(4,222)**	6,186
Impairment reversal (allowance) - net	20	**303**	(195,558)
NET LOSS FOR THE YEAR		**(3,919)**	(189,372)
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(3,919)**	(189,372)
BASIC AND DILUTED EARNINGS PER SHARE (IN US$ CENTS)	21	**(0.98)**	(47.34)

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 30 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	*2019* *US$ '000*	*2018* *US$ '000*
OPERATING ACTIVITIES			
Net loss for the year		**(3,919)**	(189,372)
Adjustments for:			
Impairment reversal (allowance) - net (excluding cash and cash equivalents)	20	**(274)**	188,985
Depreciation and amortisation		**463**	227
Changes in operating assets and liabilities:			
Placements with financial institutions		**-**	(6,563)
Investment securities		**12,171**	(2,068)
Loans and advances		**-**	(705)
Exposures to related parties		**274**	(28,605)
Other assets		**(8)**	2,258
Due to financial institutions		**(19,053)**	(3,540)
Due to customers		**(880)**	952
Borrowings		**-**	(4,810)
Other liabilities		**1,047**	(409)
Net cash used in operating activities		**(10,179)**	(43,650)
INVESTING ACTIVITIES			
Purchase of furniture and equipment		**-**	(109)
Purchase of intangible assets		**-**	(335)
Net cash used in investing activities		**-**	(444)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(10,179)**	(44,094)
Cash and cash equivalents at 1 January		**20,984**	65,078
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**10,805**	20,984
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		**4,483**	13,086
Placements with financial institutions with original maturities of three months or less		**6,322**	7,898
		10,805	20,984

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital US$ '000	*Accumulated losses US$ '000*	*Total equity US$ '000*
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)
Total comprehensive loss for the year	-	(3,919)	(3,919)
Balance at 31 December 2019	**100,000**	**(216,550)**	**(116,550)**

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 24 February 2020.

2 GOING CONCERN

As at 31 December 2019, the total liabilities of the Group exceeded its total assets by US$ 116.6 million (2018: US$ 112.6 million). Furthermore, the current contractual liabilities of the Group also exceeded its liquid assets. Although current contractual liabilities of US$ 127.6 million (2018: US$ 127.4 million) to a single counterparty are expected to continue to be rolled over based on certain restrictions, the ability of the Bank to meet its obligations when due, depends on its ability to recover its fully provided non-performing assets that are due from a related party with an exposures of US$ 194.8 million (2018: US$ 195.0 million) and to recover its non-performing loans from a locally incorporated Bank that has defaulted on its obligations with an exposures of US$ 13.1 million (31 December 2018: US$ 13.1 million) . 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, the Board and management have taken a number of initiatives including severally negotiating with the related parties to restructure the exposures. The management is considering various legal options with the objective of achieving recovery from all the defaulting parties. In addition, the Board and management are working on different continuity options, which include the restructure of the Bank with the objective of prudently utilizing the available liquidity and other resources 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 the next twelve months and subject that the above mentioned current contractual liabilities of US$ 127.6 million to a single counterparty continue to be rolled over due to certain restrictions.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

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

1 As at 31 December 2019, the Bank's equity stood at negative at US$ 116.6 million (2018: 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 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. In addition, the Bank is not in compliance with the net stable funding ratio ("NSFR"), liquidity coverage ratio ("LCR") and leverage ratio ("LR") requirements set out in these regulations.

3 NON-COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

a Non-compliance with Central Bank Of Bahrain Rulebook relating to minimum capital requirement, capital adequacy, large exposures and public disclosure requirements (continued)

2 The Bank did not publish its reviewed consolidated financial statements for the periods ended 31 March 2019, 30 June 2019 and 30 September 2019 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$ 194.8 million as at 31 December 2019 (2018: US$ 195.0 million) which is 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.

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

1 As of 31 December 2019, 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 has invited its shareholders to an extra-ordinary general meeting to discuss the capital position of the Bank in compliance with Article 58 of the Bank's Amended and Restated Articles of Association on 23 December 2019 and to two further adjournments on 30 December 2019 and on 6 January 2020, however the quorum required was not met. The Bank will convene another 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 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 2019.

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.

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.

4 BASIS OF CONSOLIDATION (continued)

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.

5 BASIS OF PREPARATION

5.1 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.

5.2 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.

6 SIGNIFICANT ACCOUNTING POLICIES

6.1 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 2019. These new standards and amendments do not have a material impact on the consolidated financial statements of the Group, except for changes to the accounting due to adoption of IFRS 16 Leases from 1 January 2019 as explained below:

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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.1 New and amended standards and interpretations issued and effective (continued)

IFRS 16 Leases

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

The Group has recorded right-of-use assets representing the right to use the underlying asset under furniture and equipment (in other assets) and the corresponding lease liability to make lease payments under other liabilities. The right-of-use asset and lease liability recorded as at 1 January 2019 amounted to US$ 380 thousand, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using the incremental rate of 5%.

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

a) Right-of-use assets

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

b) Lease liability

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

6.2 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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments (continued)

i) Financial assets (continued)

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.

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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments (continued)

i) Financial assets (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (contin
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.

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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments (continued)

i) Financial assets (continued)

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.

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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments (continued)

i) Financial assets (continued)

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.

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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement (continued)

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.

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.

6.3 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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 Foreign currencies (continued)

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.

6.4 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.

6.5 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.

6.6 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.

6.7 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.

6.8 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.

6.9 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.

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.1 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.

6.11 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.

6.12 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.

6.13 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.

7 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2019 *US$ '000*	*2018* *US$ '000*
Placements with financial institutions	**19,459**	21,043
Less: Allowance for impairment	**(6,574)**	(6,582)
	12,885	14,461

Placements with financial institutions include US$ 3,196 thousand (2018: US$ 2,790 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 for the purposes of honoring their capital calls to fund managers (refer note 13).

7 PLACEMENTS WITH FINANCIAL INSTITUTIONS (continued)

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

	2019			
	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 2019	**19**	**-**	**6,563**	**6,582**
Net remeasurement of loss allowance	**(8)**	**-**	**-**	**(8)**
Balance at 31 December 2019	**11**	**-**	**6,563**	**6,574**

	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 INVESTMENT SECURITIES

	2019		
	Fair value through profit or loss	*Amortised cost*	*Total*
	US$ '000	*US$ '000*	*US$ '000*
Quoted investments			
Other bonds and debt securities	-	-	-
Equities	**460**	**-**	**460**
	460	**-**	**460**
Unquoted investments			
Managed funds	**1,897**	**-**	**1,897**
	1,897	**-**	**1,897**
Balance at 31 December 2019	**2,357**	**-**	**2,357**

8 INVESTMENT SECURITIES (continued)

	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
Balance at 31 December 2018	5,528	9,000	14,528

9 LOANS AND ADVANCES

	2019	*2018*
	US$ '000	*US$ '000*
Installment sale receivable (refer note 24)	**3,533**	3,533
Corporate loan	**705**	705
	4,238	4,238
Less: Allowance for impairment	**(4,238)**	(4,238)
Net loans and advances	**-**	-

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

	2019			
	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 2019	**-**	**-**	**4,238**	**4,238**
Net remeasurement of loss allowance	**-**	**-**	**-**	**-**
Balance at 31 December 2019	**-**	**-**	**4,238**	**4,238**

	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	-	-	3,533	3,533
Net remeasurement of loss allowance	-	-	705	705
Balance at 31 December 2018	-	-	4,238	4,238

9 LOANS AND ADVANCES (continued)

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 for.

10 EXPOSURES TO RELATED PARTIES

	2019 *US$ '000*	*2018* *US$ '000*
Exposures to related parties	**194,757**	195,031
Less: Allowance for impairment	**(194,757)**	(195,031)
Net exposures to related parties	**-**	-

Further to the discovery of certain facts in 2018, the Bank reclassified its trade finance exposures as exposures to related parties. In addition, the Bank 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 2019 and 31 December 2018 and have been classified under Stage 3.

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

	2019			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total US$ '000***
Balance at 1 January 2019	**-**	**-**	**195,031**	**195,031**
Net remeasurement of loss allowance	**-**	**-**	**-**	**-**
Foreign exchange movements	**-**	**-**	**(274)**	**(274)**
Balance at 31 December 2019	**-**	**-**	**194,757**	**194,757**
Gross exposure	**-**	**-**	**194,757**	**194,757**

	2018			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*Total US$ '000*
Balance at 1 January 2018 - Restated	6,204	547	-	6,751
Remeasurement of loss allowance - Restated	(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

11 OTHER ASSETS

	2019 US$ '000	2018 US$ '000
Accrued interest receivable	**4**	163
Prepayments	**159**	182
Furniture and equipment and right-of-use assets	**286**	264
Intangible assets	**299**	581
Others	**141**	154
	889	1,344

12 DUE TO FINANCIAL INSTITUTIONS

These represents amounts due to financial institutions in the region. These include liabilities to a a single counterparty amounting to US$ 127.6 million (2018: US$ 127.4 million) with monthly maturity and rollovers due to certain restrictions.

13 DUE TO CUSTOMERS

	2019 US$ '000	2018 US$ '000
Customer participation in funds	**1,676**	1,434
Others	**1,520**	2,642
	3,196	4,076

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 (refer note 7). 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$ 417 thousand (2018: US$ 73 thousand) in deposits held on behalf of BMB Technology and Telecommunications Fund.

Others consist of deposit amounts from corporates and individual customers.

14 OTHER LIABILITIES

	2019 US$ '000	2018 US$ '000
Accrued expenses	**408**	455
Employees' leaving indemnity	**164**	505
Accrued interest payable	**19**	60
Negative fair value of derivative	**-**	14
Lease liability	**186**	-
Others liabilities and provisions	**1,720**	416
	2,497	1,450

15 SHARE CAPITAL

	2019		2018	
	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

15 SHARE CAPITAL (continued)

Treasury shares

At 31 December 2019, the Bank owned 6 of its own shares (31 December 2018: 6 shares). The value of these shares is deducted from the shareholders' equity.

16 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 (2018: US$ Nil).

17 INTEREST INCOME

	2019	*2018*
	US$ '000	*US$ '000*
Loans and advances	**-**	28
Exposures to related parties	**-**	10,181
Placements with financial institutions	**230**	745
Investment securities	**147**	1,519
	377	12,473

18 INTEREST EXPENSE

	2019	*2018*
	US$ '000	*US$ '000*
Deposits from financial institutions	**345**	694
Borrowings	**-**	333
Deposits from customers and others	**16**	17
	361	1,044

19 OTHER OPERATING EXPENSES

	2019	*2018*
	US$ '000	*US$ '000*
Insurance, regulatory charges and other fees	**189**	408
Communication expenses	**167**	137
Others expenses and provisions	**1,467**	331
	1,823	876

20 IMPAIRMENT ALLOWANCE

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

	31 December 2019			
	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	**(20)**	**(1)**	**-**	**(21)**
Placements with financial institutions	**(8)**	**-**	**-**	**(8)**
Loans and advances	**-**	**-**	**-**	**-**
Exposures to related parties	**-**	**-**	**(274)**	**(274)**
Total	**(28)**	**(1)**	**(274)**	**(303)**

	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

21 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:

	2019	*2018*
Net (loss) profit for the year attributable to the owners of the Bank (US$ '000)	**(3,919)**	(189,372)
Weighted average number of shares outstanding during the year	**400,000**	400,000
Basic and diluted earnings per share (US$ cents)	**(0.98)**	(47.34)

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

22 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.

22 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 2019 is as follows:

	2019			
	Financing US$ '000	***Investing US$ '000***	***Others US$ '000***	***Total US$ '000***
Interest income	**230**	**147**	**-**	**377**
Interest expense	**(361)**	**-**	**-**	**(361)**
Gain on investment securities	**-**	**1,017**	**-**	**1,017**
Fee and commission income	**-**	**-**	**97**	**97**
Other income	**-**	**-**	**205**	**205**
Foreign exchange gain	**-**	**-**	**189**	**189**
Results from operations	**(131)**	**1,164**	**491**	**1,524**
Impairment reversal (allowance) - net	**303**	**-**	**-**	**303**
Segment (loss) profit	**172**	**1,164**	**491**	**1,827**
Unallocated corporate expenses	**-**	**-**	**-**	**(5,746)**
Net loss for the year				**(3,919)**
Segment assets	**17,372**	**2,357**	**885**	**20,614**
Segment liabilities	**134,686**	**-**	**2,478**	**137,164**

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)
Loss 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 profit (loss)	(185,648)	1,077	450	(184,121)
Unallocated corporate expenses				(5,251)
Net profit for the year				(189,372)
Reportable segment assets	27,563	14,675	1,181	43,419
Reportable segment liabilities	154,674	-	1,376	156,050

22 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 geographical areas: Europe, North America (United States of America and Canada), Gulf Cooperation Council ("GCC") and other MENA . 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 2019 and 31 December 2018:

	2019		*2018*	
	Total income US$ '000	***Total assets US$ '000***	*Total income (loss) US$ '000*	*Total assets US$ '000*
Europe	**-**	**1,059**	10,230	558
North America	**508**	**2,376**	(760)	7,909
GCC	**1,353**	**17,051**	2,930	34,947
Rest of the world	**24**	**128**	81	5
Total	**1,885**	**20,614**	12,481	43,419

23 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. An income statement reversal of US$ 97 thousand (2018: reversal of US$ 286 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	***2019***	*2018*
Opening	**1,950**	3,856
Granted during the year	**-**	-
Vested during the year	**(764)**	-
Forfeited during the year	**(1,186)**	(1,906)
	-	1,950

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.

24 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 2019 and 31 December 2018 are set out below:

	Key management personnel		*Shareholders and their related parties*	
	2019	*2018*	***2019***	*2018*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Statement of financial position				
Assets				
Exposures to related parties (refer note 10)	-	-	**194,757**	195,031
Impairment allowance (refer note 10)	-	-	**(194,757)**	(195,031)
Liabilities				
Deposits	-	-	**50**	94
Other liabilities - employee leaving indemnity	**283**	436	-	-

	Key management personnel		*Shareholders and other related parties*	
	2019	*2018*	***2019***	*2018*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Statement of income				
Interest income	-	-	-	10,264
Fee and commission income	-	-	**52**	39
Fee and commission expense			-	7
Assets under management				
Clients' assets under management placed with a related party (refer note 28)	-	-	**32,897**	32,921

Key management compensation

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

	2019	*2018*
	US$ '000	*US$ '000*
Salaries and other short-term employee benefits	**1,048**	1,268
Employee leaving indemnity	**23**	45
	1,071	1,313
Directors' remuneration	**104**	119

Guarantee

The Bank has received a corporate guarantee from its shareholder that is connected to installment sale receivable (refer note 9), and an additional guarantee was obtained from two associates of that shareholder.

25 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 2019 and 31 December 2018 is as follows:

Regulatory capital	*2019* *US$ '000*	*2018* *US$ '000*
Common Equity Tier 1 (CET1) and Total Tier 1 (T1)		
Share capital	**100,000**	100,000
Accumulated losses	**(216,560)**	(212,662)
CET1 capital prior to regulatory adjustments	**(116,560)**	(112,662)
Regulatory adjustments		
Intangibles other than mortgage servicing rights	**(299)**	(465)
Investments in financial entities exceeding 10% of CET 1a	**-**	(2,336)
Total CET1 capital after the regulatory adjustments (a)	**(116,859)**	(115,463)
Tier 2 (T2)		
Stage 1 and Stage 2 impairment allowances (Collective impairment provision)	**20**	49
Tier 2 (T2) (b)	**20**	49
Total capital (c) = (a) + (b)	**(116,839)**	(115,414)

Risk weighted exposures	*2019*			*2018*		
	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	**53**	**-**	**-**	9,053	-	-
Claims on banks	**17,262**	**9,810**	**1,226**	27,989	18,325	2,291
Claims on corporates	**-**	**-**	**-**	-	-	-
Investments in securities	**4,627**	**37,016**	**4,627**	4,900	39,200	4,900
Other assets	**406**	**406**	**51**	736	736	92
Credit risk weighted exposures		**47,232**	**5,904**		58,261	7,283
Market risk weighted exposure		**5,600**	**700**		950	119
Operational risk weighted exposure		**20,850**	**2,606**		21,188	2,649
Total risk weighted exposures (d)		**73,682**	**9,210**		80,399	10,051
Capital ratios						
CET 1 and T1 capital (a) / (d)		**-158.6%**			-143.6%	
Total capital (c) / (d)		**-158.6%**			-143.6%	
Minimum required as per CBB regulatory guidelines under Basel III		12.5%			12.5%	

26 FINANCIAL RISK MANAGEMENT

The risks identified that are associated with the Bank's businesses 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.

The Bank has in place a risk management framework for managing the risks identified. The Board of Directors set and approves the Bank's overall risk management framework which includes the risk management policies, risk parameters and risk tolerances. As part of the Bank's risk management framework , the Bank identifies, assesses, controls and monitors its risks at a "macro" and "micro" level by applying various quantitative as well as qualitative approaches.

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. Credit Risk arises principally from the Bank's lending and trade finance activities in addition to other debt investment related transactions., whereby the Bank applies thorough credit risk assessments and assignment of credit limits at the exposure level.

Maximum exposure to credit risk

			2019		
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	**4,492**	**-**	**(9)**	**4,483**	**6,638**
Placements with financial institutions	**6,334**	**13,125**	**(6,574)**	**12,885**	**16,429**
Investment securities	**2,357**	**-**	**-**	**2,357**	**3,282**
Loans and advances	**-**	**4,238**	**(4,238)**	**-**	**-**
Exposures to related parties	**-**	**194,757**	**(194,757)**	**-**	**-**
Other assets	**145**	**-**	**-**	**145**	**1,162**
	13,328	**212,120**	**(205,578)**	**19,870**	**27,511**
Off-balance sheet items	**-**	**-**	**-**	**-**	**-**

			2018		
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	13,116	-	(30)	13,086	12,856
Placements with financial institutions	21,043	-	(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
	49,004	199,269	(205,881)	42,392	194,513
Off-balance sheet items	-	-	-	-	-

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit quality by class of financial assets

The Bank also 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 6.2.

	2019			
	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	4,368	-	-	4,368
Grade F (Doubtful)	-	124	-	124
Grade G (non performing)	-	-	-	-
	4,368	124	-	4,492
Loss allowance	(7)	(2)	-	(9)
Carrying amount	4,361	122	-	4,483
Placements with financial institutions				
Grade A to E	6,334	-	-	6,334
Grade F (Doubtful)	-	-	-	-
Grade G (non performing)	-	-	13,125	13,125
	6,334	-	13,125	19,459
Loss allowance	(11)	-	(6,563)	(6,574)
Carrying amount	6,323	-	6,562	12,885

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

	2019			
	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)*	-	-	194,757	194,757
	-	-	194,757	194,757
Loss allowance	-	-	(194,757)	(194,757)
Carrying amount	-	-	-	-

	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

26 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	-	-	-	-

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

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.

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Measurement of ECL (continued)
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.

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 2018 and 31 December 2019, 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.

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Modified financial assets (continued)
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.

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 2019				
	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	**1,059**	**479**	**2,817**	**128**	**4,483**
Placements with financial institutions	-	-	**12,885**	-	**12,885**
Investment securities	-	**1,897**	**460**	-	**2,357**
Loans and advances	-	-	-	-	-
Exposures to related parties	-	-	-	-	-
Other assets	-	-	**145**	-	**145**
Total	**1,059**	**2,376**	**16,307**	**128**	**19,870**
Off-balance sheet items	-	-	-	-	-

	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	-	-	-	-	-

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Industry sector

	31 December 2019				
	Banking / Finance US$ '000	***Government US$ '000***	***Consumer Goods US$ '000***	***Others US$ '000***	***Total US$ '000***
Balances with banks and financial institutions	**4,483**	-	-	-	**4,483**
Placements with financial institutions	**12,885**	-	-	-	**12,885**
Investment securities	**1,897**	-	-	**460**	**2,357**
Loans and advances	-	-		-	-
Exposures to related parties	-	-	-	-	-
Other assets	**4**	-	-	**141**	**145**
Total	**19,269**	-	-	**601**	**19,870**
Off-balance sheet items	-	-	-	-	-

	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 assets	32,850	9,191	-	351	42,392
Off-balance sheet items	-	-	-	-	-

26 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	
	2019	*2018*
Currency	***US$ '000***	*US$ '000*
Euro	**263**	3
Great Britain Pound	**3**	2
	266	5

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.

26 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	
	2019	*2018*
	US$ '000	*US$ '000*
Investment securities - Equities and managed funds	**118**	130

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 2019 and 31 December 2018 was as follows:

	Capital requirement			
	At 31 December 2019 US$ '000	***Maximum value US$ '000***	***Minimum value US$ '000***	***Average value US$ '000***
Foreign exchange risk	**374**	**374**	**143**	**259**
Equity position risk	**74**	**74**	**60**	**67**

	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

26 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 an amount of US$ 127.6 million (2018: US$ 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 based on certain restrictions. For more details refer to note 12.

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

	31 December 2019					
	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	4,483	-	-	-	-	4,483
Placements with financial institutions	12,885	-	-	-	-	12,885
Investment securities	460	-	-	1,897	-	2,357
Loans and advances	-	-	-	-	-	-
Exposures to related parties	-	-	-	-	-	-
Other assets	84	68	278	393	66	889
Total assets	17,912	68	278	2,290	66	20,614
Liabilities						
Due to financial institutions	131,471	-	-	-	-	131,471
Due to customers	3,196	-	-	-	-	3,196
Other liabilities	442	-	792	1,263	-	2,497
Total liabilities	135,109	-	792	1,263	-	137,164
Net liquidity gap	(117,197)	68	(514)	1,027	66	(116,550)
Cumulative liquidity gap	(117,197)	(117,129)	(117,643)	(116,616)	(116,550)	(116,550)

26 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	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*
Assets						
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)

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 2019					
	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	**131,476**	**-**	**-**	**-**	**-**	**131,476**
Due to customers	**3,196**	**-**	**-**	**-**	**-**	**3,196**
Other liabilities	**442**	**-**	**792**	**1,263**	**-**	**2,497**
Total undiscounted financial liabilities	**135,114**	**-**	**792**	**1,263**	**-**	**137,169**

26 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	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

The Bank is also required to comply with the liquidity requirements as stipulated by the CBB, which became effective during the year 2019. These requirements relate to maintaining a minimum of 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of HQLA and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 2019, the Group's LCR and NSFR were at 0% and negative 987% respectively.

d) Operational 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 some members of the previous Board and the previous management in 2017 and 2018 that resulted in misdirected risk assessment that has also caused the Bank to misreport its financials and other disclosures for those years.

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 and 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.

26 FINANCIAL RISK MANAGEMENT (continued)

e) Legal risk (continued)

In addition, to further mitigate legal risks, the Bank tries to ensure that it uses 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, procedures, ensuring staff abide to ethical code of conduct and assigning competent staff to carry out tasks that expose the Bank to reputational risk. procedures.

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.

27 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:

	2019 ***US$ '000***	*2018* *US$ '000*
Undrawn investment commitments in equity funds	**3,568**	3,572
Other commitments	**2,578**	2,579

At 31 December 2019, the Bank had undrawn investment commitments to private equity funds of USD 3,568 thousand (31 December 2018: USD 3,572 thousand). Of these, the Bank's proprietary commitments amounted to USD 2,190 thousand (31 December 2018: USD 2,212 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.

27 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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, during the year the Bank has recognised a provision of US$ 1,230 thousand (2018: Nil) in relation to potential legal claims by third parties that may arise against the Bank.

28 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:

	2019	*2018*
	US$ '000	*US$ '000*
Other receivables	**32,998**	32,981
Private equity	**2,950**	3,949
	35,948	36,930

As of 31 December 2019, assets under management included in other receivables of USD 32,897 thousand (31 December 2018: USD 32,921 thousand) are invested with related counterparties, of which one has been classified as related party of the Bank in 2018 and the other was an existing known related party (refer note 24). 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.

29 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).

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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 2019				
	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	**460**	**-**	**1,897**	**2,357**	**2,357**

	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

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:

	2019 US$ '000	*2018 US$ '000*
At 1 January	**2,280**	3,260
Additions	**-**	50
Exits (at cost)	**(401)**	(225)
Net fair value movement	**18**	(805)
At 31 December	**1,897**	2,280

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

29 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.

30 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:

	2019		*2018*	
	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)